

**MINUTES
REGULAR MEETING
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES
December 3-4, 2007**

Attendees	
<p><u>Board of Trustees</u> Dr. Richard Abernathy Monty Betts (12/4) Hazel Coleman, Vice Chair Dr. Paul Fair John Fortenberry Beverly Leming Bobby G. Lester Robin Nichols, Chair Linda Parsons Martha Shoffner by Designee, Mike Creekmore Janelle Riddle</p> <p><u>BOT Absences-Excused</u> Monty Betts (12-3) Ellen Terry (12-3-4)</p> <p><u>Other BOT Absences</u> Candace Franks Ken James Jim Wood</p> <p><u>Staff</u> Gail Bolden, COO Judy Brown, Supervisor Retiree Payroll Christa Clark, Chief Legal Counsel Suzanne Davenport, CFO Paul Doane, CEO Markay Grimmatt, Staff Tamara Henderson, Paralegal Mindy Looney, Supervisor Reporting Mullahalli Manjunath, Manager, DP Michael Ray, Director, Member Services Hugh Roberts, Director of Real Estate</p>	<p><u>Staff (Cont'd)</u> George Snyder, Chief of Risk Management Gaye Swaim, Personnel Manager Jane Toledo, Secretary Leslie Ward, Director of Private Equity Daryl Wilkerson, Disability Counselor</p> <p><u>Guests</u> Lloyd W. Black, ARTA Mary Cameron, BLR Lawrence Colston, Former Trustee Laura Gilson, BLR Richard Hutchinson, AEA Matthew Miller, BLR Steve Singleton, ARTA Estella Smith, BLR Beverly Williams, ADE Sue Curran, Fidelity</p> <p><u>Ennis Knupp-Consultant</u> Mary Bates Steve Cummings PJ Kelly Christian Reel</p> <p><u>Gabriel Roeder</u> Mita Drazilov Judy Kermans</p> <p><u>State Street</u> Kathy Grant Julie Yee</p> <p><u>Reporters</u> Mike Wickline, Arkansas Democrat Gazette</p>

- I. **Call to Order/Roll Call.** Chair, Ms. Nichols called the meeting to order at 1:05 p.m. The absences of Monty Betts and Ellen Terry were excused.
- II. **Adoption of Agenda.** A motion for approval of the Agenda was made by Ms. Coleman, seconded by Dr. Abernathy, and unanimously approved by the Board.

III. **Minutes of October 1-2, 2007 Board of Trustees Meeting.**

The motion for approval of the Minutes of the October 1-2, 2007 Board of Trustees meeting was made by Ms. Leming, seconded by Mr. Lester, and unanimously approved by the Board.

IV. **Report of Investment Committee.**

- A. **“Draft” of the Minutes of the Investment Committee Meeting of November 14, 2007.** These minutes were provided in “draft” form for informational purposes only and will be approved at the next scheduled meeting of the Investment Committee in January.
- B. **Recommendation to Change UBS Mandate from Non-US to Global (Resolution No. 2007-33).** This proposal permits UBS Management to convert its existing non-US portfolio to a global strategy and will require a modification of guidelines and employ ACWI (All Country World Index) global benchmark.

The motion for adoption of Resolution No. 2007-33 was made by Ms. Riddle, seconded by Ms. Parsons, and unanimously adopted by the Board.

- C. **Recommendation to Permit Expanded Guidelines for Kennedy Capital to Include Certain Mid-Cap Holdings (Resolution No. 2007-34).** Kennedy currently manages a small cap value portfolio and has requested approval to own up to 15% of the portfolio in mid cap stocks (\$3-\$8 billion capitalization market). This will permit Kennedy the flexibility to retain small cap investments and not be forced to sell when they increase in cap size. There will be no change in fee or benchmark. This recommendation is supported by Staff and Consultant.

The motion for adoption of Resolution 2007-34 was made by Ms. Coleman, seconded by Ms. Leming. Ms. Nichols amended the motion to change the percentage from 15% to “20%” so the Resolution would read “approval to own up to 20%”. This amendment was seconded by Dr. Abernathy and accepted by the Board. The original motion was then unanimously adopted by the Board.

