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Executive Director Update: How ATRS Invests Contributions + Tax Deductions for College Savings

Last month I promised more explanation about how the ATRS Board of Trustees makes its investment decisions. There is a lot to this process, but we go through all these steps so that we can minimize risk, protect your retirement assets, and ensure the safety and stability of ATRS for years to come.

Our three keys for investing are allocating assets wisely, diversifying investments, and seeking advice from outside experts. These strategies have helped ATRS achieve better investment returns on average compared to other retirement systems around the country.

Asset Allocation means how ATRS divides money between different investment categories. The Board has an [Investment Policy](#) that about half of the System's assets will be invested in the stock market, which we call Public Equity. The rest is divided among four general categories:

- Fixed Income (corporate and government bonds and similar investments that pay interest back to ATRS)
- Private Equity (funds and managers that acquire or invest directly in businesses outside the stock market)
- Real Assets (funds and managers that invest in tangible assets, things like real estate, farm land, timber land, and public infrastructure)
- Opportunistic and Alternatives (investments that don't neatly fit in one of these other categories)

Academic research will tell you that for institutional investors like ATRS, long-term financial success is largely driven by Asset Allocation. Working with outside experts, the Board regularly reviews the allocation percentages for each of the broad categories above and sets individual targets within each category to decide how ATRS assets will be invested.

For example, last week the Board approved pacing schedules for Private Equity and Real Assets. These schedules outline how much we plan to invest in those two categories next year, and the types of investments we will look for within those categories.

Diversification means spreading the System's assets among many different types and kinds of investments. The ATRS portfolio is divided into literally hundreds of different investments. A typical investment for ATRS is \$30 to \$50 million. That's a lot of money, but it's only a tiny percentage of the \$20 billion that ATRS invests overall.

Diversification is important because it reduces volatility, meaning it smooths out the swings and ups and downs of investing. When one type of investment is down, other types are steady

or up, balancing out the losses.

Outside Expertise is what brings it all together. We hire top notch experts, people who manage assets for large corporations, wealthy families, and other large institutional investors like ATRS. And that gives us access to investment opportunities that just aren't available to the public or to individual investors.

[Aon Investments USA](#) is the general investment consultant that has overall responsibility for our portfolio. Their lead executive for ATRS has worked with our System for more than 20 years. They help guide our overall strategy, and they monitor and oversee the investment managers that handle our investments in Public Equity, Fixed Income, and Opportunistic/ Alternatives.

We have three other consultants for the other areas of our portfolio. [Franklin Park](#) is our private equity consultant, [The Townsend Group](#) is our real asset consultant, and [Arkansas Capital Corporation](#) is our consultant for Arkansas-specific investments.

Under state law, ATRS cannot make an investment unless an outside expert recommends it and the Board approves it. These consultants bring expert advice and recommendations to the Board for specific investments to be made with specific investment managers. Over the years, ATRS has invested funds with hundreds of different investment managers. Our consultants constantly monitor these investments and investment managers to ensure we are getting the best return.

In the fiscal year that ended June 30, ATRS had a return of 9.2% after investment expenses and fees were deducted. That put us in the top 15% of similar retirement systems around the country. I am grateful for all the hard work and diligent planning by the Board and by your ATRS staff that has produced these excellent investment returns.

TAX ADVANTAGES FOR COLLEGE SAVINGS

Did you know you can get up to a \$10,000 deduction on your state income taxes for contributions you make to an Arkansas 529 savings account? These accounts offer tax-free savings and investment to pay educational expenses for college, graduate school, vocational and trade school, or apprenticeships. The tax year is almost over, but you still have time to set up an Arkansas Brighter Future 529 Plan and make a deductible contribution. For more information or to get started, click on this link: <https://brighterfuturesdirect529.com/home/why-529.html>

As ATRS Executive Director, it is my privilege to serve on the Section 529 Plan Review Committee which oversees this wonderful program. And the Plan is administered by [State Treasurer Larry Walther](#), who also serves on our ATRS Board of Trustees.

HOLIDAY GREETINGS

I know that many of you -- and especially our Active members still working in public schools -- are eagerly awaiting Christmas break to spend time with family and friends. As we enter this Holiday season, I wish you and yours the very best. Happy Holidays, and Merry Christmas!

Mark White

Executive Director, ATRS

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