

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

Monday, April 7, 2008

1:00 p.m.

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

ATTENDEES	
Board Members Present	ATRS Staff Present
Richard Abernathy	Gail Bolden, Chief Operations Officer
Monty Betts	Judy Brown, Director Accounting-Reporting
Hazel Coleman, Vice Chair	Christa Clark, Chief Legal Counsel
Dr. Paul Fair	Suzanne Davenport, Director of Fiscal Affairs
John Fortenberry	Paul Doane, Chief Executive Officer
Candace Franks	Markay Grimmatt, Investment Staff
Auditor Jim Wood by Designee Steve Kelly	Tamara Henderson, Paralegal
Beverly Leming	Melinda Looney, Director of Accounting-Reporting
Bobby Lester	Mullahalli "Manju"nath, Director of Data Processing
Robin Nichols, Chair	Willana Prince, Director Benefits & Counseling
Linda Parsons	Michael Ray, Director of Member Services
Janelle Riddle	Hugh Roberts, Director of Real Estate
Martha Shoffner by Designee Mike Creekmore	George Snyder, Director of Audit
Ellen Terry	Gaye Swaim, Director of Human Resources
	Hugh Roberts, Director of Real Estate
	Jane Toledo, Secretary
Guests	Leslie Ward, Director of Private Equity
Erika Gee, Attorney General's Office	
Senator Jimmy Jeffress	Ennis Knupp
Senator Steve Faris	PJ Kelly
Senator Shane Broadway	Matt Steffora
Mike Wickline, AR Democrat Gazette	
	Kennedy Capital
	Randy Kirkland, President
	Richard Sinese, Portfolio Manager

- I. **System's Birthday Celebration.** Among others Senator Shane Broadway, Senator Steve Faris and Senator Jimmy Jeffress were present to award a "State Citation" to ATRS in celebration of the System's 70th Birthday.

- II. A. **Call to Order.** Chair, Ms. Nichols, called the meeting of the Board of Trustees to order at 1:45 p.m.

- B. **Motion to Excuse Absences.** There were no absences of Board Members.
 - C. **Approval of Agenda.** A motion for adoption of the Agenda was made by Dr. Paul Fair, seconded by Mr. Lester, and unanimously approved by the Board of Trustees.
- III. **Approval of Minutes: 2/11/08 Board of Trustees Meeting.** A motion for approval of the Minutes of the February 11, 2008 Board of Trustees meeting was made by Ms. Coleman, seconded by Ms. Terry, and unanimously approved by the Board.
- IV. **“Manager of the Year” Award Presentation.** Kennedy Capital of St Louis Missouri is the recipient of this first ATRS Manager of the Year designation for its outstanding service to the System. Kennedy’s President, Randy Kirkland, and Portfolio Manager, Richard Sinese, were present to receive the commemorative plaque/award.
- V. **Staff Reports.**
- A. **Medical Report.** Willana Prince reviewed the Summary of Disability Applications by the Medical Committee for the month of March.

A motion for approval of the Medical Committee Report was made by Ms. Parsons, seconded by Ms. Riddle, and unanimously approved by the Board.
 - B. **Personnel Report.** Director of Human Resources, Gaye Swaim reviewed the Personnel Report for April 2008. Human Resources is working with a committee of staff to review and revise the current Employee Handbook.
 - C. **Chief Fiscal Officer’s Report.** Director of Fiscal Affairs, Suzanne Davenport, reviewed the ATRS Financial Reports for the period ending January 31, 2008. Accounting has closed 2nd quarter reporting and has completed all 2nd quarter termination refunds.
 - D. **Payroll Report.** Supervisor of Retiree Payroll, Judy Brown, reviewed the February 2008 Payroll Report.
 - E. **Investments Report.**
 - 1) **Fiduciary Insurance Underwriter Selection.** This item was postponed until a future meeting of the Board of Trustees.