- D. **Recommendation to Change SSGA Mandate From Multi-Cap Domestic (Passive) to Global (passive) with ACWI Benchmark (Resolution No. 2007-35).** State Street currently manages a passive (indexed) equity portfolio benchmarked to the broad domestic market. This proposal would permit SSGA to convert its existing portfolio to a global index with 1/3 of the assets being assigned to an “enhanced global” portfolio benchmarked against the newly developed MSCI-GIMI (global

investible market index) which includes developed and non-developed market exposure with a target return to outperform the benchmark by 50bp (net). The balance of the portfolio would be a global passive portfolio. The traditional passive portfolio would be at a flat rate fee while the enhanced portfolio would employ a base fee of 5bp plus 20% of excess returns.

The motion for adoption of Resolution No. 2007-35 was made by Ms. Leming, seconded by Ms. Parsons, and unanimously adopted by the Board.

- E. **Recommendation to Permit Three Existing Active Fixed Income Managers to Invest 1/3rd of Portfolio Assets Into Their Respective Existing Fixed Global Absolute Return Strategies (Western Asset, PIMCO, BlackRock) (Resolution 2007-36).** This would permit the three Fixed Income managers to each place one-third of their respective mandates in a “global/absolute return” type strategy. The balance of each manager’s portfolio would remain unchanged from its current domestic portfolio benchmarked to the Lehman Aggregate or Lehman Universal indices.

The motion for adoption of Resolution 2007-36 was made by Ms. Coleman, seconded by Mr. Creekmore, and unanimously adopted by the Board.

- F. **Recommendation on Private Equity “Investment Guidelines” (Resolution No. 2007-37).** This recommendation asks the Board to approve a policy statement for the alternative investment allocations prepared by Franklin Park, working in conjunction with ATRS Staff.

The motion for adoption of Resolution No. 2007-37 was made by Ms. Parsons, seconded by Ms. Leming, and unanimously approved by the Board.

- G. **Recommendation to Invest in Boston Ventures Fund VII (Resolution No. 2007-38).** This is a proposed new Private Equity Investment in the Boston Ventures VII Fund for **\$50 million**. Consultant and Staff support this investment in a communications and media focused mid-size (\$450 Million) fund.

The motion for adoption of Resolution No. 2007-38 was made by Ms. Coleman, seconded by Ms. Parsons, and unanimously adopted by the Board.

- H. **Recommendation to Invest in Venture Capital Investment Vehicle (Resolution No. 2007-39).** This recommendation is to commit up to \$30 million annually to venture capital investments with the comparable assets

of other Franklin Park clients. This fund will provide a source of ready capital for Franklin Park to employ into approved venture investments whose funding schedules often require more prompt action. The consultant will not charge a fee for the assets in this fund and will keep Board and Staff advised of status.

The motion for adoption of Resolution No. 2007-39 was made by Ms. Coleman, seconded by Ms. Leming, and unanimously adopted by the Board.

- I. **Recommendation to Conduct RFP for Activist Manager Mandate (Resolution No. 2007-40).** The Board's asset allocation policy provides for activist managers within either its traditional domestic equity allocation or its newly established "opportunistic/other" category. The Staff and consultant recommend the Board authorize an RFP search process for not more than two activist managers totaling approximately \$300 million with complementary but varying approaches to this investment management style.

The motion for adoption of Resolution No. 2007-40 was made by Ms. Parsons, seconded by Ms. Coleman, and unanimously adopted by the Board.

- J. **Woodland Heights Update and Approval of Revised Construction Budget (\$20.9 Million) for Woodland Heights (Resolution No. 2007-41).** This resolution seeks full Board ratification of increasing the construction budget for Woodland Heights to \$20.9 million from the previously approved \$19.8 million. Several remaining items, including the need to re-bid the tiling work, completion of a planned outdoor patio area, and architectural fees have resulted in the additional costs, which now includes a sufficient contingency amount in the budget. This is a 10% increase over the initial budget.

