

MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

Dr. Richard Abernathy, Chair

Tuesday, July 21, 2009

9:30 a.m.

1400 West Third Street
Little Rock, AR 72201

Board Members Present

Dr. Richard Abernathy, Chair
Hazel Coleman, Vice Chair
David Cauldwell
Mike Creekmore, in place for Martha Shoffner
Dr. Paul Fair
John Fortenberry
Steve Kelly, in place for Jim Wood
Beverly Leming
Bobby Lester
Robin Nichols
Linda Parsons
Janelle Riddle
Jeff Stubblefield

Board Members Absent

Candace Franks
Dr. Diana Julian

Consultants Present

Heather Christopher, Ennis Knupp
P.J. Kelly, Ennis Knupp
Joe Marzano, Ennis Knupp
Christian Reel, Ennis Knupp
Judy Kermans, Gabriel Roeder Smith
Brian Murphy, Gabriel Roeder Smith

Staff

George Hopkins, Executive Director
Gail Bolden, Deputy Director
Judy Brown, Ret. Section Manager
Christa Clark, Chief Legal Counsel
Wayne Greathouse, Dir. Public Markets
Clementine Infante, Legal Consultant
Mindy Looney, Ret. Section Manager
Manju, Dir. Data Process
Michael Ray, Dir. Member Services
George Snyder, Dir. Internal Audit/Risk Management
Gaye Swaim, Dir. Human Resources
Leslie Ward, Dir. Private Equity
Amy Wells, Administrative Assistant

Reporters Present

Charlie Frago, Arkansas Democrat Gazette

Guests Present

Bob Berry, Division of Legislative Audit
Erika Gee, Attorney General's Office
Viola Meekins, Stuttgart Public Schools
Jason Simpson, Inroads Group
Brenda West, Division of Legislative Audit

- I. **Call to Order/Roll Call.** Chair, Dr. Abernathy, called the Board of Trustees meeting to order at 9:45 a.m. Roll call was taken and members absent were Dr. Diana Julian and Candace Franks.

- II. **Welcome to Newly Elected and Newly Reelected Board Members, David Cauldwell, Hazel Coleman, Jeff Stubblefield, and Interim Commissioner of Education, Dr. Diana Julian.**

- III. **Adoption of Agenda.** Mr. Hopkins requested that the Board add **Resolution 2009-23 to Item XVII** in recognition of Linda Parsons' retirement from the Board of Trustees.

Ms. Nichols *moved for adoption* of the amended Agenda. Mr. Lester *seconded the motion and the Board unanimously approved the motion.*

- IV. **Executive Summary.** The Executive Summary was provided for reference with no questions or expansions on the written summary.

- V. **Approval of Minutes.**

- A. **Correction of Minutes of December 8, 2008.**

Ms. Leming *moved for adoption* of the corrected Minutes of the Board of Trustees meeting of December 8, 2008. Ms. Riddle *seconded the motion, and the Board unanimously approved the motion.*

- B. **Approval of Minutes of June 16, 2009.**

Ms. Leming *moved for adoption* of the Minutes of the Board of Trustees meeting of June 16, 2009. Mr. Lester *seconded the motion, and the Board unanimously approved the motion.*

- VI. **Election of Board Officers.**

Ms. Riddle *nominated* Dr. Richard Abernathy as Chair and Hazel Coleman as Vice Chair for the Board of Trustees. Mr. Lester *seconded the nomination.*

Mr. Fortenberry asked that the nominations for Chair and Vice Chair be held separately.

Ms. Riddle *rescinded the nomination* for Dr. Richard Abernathy and Chair and Hazel Coleman as Vice Chair.

Ms. Riddle *nominated* Dr. Richard Abernathy as Chair for the Board of Trustees. Mr. Lester *seconded the nomination.*

Dr. Fair *moved* to cease nominations for the Chair of the Board of Trustees. Mr. Stubblefield *seconded, and the Board unanimously approved the motion.*

The Board of Trustees *unanimously approved the nomination of Dr. Richard Abernathy as Chair of the Board of Trustees.*

Ms. Riddle *nominated Hazel Coleman as Vice Chair for the Board of Trustees. Mr. Lester seconded the nomination, and the Board unanimously approved the nomination.*

- VII. **June 30, 2008 Gain/Loss Analysis – Gabriel Roeder Smith & Company.** Mr. Murphy gave a brief explanation of the different reports that Gabriel Roeder Smith & Company prepares for ATRS, including the Gain/Loss Analysis. The Gain/Loss Analysis examines why things change from one year to the next and Mr. Murphy gave information as to why these changes are important to ATRS

Ms. Kermans gave a presentation on actuarial mathematics, measurement of assets, and actuarial assumptions for 2008. Overall, the experience was better than expected. Results were favorable for 2008 because of the smoothing of gains and losses, but a poor showing for the next three years has been predicted. There was an 8.9% rate of return for June 30, 2008. Due to recent investment losses, ATRS' unfunded liability will go up in 2009.