- F. **Chief Operating Officer's Report.** Chief Operations Officer, Gail Bolden, reported that the move from the 3rd to the 2nd floor to accommodate the renovations was completed by the IT department without disruption or down time to the system. Debbie Northum, Section Leader of Member Services Department, is up-to-date with the processing of member requests from the queue.
- G. **Chief Legal Counsel's Report.** Chief Legal Counsel, Christa Clark discussed Fiduciary Liability Insurance for Board members. The preliminary report indicates that premiums would cost between \$75K-\$200K per year for \$5M of coverage.
- H. **Chief Risk Management/Internal Audit Report.** George Snyder provided the Board members with his recommendation and biographies for the two proposed Audit Committee members, George W. Foster, CPA and Philip Cox, CPA.

1) **Approval of Candidates for Audit Committee of the Board.**

A motion for adoption of Resolution No. 2008-19:

“That the Board of Trustees unanimously hereby appoints George Foster and Phil Cox as the two independent members of the Audit Committee and authorizes staff to take all appropriate actions to fully implement this resolution. “

was made by Ms. Terry, seconded by Mr. Betts, and unanimously approved by the Board.

- I. **Chief Executive Officer's Report.** CEO, Paul Doane reported that Wayne Greathouse and Hugh Roberts had recently toured the ATRS timberland in Virginia; RMK is to provide a report to the CEO which will be presented to the Board at a future meeting; the 1st floor renovations are 90% completed and the 2nd floor is being renovated next; CEO has written all Senators and Representatives a letter and provided maps showing the Active and Retired members by county; The Bear Stearns situation has had a minimal impact on the ATRS portfolio (approx. \$5M) as JP Morgan took over the bonds; the Executive Committee will address the Compound COLA issue at the next meeting scheduled for April 17th with a recommendation to the Board at the June meeting; Cooper Real Estate in Fayetteville has performed a preliminary forensic review of the Arkansas Related Real Estate portfolio with a full report expected at the June meeting; there are several staff

committees working on various issues such as Return to Works district reporting and ways to economize and improve efficiencies at ATRS; the off-site Board meeting is scheduled for June 8, 9 and 10 at Lake Quachita; on April 19th 4 Board members, Michael Ray and the CEO will attend the annual SCTR conference; the NCTR Trustee Workshop is scheduled for July 28-29 in Los Angeles, CA; CEO will be traveling to Washington at the end of the week attending the ING Debt Opportunity Fund Board Meeting in New York on April 14-15 and will report to the Executive Committee on April 17th. The Executive Committee meeting is scheduled for 10:00 a.m. on April 17th followed by the Administrative/ Personnel Committee meeting at 1:00 p.m.

- 1) **Guidelines on Board Travel Policy.** Resolution 2008-01 was revised by striking the word “all NCTR” and inserting the words “any (3) NCTR/SCTR sponsored” in the first sentence of the last paragraph of the resolution to read: “The out-of-state retirement related conference shall be approved by the ATRS Director prior to attending the conference, and the Board member in attendance shall give a brief update of the conference at the next regularly scheduled Board meeting.”

A motion for adoption of Resolution 2008-01, as amended, was made by Ms. Leming, seconded by Ms. Coleman, and unanimously approved by the Board, as amended.

- 2) **Guidelines on Mgr. Modifications in Exigent Situations.** There are circumstances that may occur in the various securities markets that can be so unusual and outside the normal course of events as to adversely impact the asset value of a portfolio(s) if some departure from the general guidelines that govern the management and operation of the portfolio were not altered.

A motion for adoption of Resolution 2008-17 was made by Mr. Betts, seconded by Ms. Coleman, and unanimously approved by the Board.

- VI. **Report of the Investment Consultant.** This item was postponed until a future meeting of the Board.
- VII. **Approval of Activist Manager Mandates.** Following the Investment Committee’s interviews and due diligence by staff and consultant, the Investment Committee recommended the Board approve adoption of Resolution No. 2008-18:

A motion for adoption of Resolution 2008-18:

“That the Board of Trustees, upon recommendation by the Investment Committee, approves the hiring of the following three firms, Relational Investors of San Diego, Pershing Square, of New York, and Knight Vinke, of Monaco and agrees to fund said firms at a level up to \$100 million each and to instruct the staff and Counsel to conduct all necessary negotiations and finalize all necessary documents and terms to effectuate such approval and to report back to the Board as to the satisfactory conclusion and implementation of such agreements.”

was made by Ms. Leming, seconded by Ms. Coleman, and unanimously approved by the Board.

