

**MINUTES  
REGULAR MEETING  
ARKANSAS TEACHER RETIRMENT SYSTEM  
BOARD OF TRUSTEES**

**Monday, October 1, 2007 @ 1:00 p.m.  
and  
Tuesday, October 2, 2007 @ 9:30 a.m.**

**1400 West Third Street  
Little Rock, AR 72201**

<b>ATTENDEES</b>	
<p style="text-align: center;"><u>Board Members</u></p> <p style="text-align: center;">John Fortenberry, Chair Robin Nichols, Vice Chair Dr. Richard Abernathy Monty Betts Hazel Coleman Dr. Paul Fair Candace Franks Beverly Leming Bobby Lester Linda Parsons Janelle Riddle Martha Shoffner Ellen Terry Jim Wood</p> <p style="text-align: center;"><u>Absent</u></p> <p style="text-align: center;">Dr. Ken James</p>	<p style="text-align: center;"><u>Staff</u></p> <p style="text-align: center;">Gail Bolden, Chief Operating Officer Christa Clark, Chief Legal Officer Paul Doane, CEO Wayne Greathouse, Director of Public Securities Mike Ray, Director of Member Services Hugh Roberts, Director of Real Estate Jane Toledo, Secretary</p> <p style="text-align: center;"><u>Guests</u></p> <p style="text-align: center;">Bunny and Carol Adcock, Former Trustee PJ Kelly, Ennis Knupp Joe Marzano, Ennis Knupp Scott Brown, Ennis Knupp Erika Gee, Attorney General's Office James Miller, Governor's Office</p> <p style="text-align: center;"><u>Reporters</u></p> <p style="text-align: center;">Mike Wickline, Arkansas Democrat Gazette</p>

- I. Call to Order/Roll Call. The Board of Trustees meeting was called to order by Chair, Mr. Fortenberry at 1:05 p.m. The secretary took roll call and those absent were excused.
  
- II. A welcome to the new Board member, Commissioner Candace Franks was extended by the Executive Director and Board.
  
- III. Adoption of Agenda. Ms. Coleman made a motion for adoption of the Agenda, Mr. Abernathy seconded, and the Board unanimously approved the motion.

- IV. Approval of Minutes of June 19, 2007, Board Meeting. Ms. Nichols made a motion for approval of the Minutes, Ms. Parsons seconded, and the Board unanimously approved the motion.

September 13, 2007, Board Meeting. Dr. Fair made a motion for approval of the Minutes, Ms. Riddle seconded, and the Board unanimously approved the motion.

- V. Election of Board Officers. Chair, Mr. Fortenberry, opened the floor for nominations for a new Chairman of the Board of Trustees.

Mr. Lester made a nomination and statement in support of Dr. Fair as Chairman. Ms. Parsons nominated and made a statement in support of Ms. Nichols as Chairman.

Chair, Mr. Fortenberry called for an "Australian" vote. Each Board member was provided with a blank ballot to indicate his/her vote for Chairman. The votes were collected and read one-by-one. The final vote was eight for Ms. Nichols and six for Dr. Fair. Ms. Nichols was elected by the requisite quorum of eight as the new Chairman of the Board of Trustees.

Ms. Leming made a nomination for Ms. Coleman as Vice Chairman. Dr. Fair made a nomination for Dr. Abernathy as Vice Chairman. Dr. Abernathy declined because he does not have sufficient time to properly serve in the role. No other nominations were made. Mr. Lester made a motion for Ms. Coleman to be elected as the new Vice Chairman, Ms. Franks seconded the motion, and the Board unanimously approved.

- VI. Recognition for Past Service to Board of Former Trustee, Commissioner Bunny Adcock (Resolution No. 2007-22). Ms. Leming made a motion for adoption of Resolution No. 2007-22, Ms. Franks seconded, and the Board unanimously approved the motion.

- VII. Executive Director's Report. Gail Bolden was acknowledged for her excellent work during the new fiscal year on staff efficiencies and upgrades.

The Executive Director summarized his recent attendance at the CII conference and the growing pressure in the public regarding divestment in Sudan.

The Executive Director asked the Board if there was any objection to his forwarding a letter to Senators Blanche Lincoln and Mark Pryor placing the Board in opposition to Senate Bill 1624 (which would revise the taxability of "carried interest" and potentially impact negatively on certain Board real estate and private equity investments).

- VIII. General Consultant's Report. PJ Kelly and Joe Marzano of Ennis Knupp presented an update on the Funds' performance and discussed relative rankings as well as the issues related to comparing future Fund performance given the proposed asset allocation. Ennis Knupp and the CEO will visit UBS and will report back to the Investment Committee regarding plans to shift from its non-US portfolio to a global mandate.