- XVII. **Other Business.**

Ms. Nichols *moved for the adoption of Resolution 2009-23 in commendation of Ms. Linda Parsons' outstanding service as a Trustee on the ATRS Board of Trustees. Ms. Coleman seconded the motion, and the Board unanimously adopted the Resolution.*

- VIII. **Investment Committee Report.** Ms. Leming gave a report of the Investment Committee Meeting. There were no recommendations to give the Board.

There was discussion about the subcommittee review of the Arkansas Legislative Council, and that some ATRS contracts will be up for final review in August.

An update was given on the Real Estate tax appeal. Appeals have been filed in Pulaski and Crittenden counties; Garland and Miller will follow.

The Woodland Heights construction solution was not as difficult as previously thought. Only two ADA compliant rooms are required and Woodland Heights meets those requirements. ATRS will be replacing two sets of patio doors due to threshold requirements, but the cost will be minimal.

The Investment Committee received a report from P.J. Kelly of Ennis Knupp on updates to guidelines for Wellington Capital and T. Rowe Price. Legal staff will develop methodology on how this information should be presented and to whom and this information will be discussed at the next Investment Committee meeting.

ICC Capital has requested a mandate change to include global investing. A written report will be sent to Ennis Knupp for review.

IX. General Investment Consultant Update – Ennis Knupp.

- A. **Portfolio Performance Update, June, 2009, Final.** Mr. Marzano gave a brief summary of the June portfolio performance. In the second quarter, international markets outperformed U.S. markets, and the markets performed relatively well overall.

Emerging markets drove performance internationally at 34.7% for the quarter. The new Wellington products reflect this outperformance. Corporate high yield bond outperformed at 23.1% for the quarter in the Universal Bond Index.

The total fund for the month was up 0.5% and 13.4% for the second quarter. All of the major asset classes outperformed their benchmarks during the second quarter of 2009.

In total U.S. equity, it was noted that ICC Capital underperformed the benchmark for the month, but had strong numbers for the second quarter at 19.8%. The new Oppenheimer structured alpha product outperformed the benchmark in their first month. Kennedy Capital gave a strong performance in the second quarter, up 34.8%. Pershing Square struggled in the second quarter, falling well below their benchmark, but is performing well year to date.

For total global equity, Knight Vinke and Lincoln Vale were detractors in performance for the second quarter and year to date, performing well below their benchmarks. UBS Global outperformed benchmarks, up 30.6% for the quarter and 23.3% for the year.

Fixed Income performed well this quarter and is performing well year to date. The new strategies all outperformed their benchmarks.

- B. **Real Estate Performance Report, December, 2008.** Ms. Christopher gave an update on the real estate performance for fourth quarter of

2008. Transaction volume in the fourth quarter dropped significantly, which was attributed to the liquidity crisis. Buyers dropped out of the market and transactions were not closing.

Real Estate values fell 8.3% and performed below benchmarks. The hotel industry was especially hard hit due to lower levels of travel. Building costs were constrained and overbuilding did not occur. Supply and demand was in a better balance than the building crisis of the 1990's, though vacancy increased due to job losses. An increase in the job market is needed to see real estate levels increase.

The outlook for 2009 is poor as fundamentals are slowing, liquidity is not coming back, and buyers are not making transactions. There are still opportunities, such as debt and lending, stressed/distressed investments, and secondary markets.

Mr. Reel gave an update on the real estate portfolio value for the fourth quarter. As of the end of the fourth quarter, the portfolio had a market value of just under \$700 million, representing 8.4% of the total fund. Short-term performance was poor, at 5% below the benchmark. The ING Clarion Opportunity fund was down 50% in the fourth quarter. Securities are expected to perform well in the future once the market turns around.

O'Connor North American Properties showed a negative return of 60% for the quarter. There were three issues with the fund that caused the poor performance:

- 1) A New York office redevelopment project experienced a small fire, which caused the redevelopment to fall behind schedule.
- 2) Another redevelopment property had zero occupants.
- 3) A Manhattan condo development was unclear on the value of the property due to lack of buyers.

All three issues had to be underwritten and, consequently, lost value.