The motion for adoption of Resolution No. 2007-41 was made by Ms. Leming, seconded by Mr. Lester, and unanimously adopted by the Board.

- K. **Recommendation for Contract with Cooper Realty, Inc. (Resolution No. 2007-42).** This proposal is to retain Cooper Realty Incorporated of Fayetteville to perform a review of the Arkansas Related accounts with no fee to ATRS. It will provide much needed examination of data to permit a more accurate calculation of performance, cash flows, and related reports.

The motion for adoption of Resolution No. 2007-42 was made by Ms. Coleman, seconded by Mr. Creekmore, and unanimously adopted by the Board.

V. **Report of the Policies Committee.**

- A. **“Draft” Minutes of November 14, 2007 Policies Committee Meeting.**
These “draft” minutes were provided for informational purposes only and will be finalized and approved at the next scheduled meeting of the Policies Committee.

- B. **Resolution Re: Forgiveness of Late Reports and Penalties for Employers by Executive Director (Resolution No. 2007-43).** This authorizes the Board’s CEO to grant a waiver from the assessment of the penalty for late payment of the monthly contribution by a member district where circumstances justify.

The motion for adoption of Resolution No. 2007-43 was made by Ms. Parsons, seconded by Dr. Abernathy, and unanimously adopted by the Board.

- C. **Recommendation to Combine Policies Committee and Legislative Committee into Policies/Legislative Committee (Policy Nos. 1-11 and 1-12).** This recommendation would merge the existing committees, the separate Legislative Committee and the Policy Committee, into one combined Policies/Legislative Committee.

The motion for adoption of Policy Nos. 1-11 and 1-12 was made by Ms. Parsons, seconded by Ms. Coleman, and unanimously adopted by the Board.

- D. **Recommendation to Establish an Audit Committee of the Board (Policy No. 1-18).** The **Audit Committee** will have five members of which two will be at-large members appointed by the Board. The non-Board members will have professional expertise in auditing. The committee will work with the CEO, Chief Legal Officer and the agency’s Director of Risk Assessment and Internal Audit. The Committee will review and approve all internal audits, oversee the role of any external audits conducted on Agency activities or investments, monitor policies for managing risk, identify steps to improve internal functions, and review and endorse state and agency annual audit reports.

The motion for adoption of Policy 1-18 was made by Ms. Parsons, seconded by Ms. Riddle, and unanimously adopted by the Board

- E. **Recommendation to Establish an Administrative/Personnel Committee of the Board (Policy No. 1-17).** The **Administrative/Personnel** Committee will consist of three Board members and work with the CEO, Chief Operating Officer, and Human Resources Staff in matters of personnel relations, staffing needs,

restructuring and internal efficiencies, Board and Staff performance evaluations, and main office planning and layout.

The motion for adoption of Policy 1-17 was made by Ms. Parsons, seconded by Mr. Lester, and unanimously adopted by the Board.

- F. **Recommendation to Establish an Executive Committee of the Board (Policy No. 1-16).** The **Executive Committee** will consist of five Board members including the Chair. This Committee will work directly with the Chief Executive Officer in matters involving agency budgeting, strategic planning, Board meeting schedule, offsite meeting planning, training and education, external relations (i.e. media, legal, professional organizations), and provide general operational guidance to the CEO.

The motion for adoption of Policy 1-16 was made by Ms. Parsons, seconded by Ms. Coleman. A motion to amend the main motion was made by Ms. Parsons in Paragraph J by striking the words “when requested” so that the sentence would read “Provide operation guidance to the Executive Director.” This amended motion was seconded by Ms Coleman and unanimously approved. An additional amendment was offered by Mr. Lester to Paragraph 8 to insert the word “review” so the sentence would read “The Committee will periodically review its Charter.” This was seconded by Ms. Coleman and unanimously adopted by the Committee. The main motion was then unanimously adopted.

- G. **Adoption of Comprehensive Package of Committee Structure (Resolution No. 2007-44).**

The motion for adoption of Resolution 2007-44 was made by Ms. Parsons, seconded by Ms. Riddle, and unanimously adopted by the Board.