- IX. Eubel Brady Suttman, "Watch List" Update, Wayne Greathouse, Director of Public Investments introduced Ron Eubel, Rob Suttman and Bill Hazel of Eubel Brady Suttman to the Board to report progress on addressing Board concerns about their portfolio performance. Mr. Greathouse and Ennis Knupp have conducted on-site visits, keeping close contact during this "watch" period, and more recently the CEO had a meeting with Mr. Hazel in Little Rock. Since inception (8 years ago) the firm has provided a strong absolute return for the Fund. However, the relative return versus the benchmark (Mid Cap Value) and its peers' performance has suffered significantly in the past several years resulting in its placement on the Board's "watch list". EBS feels they have an opportunity to shine in the future with some of the best opportunities ahead of them. EBS did express a preference to be a Large Cap Value manager.
- X. Real Estate Consultant's Report. Scott Brown of Ennis Knupp updated the Board on the ING Debt Opportunity Fund II, which closed September 30<sup>th</sup>. The new contract for Real Estate consulting services, totaling \$275K, had been approved by a vote of the Board at a Special Board Meeting on September 13, 2007. Mr. Brown outlined his plan for integrating new investments into the existing lineup. He expects the Board's "Core Managers" to show a 7-1/2 to 8% return, "Value Added Managers" should return 10.5-11% and Opportunistic Managers, such as the ING portfolio, a 12-13% return over the life of the investments. Mr. Brown updated the Board on the status of his Manager Monitoring proposal and also outlined a "Draft" of the Real Estate Investment Policy, which will be reviewed and discussed at the December Board meeting.
- XI. Report of the Policies Committee.
- A. "Draft" Minutes of September 13, 2007 Policies Committee Meeting were provided for reviewed purposes only and will be approved at the next Policies Committee meeting.

The Committee unanimously agreed to move forward with the merging of the Policies and Legislative Committees and the establishment of three new Committees (Administrative/ Personnel, Audit and Executive) and requested staff to draft policies for review and discussion at the next Policies Committee meeting.

The Committee unanimously agreed to remove the current asset allocation table from Policy 5-3. Redlines of the Asset Allocation (Policy 5-3), Member Contributions (Policy 8-2), T-DROP (Policy 10-3), and a new policy to authorize the Chief Executive Officer to waive penalties for late payment of monthly contributions will be provided for review and discussion at the next Policies Committee meeting.

It was unanimously agreed by the Committee to postpone discussion of the Election Procedures and Election Schedule until the next Policies Committee meeting. Ex-Officio Board members (with the exception of Dr. James) were formally notified of their statutory authority to have a designee represent them at Board and committee

meetings. The CEO has requested a written designation of such named representatives from the Ex-Officio members.

The CEO reminded Board members of the Policy provision that calls for each member to provide a Self-Evaluation as well as an Executive Director’s evaluation. Such evaluations are generally completed by the December Board meeting and will be used for future planning purposes.

XI. Discussion re: Eubel Brady Suttman future status. Mr. Greathouse, the Executive Director and Ennis Knupp recommended that the Board continue the relationship at this point with a further detailed review and action following the calendar year.

XII. Recess. A recess was called by Chair, Ms. Nichols at 4:23 p.m.

<b>ADDITIONAL ATTENDEES</b>	
<u>Designees Attending</u>  Mike Creekmore for Martha Shoffner Susannah Marshall for Candace Franks Steve Kelly for Jim Wood  <u>Additional Guests</u> Helen Holloway, ARTA	<u>Additional ATRS Staff</u> Carolyn Abbott, Pre-Retirement Mgr. Judy Brown, Supv. Retirement Payroll Suzanne Davenport, CFO Markay Grimmatt, Real Estate Mindy Looney, Reporting Supv. Manju Manjunath, Mgr. DP George Snyder, Risk Mgmnt Gaye Swaim, Personnel Mgr. Leslie Ward, Director Private Equities Daryl Wilkerson

XIII. Meeting Re-called to Order. The meeting was recalled to order by Chair, Ms. Nichols at 9:37 a.m. The above indicated designees were introduced.

XIV. Report of Investment Committee. The Investment Committee held meetings on August 8, August 27<sup>th</sup> and September 13<sup>th</sup>, 2007. Its recommendations are before the Board for consideration and action.

A. Minutes of August 8, 2007 Investment Committee Meeting. Ms. Coleman made a motion for approval of the Minutes, Ms. Parsons seconded, and the Board unanimously approved the motion.