VIII. **Approval of Investment Guidelines**

- (a) **ING Portable Alpha Strategy.** The Board considered new guidelines governing the shift in one-half (1/2) of ING’s small cap mandate to ING’s “portable alpha” strategy. The effect of this move will reduce the portfolio over weighting in small cap.

A motion for adoption of Resolution No. 2008-20:

“That the Board of Trustees, upon recommendation by the Investment Committee, approves the revised Guidelines agreed to, and incorporated as part of this motion by attachment, for the investment management firm, ING, and further that staff and consultant are instructed to monitor this manager and insure that compliance with the terms and conditions of these Guidelines are met and, from time to time, reviewed to insure currency and relevance and compliance with the provisions of the Board’s Policy, 5-7-1 as it applies to the Board’s “Investment Managers”.

was made by Ms. Leming, seconded by Ms. Coleman, and unanimously approved by the Board.

- (b) **Putnam/ Loomis Fixed Income Strategy.** The Board considered guidelines for the management of the two recently hired fixed income “best ideas” portfolios of Loomis Sayles and Putnam Investments. Each portfolio will initially be funded with approximately \$250 million.

A motion for adoption of Resolution No. 2008-21 was made by Ms. Leming, seconded by Ms. Coleman, and unanimously approved by the Board.

IX. **Approval of Private Equity Investment of \$50 Million in LLR Partners.**

This is a mid-market buyout fund based in Philadelphia which focuses within the Mid-Atlantic region. The fund will raise about \$600 million with a closing expected in April.

A motion for adoption and amendment of Resolution No. 2008-22 by striking the words “real estate” and inserting the words “Private Equity” so that the Resolution reads “LLR Equity Partners III Private Equity fund and...” was made by Ms. Leming, seconded by Ms. Coleman, and unanimously approved by the Board, as amended.

X. **Approval: Real Estate: \$50 million. Rothschild FARS V.** This is an approximate \$500 million fund that invests in approximately 8-12 proven estate management companies within various types of real estate. The fund’s life is approximately 8 years and the investment fits within our “value added” space, generating projected returns of 12-14% and a 6-7% cash on cash return.

A motion for adoption of Resolution No. 2008-23 was made by Ms. Leming, seconded by Ms. Parsons, and unanimously approved by the Board.

XI. **Guidelines:**

A. **Approval of Direct Investment Guidelines.** The Direct Investment Guidelines are intended to govern new realty investments (formerly the Arkansas Related Portfolio) and permit more effective employment of limited staff.

A motion for adoption of Resolution No. 2008-24 was made by Ms. Leming, seconded by Ms. Riddle, and unanimously approved by the Board.

B. **Approval of Loan Program Guidelines.** The Real Estate Loan Program Guidelines include a detailed set of qualifications for applicants as well as forms for loan requests was approved.

A motion for adoption of Resolution 2008-25 was made by Ms. Leming, seconded by Ms. Parsons, and unanimously approved by the Board.

C. **Approval of Emerging Strategy Program (ESP) Guidelines.** The Emerging Strategy Portfolio Guidelines permit staff and consultant to recommend managers within various asset classes that would not otherwise qualify for traditional sized mandates due to limited assets under management, track record, team experience working together and so forth. A total of \$100 million is sought to fund the program. It

serves as a possible source of future managers for traditional sized mandates.

A motion for adoption of Resolution No. 2008-26 was made by Ms. Leming, seconded by Ms. Parsons, and unanimously approved by the Board.

XII. Report on the Minutes

- A. **Investment Committee of 3/18/08.** The Board reviewed the Minutes of the March 18th Investment Committee meeting.

A motion for approval of the Minutes of the March 18th Investment Committee meeting was made by Ms. Parsons, seconded by Ms. Riddle, and unanimously approved by the Board

- B. **Policies/Legislative Committee of 2/28/08.** This item was postponed until a future meeting of the Board of Trustees.
- C. **Executive Committee of 2/28/08.** This item was postponed until a future meeting of the Board of Trustees.
- D. **Discuss FOIA, Death Benefit, COLA, etc.** This item was postponed until a future meeting of the Board of Trustees.