VI. **General Consultant’s Report.**

- A. **Fourth Quarter to Date Portfolio Performance Update.** Steve Cummings, President and PJ Kelly of Ennis Knupp reviewed the Fund’s performance for October and a preliminary look at the month of November.
- B. **Two Unconstrained Fixed Income Managers RFP Search.** Mary Bates, director of fixed income manager research at Ennis Knupp reviewed the planned search for two new unconstrained fixed income managers, to complement the broadening in mandates extended to our existing three bond managers. The Board was provided with a copy of the cover letter identifying the qualifiers ATRS is seeking in a Fixed Income manager and a copy of the Fixed Income RFP Questionnaire to be sent to the potential candidates by the end of the week. Ennis Knupp and Staff will select managers to make presentations at the next Board meeting.

- C. **Portfolio Risk Assessment (Preliminary).** PJ Kelly reviewed the potential risk in our realigned portfolio. This is a so-called “holdings based analysis” and provides a good indication of what our future “exposure” to risk is in our investment position. Since we are making a series of major changes to the portfolio, this assessment is preliminary with a more detailed report likely in February or April, when most of the changes should be fully implemented.

VII. **Real Estate Consultant’s Report. Christian Reel of Ennis Knupp.**

- A. **Recommendation on Real Estate “Investment Policy” (Resolution No. 2007-45).** The Investment Committee has reviewed the Statement of Investment Guidelines (Policy), which outlines the procedures to be used when making future investments to this expanded asset class.

The motion for adoption of Resolution No. 2007-45 was made by ms. Leming, seconded by Ms. Parsons and unanimously adopted by the Board.

- B. **Recommendation to Invest in Fidelity Management’s Real Estate Growth Fund III (Resolution No. 2007-46).** This is a recommendation to invest \$30 million in a value added, mixed use, property fund partnership managed by the Pyramis, the institutional arm of Fidelity Management (Boston). This investment has been reviewed by the Investment Committee and is supported by Consultant and ATRS Staff.

The motion for adoption of Resolution No. 2007-46 was made by Ms. Leming, seconded by Ms. Riddle and unanimously adopted by the Board.

Chairperson Nichols called a recess at 3:35 p.m. of the Board of Trustees meeting until 9:00 a.m., Tuesday, December 4, 2007.

Chairperson Nichols reconvened the meeting of the Board of Trustees to order at 9:02 a.m. Monty Betts was in attendance and Ms. Franks absence was excused by the Board.

- VIII. **Executive Director’s Report.** Chair Nichols and Mr. Doane have been appointed to the NCTR’s Legislative Committee; the December ATRS Newsletter is being mailed the week of December 13; our new website has a section for member feedback, Chair Nichols and Mr. Doane attended the Public Funds conference in San Francisco; Accounting has timely filed the DOFA and CAFR reports, the Agency CAFR report will go to the printers at the end of the month and be distributed early next year, the prior years’ (FY 2006) legislative audit/exit interview was completed with only two items noted that have been since addressed: (a) more prompt reporting of performance on the Private Equity portfolio, and (b) improved internal procedures to best insure more accurate

calculation of benefits for members; the Legislative Committee on Joint Retirement meeting is scheduled next week (Gail Bolden and George Snyder will be attending); the 1st floor renovations will be completed in February and then 3rd floor renovations will begin; 62% of members are contributory now – up from 50%; and, the court finding in the Jeanette Paul QDRO matter has resulted in a very favorable outcome for Mrs. Paul to recover benefits from her husband with interest.

IX. **Gabriel Roeder Actuaries Report:** Judy Kermans, Mita Drazilov of Gabriel Roeder Smith & CO.

- A. **Presentation of Annual Actuarial Report on Active and Inactive Members 6/30/07.** Judy Kermans introduced her colleague, Mr. Mita Drazilov, who will begin working on ATRS' account with Judy and Brian Murphy. Judy and Mita reviewed their findings for the fiscal year ending June 30, 2007. The results were very positive with significant improvements on ATRS' pre-funding ratio, up from 80% to just over 85% (slightly better than the average public DB Plan), and a further reduction in our amortization schedule, from 36 years to 19 years! GRS presented its report in a power point program. Additionally, its recently completed 50 year Analysis of the System was made available to the Board.