B. Minutes of August 27, 2007 Investment Committee Meeting. Ms. Parsons made a motion for approval of the Minutes, Ms. Coleman seconded, and the Board unanimously approved the motion.

- C. “Draft” Minutes of September 13, 2007 Investment Committee Meeting. The “draft” Minutes of the September 13, 2007 Investment Committee meeting were provided for information purposes only and are pending approval at the next meeting of the Investment Committee.
- D. Recommendation to Hire Franklin Park as Private Equity Consultant. (Resolution No. 2007-23) The fee for these specialized services will be approximately \$600,000 for the first year and top out at \$800,000 as investments are added to the portfolio. The fee includes record keeping, monitoring, performance reporting, all investment due diligence, regular attendance, and updates for the Committee and Board, all legal review and preparation of appropriate documents related to prospective investments, assumption of all monitoring, reporting and oversight of the existing ATRS Private Equity portfolio, and training of ATRS investment and legal staff.

Ms. Coleman made a motion for adoption of Resolution No. 2007-23, seconded by Dr. Abernathy, and the Board unanimously approved the motion.

- E. Recommendation to Engage Structured Equity Strategy of Oppenheimer Capital. (Resolution No. 2007-24) would overlay Oppenheimer’s proven quantitative structured equity strategy on the existing Large Cap Value portfolio. The expected added alpha will be 2 ½ to 3% net to ATRS with no additional base management fee, but OpCap will share in 30% of the upside return over the benchmark.

Mr. Lester made a motion for adoption of Resolution No. 2007-24, Mr. Betts seconded, and the Board unanimously approved the motion.

- F. Recommendation to Permit 130/30 Strategy with Jacobs Levy portfolio and Revise Benchmark to Russell 3000. (Resolution No. 2007-25) would permit Jacobs Levy to divide its portfolio into two components and, with approximately \$200 million manage its 130/30 strategy. In keeping with the desire to give managers wider latitude the firm’s benchmark would be revised to the Russell 3000. The fee would remain the same for the main portfolio. The fee for the 130/30 strategy increases from approximately 45 bp to 60 bp.

Mr. Abernathy made a motion for adoption of Resolution No. 2007-25, Ms. Leming seconded, and the Board unanimously approved the motion.

- G. Recommendation to Combine Capital Guardian Non-US and Domestic Equity Portfolios into Single Global Portfolio with Benchmark of MSCI-AWCI. (Resolution No. 2007-26) would broaden the mandate for Capital Guardian and merge two separate portfolios into a combined “global” portfolio. There would be no change in fees. The new benchmark would be the MSCI All Country World Index (ACWI).

Ms. Terry made a motion for adoption of Resolution No. 2007-26, Ms. Riddle seconded, and the Board unanimously approved the motion.

- H. Recommendation to Revise Benchmark of ICC Capital to Russell 3000. (Resolution No. 2007-27) As one of our strongest performing managers over the full term of the relationship revising the benchmark would broaden his capabilities.

Mr. Betts made a motion for adoption of Resolution No. 2007-27, Ms. Coleman seconded, and the Board unanimously approved the motion.

- I. Recommendation to Divide Wellington Management Portfolio into Two Accounts, Global Equity and Global Opportunistic Equity with ACWI. (Resolution No. 2007-28) would replace the existing "Non-US Research Equity" portfolio with a managed "global" portfolio benchmarked to the global MSCI-ACWI (All Country World Index). The recommendation would also carve out a portion of the mandate (approximately \$250 million) and place it in Wellington's "Global Opportunistic Equity" tactical allocation strategy. The Tactical Asset Allocation (TAA) strategy has potential to add considerable "alpha" (value added) to the firm's overall mandate. The fee would be performance based.

Ms. Coleman made a motion for adoption of Resolution No. 207-28, Ms. Leming seconded, and the Board unanimously approved the motion.

- J. Recommendation to Authorize Search for Two Unconstrained Fixed Income Portfolio Managers. (Resolution No. 2007-29) to manage approximately \$250 million each in a fully unconstrained (un-benchmarked) style. Funds would come from the existing "passive" Fixed Income portfolio to produce the best absolute return, ATRS will benefit from the "best" ideas of the top bond managers.

Mr. Lester made a motion for adoption of Resolution No. 2007-29, Ms. Coleman seconded, and the Board unanimously approved the motion.

- K. Recommendation to Hire a Third Party Securities Lending Agent. (Resolution No. 2007-30) would authorize staff to begin the process of searching for appropriate firms for the service of Third Party Securities Lending.

Ms. Leming made a motion for adoption of Resolution No. 2007-30, Ms. Riddle seconded and the Board unanimously adopted the motion.