- XIII. **Approval of Securities Litigation Policy.** The Board reviewed operational guidelines for its pursuit of appropriate litigation to recover from wrongful actions of corporate boards and management. ATRS' Chief Legal Counsel has developed terms for Board consideration following Policies/Legislative Committee review and recommendation.

A motion for adoption of Resolution 2008-27 was made by Ms. Parsons, seconded by Mr. Lester, and unanimously approved by the Board.

- XIV. A. **Approval of RFP for Class Action Counsel.** There are two actions sought to authorize separate RFP's: (a) increasing by up to three, the number of additional Class Action Counsel to be employed on a fully contingent basis. Currently the System employs one counsel for this purpose, Bernstein Litowitz. It is believed, from a fiduciary standpoint, that having a broader monitoring and reporting effort is desirable.

A motion for adoption of Resolution No. 2008-28 was made by Ms. Parsons, seconded by Ms. Terry, and unanimously approved by the Board.

- B. **Approval of RFP for Private Equity Counsel.** This second RFP is for consideration of 1-2 candidates as special Private Equity Counsel to assist staff counsel and consultant in the examination and preparation of documents related to the Board's growing level of investments and commitment in the private equity arena.

A motion for adoption of Resolution No. 2008-29 was made by Ms. Parsons, seconded by Ms. Terry, and unanimously approved by the Board.

- XV. **Approval of Interest Rate for T-DROP Accounts (FY 2009).** The Board set the interest to be earned on T-DROP accounts based on the investment return of the Fund, less 2%, for the 12 month period ended March 31. Applying the Policy criteria, the minimum 2% interest will be credited for the prospective period beginning July 1, 2008 thru June 30, 2009.

The Board requested the Executive Committee review and report on the previous 5-years T-DROP rates.

A motion for adoption of Resolution No. 2008-30 was made by Ms. Riddle, seconded by Dr. Fair, and unanimously approved by the Board.

- XVI. **Discussion of Fiduciary Insurance Policy.** Staff is reviewing this matter and will report its conclusions at the next scheduled meeting of the Board.

A motion for adoption of Resolution No. 2008-31 was made by Ms. Parsons, seconded by Ms. Riddle, and unanimously approved by the Board.

- XVII. **Other Business.** Director of Real Estate, Hugh Roberts, updated the status of Woodland Heights. The construction company has provided a Certificate of Substantial Completion and Certificate of Occupancy. There are 5 new tenants moving in this month and there will be an open house in June. There are 84 apartments and meeting rooms with 5 rented and 79 available. The pricing of the units is competitive at \$2,500/mo for a one bedroom unit and \$2,800 for a two bedroom units. The rent includes dinner and other benefits such as security, transportation, a fitness center, pool, and laundry services. There is a \$25,000 non-refundable deposit.

Eubel Brady Suttman. The Board of Trustees of the Arkansas Teacher Retirement System (ATRS) established, in the summer of 2007, a formal Watch List procedure. Over the past ten month "watch status", Eubel Brady has not demonstrated in its meetings with the staff and Investment Committee sufficient progress or improvement to justify continuation as a manager. Upon recommendation by the Investment Committee. A motion was made for

adoption of Resolution 2008-31 by Ms. Parsons, seconded by Ms. Riddle, and unanimously approved by the Board.

Revised Cash Guidelines for ICC. The Portfolio Manager is currently, at the authorization of staff and consultant, at a cash position of 23%. The guidelines call for a cash level not to exceed 5%. The Portfolio Manager has requested for up to a 50% cash position to permit ICC Capital Management to hold up to 25% of its portfolio in cash. This decision is to be reviewed within six (6) months.

A motion to temporarily modify ICC Capital Managements guidelines, per Resolution 2008-17, was made by Ms. Leming, seconded by Ms. Parsons, and unanimously approved by the Board.

XVIII. **Adjourn.** A motion for adjournment was made by Ms. Parsons, seconded by Ms. Terry and unanimously approved by the Board. Chair, Ms. Nichols adjourned the meeting at 4:30 p.m.

Jane Toledo, Recorder

Paul Doane, Executive Director

Robin Nichols, Chair
Board of Trustees

Date Approved