

ARKANSAS TEACHER RETIREMENT SYSTEM BOARD OF TRUSTEES

MINUTES February 12, 2007

The Arkansas Teacher Retirement System Board of Trustees held a regular meeting on Monday, February 12, 2007, in the Board Room of the ATRS Building at 1400 West Third Street in Little Rock, Arkansas.

Board Members Present:

John Fortenberry, *Chair*
Robin Nichols, *Vice Chair*
Dr. Richard Abernathy
Robert (Bunny) Adcock, Jr.
Monty Betts
Hazel Coleman
Lawrence Colston
Dr. Paul Fair
Beverly Leming
Linda Parsons
Martha Shoffner
Ellen Terry

Others Present

Paul Doane, *Executive Director-Elect*
Bobby Lester, *ARTA*
Lloyd Black, *ARTA*
Linda Neff-Colston
Betty & Jim McGuire
Erika Gee, *Attorney General's Office*
Mary Purselley, *ARTA*
Steve Cummings, *Ennis Knupp*
Priya Ghatnekar, *Ennis Knupp*

Board Members Absent:

Dr. T. Kenneth James
Jim Wood

Staff Present

Julie Cabe, *Interim Executive Director*
Gail Bolden, *Interim Deputy Director*
Wayne Greathouse, *Finance Deputy Director*
George Snyder, *Internal Auditor*
Christa Clark, *Staff Attorney*
Mullahalli Manjunath, *DP Manager*
Michael Ray, *Manager, Member Services*
Suzanne Davenport, *Interim Assoc. Director/
Fiscal Affairs*
Judy Brown, *Retiree Payroll Supervisor*
Donna Hobbs, *Personnel Manager*

I. Call to Order/Roll Call

John Fortenberry, Board Chair, called the meeting to order at 1:02 p.m. with a quorum present. The absences of Dr. James and Mr. Wood were noted and excused.

Mr. Fortenberry introduced Paul Doane, who will become Executive Director on April 1, 2007, and recognized Martha Shoffner, who joins the Board as a result of being elected State Treasurer. Erika Gee was also introduced as the attorney assigned to ATRS from the Attorney General's Office.

II. Adoption of Agenda

Dr. Paul Fair moved adoption of the agenda as mailed, Robin Nichols seconded, and the Board unanimously approved.

III. Public Comment on Agenda Items

No comments were made on the agenda items.

IV. Approval of Minutes

- A. Linda Parsons moved approval of the minutes of the regular meeting on December 4, 2006, Ellen Terry seconded, and the Board unanimously concurred.
- B. Dr. Richard Abernathy moved approval of the minutes of the regular meeting on December 5, 2006, Beverly Leming seconded, and the Board voted unanimously for the motion.

V. Consultant's Report – Ennis Knupp

For the newer members of the Board, Steve Cummings explained the role of the consultants as one of monitoring the System's investments and advising the Board on investments and strategy. The fourth quarter 2006 review was presented by Priya Ghjatnekar and showed a market value on ATRS investments on December 31, 2006, of \$10,671,436,000 with a return of 9.0% for the fourth quarter.

Steve Cummings reported on on-site meetings with officials of Oppenheimer Capital and Daruma Asset Management and another pending with ING. As a result of the meetings, Ennis Knupp recommended that ATRS retain Oppenheimer for the program's large-cap value equity allocation due to the improvements in the firm's investment process and initiatives begun under new leadership.

Ennis Knupp recommended the retention of Daruma for the program's small-cap equity allocation, based on confidence in the firm's abilities to outperform over the long run. The consultant also recommended that ATRS consider adopting the Russell 2000 Index as the primary

benchmark given Daruma's emphasis of small-cap core equities. Mr. Fortenberry requested a report from Ennis Knupp in 12 months on Daruma's performance.

With concerns about the recent turnover among ING's investment professionals, Ennis Knupp plans an on-site meeting at ING to assess the manager's continued role in the ATRS program and will report at the next Investment Committee meeting.

VI. Rate of Return Restatement

Steve Cummings reported to the Board on the results of the ATRS private equity and real estate performance reconciliation, coordinated by Ennis Knupp with CSFB and State Street, which resulted in a historical restatement of the asset class and total fund returns for the fiscal years 1998 – 2005. The fiscal year with the largest restatement was the year ending 2005 with prior performance of 7.3% and restated performance of 10.5%. Ms. Cabe then suggested to Board members that thought should be given to what effect, if any, the restatement should have on T-DROP interest for fiscal years 2004-2005 and 2005-2006. This interest rate was set by the board on April 5, 2005, based on the reported rate of return for the twelve-month period ending March 31, 2005. Mr. Cummings suggested that he would like to review the methodology utilized by Ennis Knupp in restating the historical returns since Ennis Knupp had not considered the impact a change in these returns might have on members. He was asked to accomplish this as soon as possible.

The Board then discussed with the consultants the difficulties the consultants encounter in attempting to calculate the rate of return for a calendar year ending March 31 in sufficient time for the Board to use this rate to set T-DROP interest prior to the start of the next fiscal year as now required by Policy No. 10-3 (Teacher Deferred Retirement Option Plan). Mr. Fortenberry said the board would consider a revision of the policy in order to give the consultants more time to arrive at a more accurate rate of return to set the T-DROP interest rate.

Mr. Fortenberry recessed the meeting at 2:34 p.m., and the meeting resumed at 2:44 p.m. Ms. Leming did not return after the break.

VII. Arkansas Retired Teachers Association

Bobby G. Lester, Executive Director of the Arkansas Retired Teachers Association, spoke to the Board concerning legislation to address the discrepancy in health insurance premiums for retired teachers not eligible for Medicare compared to state retirees under Arkansas Public Employees Retirement System. He asked for the Board's support of ARTA's efforts to

increase the benefit for these retired teachers. After discussion, Dr. Fair moved that ATRS encourage the Legislature to study the problem and seek a solution. Mr. Lawrence seconded, and the Board unanimously approved the motion.

VIII. Adjournment

The meeting adjourned at 3:18 p.m.

Katherine Corcoran, *Recorder*

Julie Cabe, *Interim Ex. Director*

John Fortenberry, *Board Chair*

Date Approved