Mr. Reel made presentations on the pacing model for the real estate fund and the diversification of the portfolio. A snapshot of the first quarter showed that negatives are expected to become positives by year-end due to the denominator effect going up.

X. Quarterly Travel Update for Board, Staff and Preretirement Counselors.

Mr. Hopkins provided an update for the Board on the travel by Trustees and staff for the quarter.

- XI. **Mutual Release Agreement for Member Status Disputes.** Mr. Hopkins explained the issue of members who originally signed up to be contributory or noncontributory and being incorrectly classified in the ATRS system. Due to this error, noncontributory members would be forced to pay back unrealistic sums of money to become contributory and ATRS would be required to refund a great amount of money to members who should have been noncontributory. This was discovered during the ongoing cleanup of member accounts by ATRS staff.

ATRS wants to provide the fairest solution possible to members by giving them the option to sign a mutual release agreement. Members who should have been contributory would agree to leave their past noncontributory service status and would not be required to pay for back years of service that should have been contributory. Members who should have been noncontributory would agree to leave past service credit as contributory and would not receive a refund of contributions from ATRS. This agreement would prevent legal action from being taken by members against the System for this oversight.

Mr. Lester moved for the approval of the Mutual Release Agreement. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

- XII. **Commendation of Dr. Worthy Springer (Resolution 2009-21).** This Resolution was to commend Dr. Springer's service as an outgoing Medical Committee member.

Ms. Leming moved for the adoption of Resolution 2009-21. Ms. Nichols seconded the motion, and the Board unanimously adopted the Resolution.

- XIII. **Recommendation of Dr. William F. Hayden to Medical Committee (Resolution 2009-22).** This Resolution was to recommend Dr. Hayden be added to the ATRS Medical Committee to replace Dr. Springer.

Dr. Fair moved for the adoption of Resolution 2009-22. Ms. Riddle seconded the motion, and the Board unanimously adopted the Resolution.

- XIV. **Committee Appointments.** Chair, Dr. Abernathy, made the follow Committee appointments:

- A. **Investment Committee.** David Cauldwell, Dr. Paul Fair, Candace Franks, Beverly Leming, Robin Nichols, Martha Shoffner. Dr. Abernathy, as Board Chair, serves as an ex-officio voting member of this Committee.
 - B. **Operations Committee.** Hazel Coleman, John Fortenberry, Dr. Diana Julian, Bobby Lester, Janelle Riddle, Jeff Stubblefield, Jim Wood. Dr. Abernathy, as Board Chair, serves as an ex-officio voting member of this Committee.
 - C. **Audit Committee.** Bobby Lester, Robin Nichols, Jim Wood. George Foster and Phil Cox were previously selected as at-large members of the Committee and their selection stands.
- XV. **Staff Reports.**
- A. **Medical Committee Reports.** Mr. Ray gave the Medical Committee Report update. In April 2009, of the 18 disability applications reviewed, 15 were approved and 3 were denied. In May 2009, of the 28 disability applications reviewed, 26 were approved and 2 were denied. In June 2009, of the 13 disability applications reviewed, 9 were approved and 4 were denied.

Ms. Nichols *moved to approve the Medical Committee April 2009, May 2009, and June 2009 reports. Mr. Lester seconded the motion, and the Board unanimously approved the motion.*
 - B. **Personnel Report.** Ms. Swaim gave an update on the Personnel Report. Currently, ATRS, has 16 vacancies, 5 of which have been posted and 2 have been closed.

Overtime has been greatly reduced over the last quarter. The pay plan change, implemented on June 28, 2009, went smoothly.
 - C. **Financial Statements.** Mr. Snyder, who is serving as the interim CFO, reviewed the March 2009, financial statement summary. The April and May statements will be presented at the next Board meeting.
 - D. **Payroll Reports.** Ms. Brown gave a summary of the payee reports for April, May, and June 2009.
 - E. **T-DROP Statistics.** Mr. Ray gave a brief comparison report of the T-DROP statistics on July 1, 2008, and July 1, 2009.

XVI. **National Conference on Teacher Retirement.** Mr. Snyder gave information on the upcoming National Conference on Teacher Retirement (NCTR). He informed the Board that NCTR registration costs could be billed directly to ATRS.

XVII. **Other Business.** Discussion was held about the optional August Board meeting. It was decided a meeting would be held in August only if necessary.

XVIII. **Adjourn.**

Dr. Abernathy moved to adjourn the Board of Trustees Meeting. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

Meeting adjourned at 11:55 a.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Amy Wells,
Recorder

Date Approved