

The ATRS Board of Trustees met on Monday, February 17, 2014, with a full agenda of investments and operational matters. The general investment consultant's update confirmed ATRS staff estimates with a report that showed ATRS was worth just over \$14.1 billion dollars on December 31, 2013. The ATRS Board has worked hard to create a quality mix of investments that are well diversified across the globe to provide a quality return on a risk adjusted basis while targeting an 8% annual return. ATRS remains in much better condition than many retirement plans and has the benefit of needing a much smaller percentage of funding from trust fund assets to pay all benefits and costs. Of approximately \$900 million dollars needed annually, at this time, ATRS needs less than one-half of that amount to be funded by trust fund returns. Many pension plans use much higher percentages of returns to pay benefits. The ATRS Board also heard from the consultant that its investment choices over the last several years have proven to be on target since ATRS remains in the top 10% of larger pension funds for its overall returns.

As of December 31, 2013, the ATRS trust fund investments increased almost **\$1.5 billion** for the first six months of the 2013/2014 fiscal year (July 1, 2013 to December 31, 2013) and increased almost **\$2.4 billion** for calendar year 2013 (January 1, 2013 to December 31, 2013). This increase equates to a return of **11.9%** for the first half of the current fiscal year and a return of **19.8%** for the 2013 calendar year. For calendar year 2013, these returns place ATRS in the **top 3 percent** of public funds with a billion dollars or more under management according to information provided by the ATRS investment consultant. For the first half of fiscal year 2014, ATRS is ranked in the top 8 percent. Longer term performance is also strong with ATRS exceeding its performance expectations across five and ten year periods.

In an effort to decrease the dependence on stock market returns and maintain a less cyclical return profile, last year the ATRS Board adopted new asset allocations for the ATRS trust fund. The adjusted allocation and guidelines are designed to continue to generate quality returns while providing downside protection when the stock markets returns are weak. The new allocation has a lower target allocation to U.S. stocks, from 25% to 20%. This reduces the total ATRS exposure to equities (stock markets) to just 50%. The 5% reduction in U.S. equities has been combined with the 10% allocation to real estate and renamed "real assets". The real assets category now has a 15% target allocation and is comprised of investments in real estate, timber, farm land, and infrastructure investments. These investment types do not depend on stock market returns for positive performance and are intended to decrease the volatility often associated with stock markets.

In bonds and fixed income, ATRS has hired managers that have a more active trading platform that adjusts to interest rate risks since the financial markets appear to be headed to a rising interest rate environment that has a negative impact on bonds and related fixed income assets. The active trading allows ATRS managers to avoid a significant amount of interest rate risk while also having the opportunity to obtain gains by certain trading strategies. ATRS has a 20% allocation to fixed income with a global approach using multiple managers to diversify and avoid risk.

This executive director update is also official notice that the ATRS Board voted to maintain the current 14% contribution rate for the fiscal year that starts on July 1, 2014. This is a continuation of the existing rate that has been in existence for several years.

In the next few weeks, additional executive director updates will be provided for members considering entering T-DROP, members considering retiring from T-DROP, members considering retiring, and the retirement planner for the retirement season at the end of this fast-moving school year. ATRS staff is also working hard to have ready for member use a new and improved website that has been under construction for several months. It will have new features and hopefully be better organized to make information easier to access.

If you plan to enter T-DROP or be a July 1 retiree this year, remember the deadline to apply with a signed and completed application is May 31, 2014. I have included a little bit of retirement information here to ensure that you remember the deadline and know that ATRS staff is here to help you as you consider retirement issues in the coming months. You will receive much greater detail in upcoming executive director updates. ATRS counselors are available every day between 8:00 a.m. and 4:30 p.m. Monday through Friday, excluding holidays. Appointments are preferred but not required since an appointment will allow the counselor to have printouts ready for your immediate use upon your arrival. I also welcome calls from members to me at any time.