The motion for adoption of Gabriel Roeder's Actuarial Report for the Fiscal Year Ending June 30, 2007 was made by Ms. Coleman, seconded by Mr. Creekmore and unanimously adopted by the Board.

B. **Discussion re: Pending Legislative Enactments.**

- i) **Enacting New Policy Guidelines Governing Purchase of Domestic Federal Service (Act 1479 of 2003) (Policy No 8-18).** This policy provides guidelines for the purchase of service credit for Domestic Federal Service. The act limits the amount of service credit subject to purchase to 10 years, and will add less than one month to the unfunded amortization schedule.

The motion to adopt Policy 8-18 was made by Ms. Coleman, seconded by Ms. Leming and unanimously approved by the Board.

- ii) **Enacting New Policy Guidelines Governing Purchase of Federal Retirement Service (Act 2091 of 2003) (Policy No. 8-19).** This policy provides guidelines for the purchase of service credit for Federal Retirement Service. The amount of service credit subject to purchase will be 10 years, and will add less than one month to the unfunded amortization schedule.

The motion for adoption of Policy 8-19 was made by Ms. Leming, seconded by Ms. Riddle and unanimously adopted by the Board.

- iii) **Enacting New Policy Guidelines Governing Return to Covered Employment (Acts 612 and 698 of 2007) (Policy No. 10-2) and Enacting Earnings Limit Exemption for ADE Employees (Act 698 of 2007) (Policy 10-2).** This policy covers two recent enactments (2007 session) that eliminates any limitation on earnings of retirees who are employed by the State's Department of Education and also extends from three to six years the waiver on earnings limitations for DOE approved teachers in designated critical need subjects. These two items will add approximately two months to the unfunded amortization schedule.

The motion for adoption of Policy 10-2 was made by Ms. Leming, seconded by Dr. Abernathy, and the motion carried.

- iv) **Funding Compound COLA (Act 404 of 1999).** The cost of this item would place the unfunded amortization schedule over 45 years, and can not be implemented as is. GRS and CEO will be evaluating various options throughout the early part of the next year with a recommendation on any COLA adjustment to be presented to the Board by April, 2008.

- X. **Medical Board Reports.** Daryl Wilkerson presented the Medical Board Reports for October and November, 2007.

The motion for approval of the Medical Board Reports was made by Ms. Parsons, seconded by Ms. Riddle, and unanimously approved by the Board.

- XI. **Staff Reports** were provided to all Board Members as listed below and supervisory personnel were available for questions.

- A. **Personnel Report.**
- B. **ATRS Financial Reports.**
- C. **Payroll Report.**
- D. **Real Estate.** Markay Grimmatt reported that there was an accrued carry forward from 2002/2003 on the Lindsey Partnership properties, which was discussed at an earlier meeting, is, in fact, allowed per the terms of the Partnership Agreement and none of these properties are in any form of default.

- XII. **Other Business.**

- A. **Approval of 2008 Board of Trustees Meeting Schedule.**

The motion for approval of the 2008 Board of Trustees Meeting Schedule was made by Dr. Fair, seconded by Ms. Leming and unanimously approved by the Board.

B. Other Committee Assignments. Chair, Ms. Nichols read the Committee assignments for the existing and new committees. The assignments were distributed in printed form at the meeting.

XIII. **Executive Session for Discussion of Personnel Matters.** Postponed.

XIV. **Adjournment.**

The motion for adjournment was made by Ms. Coleman, seconded by Ms. Parsons and unanimously approved by the Board. Chair, Ms. Nichols adjourned the Board of Trustees meeting at 11:50 a.m.

Jane Toledo, Recorder

Paul Doane, Executive Director

Robin Nichols, Chair
Board of Trustees

Date Approved