- L. Recommendation to Adopt Revised Asset Allocation Plan. (Resolution No. 2007-31) The plan is to overall, where appropriate, broaden mandates, expand benchmarks and generally less confine managers by style or size and to be less correlated on primarily the domestic stock market. To carry out this plan would

change the mandate of all non-US managers to global and shift several benchmarks that currently limit size and style of investments to broader, non-style specific targets.

Ms. Coleman made a motion for adoption of Resolution No. 2007-31, Ms. Parsons seconded, and the Board unanimously approved the motion.

- M. Board Ratification of Prior Investment Committee Approval of Revised Construction Budget for Woodland Heights. This would increase the total budget to approximately \$18.9 million from the original \$18.2 million (a 4% increase). Approximately \$400,000 is earmarked for the unplanned but needed improvements to the existing reception and lobby areas, dining spaces, pool area, kitchen, and public passageways.

Ms. Parsons made a motion “that the prior action of the Investment Committee to approve an increase in the construction budget for Woodland Heights to a total of \$18,900,000, which would include both the planned new construction with approved budget change orders as well as certain upgrades to the common areas of the original building, such as dining, kitchen, hallways, lobby/reception areas, fitness areas and so forth, be ratified by the Board of Trustees”, seconded by Ms. Coleman, and the Board unanimously approved the motion.

- XV. Insurance Recommendations for Property Holdings from Rebsamen Insurance. (Resolution No. 2007-32) Ms. Leming made a motion for approval of Resolution No. 2007-32, Ms. Coleman seconded, and the Board unanimously approved the motion.
- XVI. Woodland Heights Update. CIO and Fox Ridge Management met with residents last week and are making progress on proposed rent increases, which will be staggered over 4 years. A positive cash flow from this investment is expected, according the Fox Ridge’s planned pro forma, after the second year with a target of 8% cash flows in four years. The planned lease up schedule of the new wing is very conservative with full occupancy expected within 3 years.
- XVII. Staff Organization Restructuring Plan. CEO made a presentation outlining the five new departments: Operations, Legal, Finance, Investment and Internal Audit and Risk Assessment.
- XVIII. Building/Operational Update. Gail Bolden, Chief Operating Officer, presented information regarding the move of personnel to the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> floors. Member Services, Human Resources and Pre-Retirement will be on the 1<sup>st</sup> floor to more easily accommodate members and other personnel. Ms. Bolden and Manju Manjunath made a presentation of the new web site and the new ATRS logo, letterhead and stationery.

XIX. Staff Reports.

- A. Medical Board Reports. Daryl Wilkerson, with Member Services staff, presented the June, July, August and September summaries of disability applications submitted for consideration by the Medical Committee. Mr. Wilkerson also requested the Boards approval for Dr. Bill Atkinson to serve on the Medical Committee to fill the position after the passing of Dr. Ewing Reed. A Curriculum Vitae of Dr. Atkinson was provided to the Board for review.

Ms. Terry made a motion for approval of the Medical Board reports, Ms. Parsons seconded, and the Board unanimously approved the motion.

- B. Member Services. Michael Ray, Director of Member Services, provided copies of the new pamphlets available to members and schools on "General Information", "Understanding Your Benefits", "Purchasing Additional Service Credit", "Disability Retirement" and "Teacher Deferred Retirement Option Plan (T-DROP)". These brochures are also available on the website.
- C. Personnel Report. Gaye Swaim, Personnel Manager, reporting that ATRS has hired 12 new employees, promoted 4, transferred 4 and 8 have resigned. Human Resources has screened 400 applications and conducted 70 interviews. Employee training will start soon on CPR and First Aid. An employee of the month program has been implemented. The Green Committee is looking into putting timers on the lights.
- D. ATRS Financial Reports. Suzanne Davenport, CFO, reviewed the ATRS Financial Comparison versus the Previous Year for April and May of 2007.
- E. Payroll Report. Judy Brown, Supervisor Retiree Payroll, reviewed the payroll reporting for the 4<sup>th</sup> Quarter (June 2007), which included COLA raises for the month of July in the amount of \$1.2M. There were 53 requests for waivers on earnings limitations processed and approved.
- F. Employer Reporting. Mindy Looney, Supervisor Reporting, reviewed the Payroll Report for the 4<sup>th</sup> Quarter (June 2007). The Employer Reporting department has been reorganized into 3 teams of 3 with the employers divided amongst them to provide employers with a consistent contact for reporting. T-DROP and Waivers have been transferred to Reporting. Ms. Looney is preparing language to provide the Chief Executive Officer with the authority to waive the \$150 penalty for late employer reporting. This will be a one time only waiver. Haus Hall School has brought its employer contributions current and satisfied the debt in full with a payment of \$49,720.81, which included \$3,300.00 in penalties.

