

**MINUTES**  
**ARKANSAS TEACHER RETIREMENT SYSTEM**  
**BOARD OF TRUSTEES MEETING**

Dr. Richard Abernathy, Chair

**Tuesday, September 15, 2009**

**11:00 a.m.**

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

**Board Members Present**

Dr. Richard Abernathy, Chair  
David Cauldwell  
Dr. Paul Fair  
John Fortenberry  
Dr. Diana Julian  
Steve Kelly, designee for Jim Wood  
Beverly Leming  
Bobby Lester  
Susannah Marshall, designee for Candace Franks  
Robin Nichols  
Janelle Riddle  
Martha Shoffner  
Jeff Stubblefield

**Board Members Absent**

Hazel Coleman, Vice Chair

**Consultants Present**

Michael Bacine, Franklin Park  
Heather Christopher, Ennis Knupp  
P.J. Kelly, Ennis Knupp  
Christian Reel, Ennis Knupp

**Media Present**

Andy Davis, Reporter, Arkansas Democrat-Gazette  
Rob Moritz, Reporter, Stephens Media  
Stephen Thornton, Photographer, Arkansas Democrat-Gazette  
Mike Wickline, Reporter, Arkansas Democrat-Gazette

**Staff**

George Hopkins, Executive Director  
Gail Bolden, Deputy Director  
Broderick Bass, Accountant  
Judy Brown, Ret. Section Manager  
Christa Clark, Chief Legal Counsel  
Rod Graves, Ret. Investment Specialist  
Clementine Infante, Legal Consultant  
Willie Kincade, Ret. Section Manager  
Mindy Looney, Ret. Section Manager  
Manju, Dir. Data Process  
Jerry Meyer, Director of Real Estate  
Debbie Northum, Ret. Section Manager  
Michael Ray, Dir. Member Services  
George Snyder, Dir. Internal Audit/Risk Management  
Leslie Ward, Dir. Private Equity  
Amy Wells, Administrative Assistant  
Earl Williams, Manager Internal Audit

**Guests Present**

Bob Berry, Division of Legislative Audit  
Erika Gee, Attorney General's Office  
Laura Gilson, Bureau of Legislative Research  
Norman Hill, Retiree  
Scott Hurley, Arkansas Land and Realty  
Freddie Jolley, Retiree  
Woody Jolley, Henderson State University  
Mike Mertens, AAEA  
Graham Smith, GS Companies  
Brenda West, Division of Legislative Audit

- I. **Roll Call/Adoption of Amended Agenda.** Chair, Dr. Abernathy, called the Board of Trustees meeting to order at 11:20 a.m. Roll call was taken and the only member absent was Hazel Coleman, Vice Chair.

Dr. Abernathy recommended the Agenda be amended to **add Item H to IV Investment Committee Report.** Item H is Resolution 2009-27, granting authority to the ATRS Executive Director to sign the legal agreement revising fees with Western Asset Absolute Return Strategy.

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

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

- III. **Approval of Minutes.**

- A. **July 21, 2009.**

**Ms. Leming moved for adoption of the Minutes of the Board of Trustees meeting of July 21, 2009. Ms. Shoffner seconded the motion, and the Board unanimously approved the motion.**

- B. **August 27, 2009.**

**Ms. Nichols moved for adoption of the Minutes of the Board of Trustees meeting of August 27, 2009. Mr. Fortenberry seconded the motion, and the Board unanimously approved the motion.**

- IV. **Investment Committee Report.**

- A. **Victory Building Sale Negotiations.** Ms. Leming informed the Board that USA Drug had made an offer on the Victory Building for under \$17 million. The Committee recommended that the Board take no action. ATRS staff will negotiate future offers on the building and report all future offers to the Board.

- B. **Rahling Road Commercial Lots Sale Negotiations.** Southwest Power Pool, a regional transmission organization, has shown interest in two commercial lots on Rahling Road. The Committee recommended the Board grant authority to the ATRS Executive Director to negotiate the sale of the Rahling Road property, subject to Board Approval.

**Ms. Leming moved for approval of the Board granting authority to the ATRS Executive Director to negotiate the sale of the Rahling Road commercial lots to Southwest Power Pool. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.**

- C. Grant of Authority to Contract for AR Timber Property to RMK Timberland (Resolution 2009-25).** The Committee recommended the Board adopt Resolution 2009-25, granting RMK Timberland an additional allocation of up to \$40 million to acquire for Arkansas timber in our portfolio.