- G. Investment Reporting. Wayne Greathouse, Director of Public Securities, stated that ATRS has been active in Securities Lending for 21 years with 3 managers. They are currently reviewing broadening mandates and guidelines for Fixed Income manages, which will be reported at the next Board meeting. On October 24<sup>th</sup> Mr. Greathouse and Ms. Bumgardner will be visiting with State Street in Kansas City to review and modify reporting programming to accommodate the new guidelines. Mr. Greathouse reviewed the Transactions Report for 4/1/07 through 5/31/07. This will be the last time this particular report will be presented to the Board, but will be replaced with a new report/format at future meetings.
- H. Real Estate. Hugh Roberts, Director of Real Estate, and Markay Grimmert reported on several matters. Jim Lindsey Partnership Properties was updated. As a meeting is scheduled for October 26<sup>th</sup> with ATRS Staff to review the Lindsey properties it was unanimously decided by the Board to postpone this update until the next Investment Committee/Board meeting. Mr. Roberts briefly reviewed the Arkansas Related investments including Woodland Heights. This property and the Chenal area undeveloped property are not generating positive cash flows, while the remainder of the Arkansas related investments are case flow positive, with various ranges. This is an investment group that is being reviewed to insure that performance is being properly assessed. It was reported that Woodland Heights is now nearly complete with an anticipated opening in late January '08. Mr. Roberts also reported there is a potential new tenant for the Hot Springs Shopping Center, Gander Mountain. Working on the lease and pending approval of the Zoning Committee is continuing. Finally, it was reported that the ATRS building will begin construction/renovations next week. There will be heightened security requiring all construction personnel to wear badges. The anticipated completion date for the 1<sup>st</sup> floor renovation is January '08.
- I. Private Equity. Leslie Ward, Director of Private Equity, briefly reviewed the current status of ATRS' investments in its Private Equity portfolios. Returns for the legacy portfolio have been in the low double digits. Somewhat higher returns 12-15% net are projected for the more recently established Fund of Funds program administered by Credit Suisse. All of these will be absorbed under the monitoring of the new Private Equity consultant.
- J. Legal. Christa Clark, Chief Legal Officer, is presently reviewing all Private Equity contracts to determine ATRS' rights and responsibilities. Before ATRS will be able to refund deposits to tenants at Woodland Heights a "Quiet Title Action" must be advertised to bring order to a jumble of title related issues dating back to a former owner of this property. Ms. Clark, Mr. Roberts and staff are reviewing property insurance policies. All of these items will be reported to the Board at the next meeting.

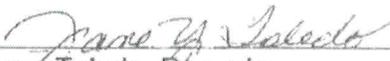
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XII. Other Business.

- A. J. [REDACTED] and her son, E. [REDACTED] made a presentation to the Board seeking payment of approximately \$93K, which represents the half interest of her ex-husband's retirement due her under the QDRO filed with ATRS. ATRS had erred in not forwarding Ms. P. [REDACTED] rightful share. This matter is currently in litigation and until the matter has been addressed in final form by the court, it was deemed in appropriate for the Board to do other than hear from Ms. P. [REDACTED] at this time. Currently the staff of ATRS is under subpoena related to details of this litigation. Once the judicial proceeding has been completed and depending on the findings, the Board may wish to review its options and consider further action,
- B. A proposed 2008 Board of Trustee/Committee calendar was outlined. This will be addressed more formally at the December Board of Trustees meeting. Investment, Policies and Legislative Committee schedules are to be determined at the next respective Committee meetings. There will be another Investment Committee meeting inserted at 9:30 a.m. on December 3rd, prior to the Board of Trustees meeting, which will start at 1:00 p.m. The next scheduled Investment Committee and Policies Committee meetings were rescheduled for November 14<sup>th</sup>. The original date was November 12, which conflicts with the Veterans Day holiday. The Investment Committee will start at 9 a.m. with the Policies Committee to follow at 1 p.m. both on the date of November 14<sup>th</sup>.

XIII. Executive Session for Discussion of Personnel Matters was postponed for a future Board meeting.

XIV. Adjournment. Ms. Terry made a motion for adjournment of the Board of Trustees meeting, seconded by Ms. Leming and the Board unanimously approved the motion. The meeting was adjourned at 3:05 p.m.

  
Jane Toledo, Recorder

  
Paul Doane, Executive Director

  
Robin Nichols, Chair  
Board of Trustees

12-4-07  
Date Approved