**Ms. Leming moved for adoption of Resolution 2009-25, granting RMK Timberland an increase of up to \$40 million to contract for AR Timber Property. Mr. Lester seconded the motion, and the Board unanimously adopted the motion.**

- D. Highlights of Portfolio Performance Update through August 2009.** Mr. Kelly gave a brief overview of the August 2009 Portfolio Performance Report. The System has continued to perform well, up 2% for the month of August. Equity manager performance for the month was disappointing, but year to date numbers were more favorable. Fixed income has performed well in 2009, compared to performances in 2008.

Mr. Kelly also touched briefly on the Quarterly update ending June 30, 2009. The total fund was down -18% for the fiscal year, and ranked slightly above the median among peers. However, the System has recovered this year and is performing well above the benchmark.

- E. Highlights of Real Estate Performance Update for the Quarter Ended March 2009.** Ms. Christopher gave a brief overview of the Real Estate Performance Report for the quarter ended March 2009. Total real estate was down -9.6%, compared to the NCREIF NPI of -7.3%. Short-term performance was influenced by the j-curve impact of new investments and deteriorating market conditions. There were no new commitments during the first quarter of 2009, but additional opportunistic and value-added diligence is underway. Recommendations will be made during the second half of 2009.

- F. Highlights of Private Equity Portfolio Performance Update for the Quarter Ended March 31, 2009.** Mr. Bacine gave a brief overview of the Private Equity Portfolio Performance Report for the quarter ended March 31, 2009. Since establishing the private equity program in 1996, ATRS has made commitments to 19 primary funds and four fund-of-funds, for 23

total vehicles. The portfolio is categorized into three elements: the legacy fund, from 1996-2000, which contains 50% of ATRS' value; the Credit Suisse fund of funds, from 2005-2006, which contains 40% of ATRS' value; and the most recent period, with eight vehicles added since March 31, 2009, which contains 10% of ATRS' value.

Most of the funds are in portfolios that are meeting expectations, but the program is still early in development. Value will be built over the next few years. Mr. Bacine presented a comparison to the public markets and the negative returns that would have been generated had ATRS invested in the Wilshire 5000 instead of Franklin Park.

In 2009, \$145 million has been committed in the pacing for private equity.

- G. **Recommendation for Funding Riverside Fund IV, L.P. (Resolution 2009-26).** Investment Committee recommended an investment opportunity in Riverside Fund IV, L.P. The fund focuses on small controlled buy-outs in the healthcare and technology sectors. Franklin Park recommends up to a \$40 million commitment.

**Ms. Leming *moved to adopt* Resolution 2009-26, approving the investment of up to \$40 million in Riverside IV, L.P., with the total investment amount to be determined by ATRS staff based on allocations available to ATRS and overall investment objectives set by the Board. Dr. Fair *seconded* the *motion*, and the Board *unanimously adopted the Resolution*.**

- H. **Grant of Authority to ATRS Executive Director to sign Management Agreement with Western Absolute Strategy (Resolution 2009-27).** Ennis Knupp recommended that ATRS amend its management agreement with Western Absolute Return Strategy to return to the fee schedule presented to the Board of Trustees when Western Absolute was hired. The Investment Committee recommended the Board grant the ATRS Executive Director authority to sign the Amendment to Investment Management Agreement on behalf of ATRS.

**Mr. Cauldwell *moved to adopt* Resolution 2009-27, granting authority to the ATRS Executive Director to sign the Amendment to Investment Management Agreement for the Western Absolute Return Strategy Fund on behalf of ATRS. Mr. Lester *seconded* the *motion*, and the Board *unanimously adopted the Resolution*.**

- V. **ATRS Discussion Items.**

- A. **Termination Requirements.** Mr. Hopkins discussed the termination requirements he had defined in Executive Director Updates, in member letters, and on ATRS forms. The term, "termination" had previously been defined as not being paid on an ATRS covered employer's payroll. Mr. Hopkins took the more literal IRS interpretation as a complete severance of employment with no express or implied agreement to return to employment for an ATRS covered employer. The Board consented to approve a policy defining termination, as drafted by ATRS staff. This policy needs to be one that can be defended by the Board, and should comply with the IRS standards of termination.
- B. **APERS Retirees and ATRS.** Mr. Hopkins discussed the implications of Act 325 of 1999, which allowed retirees to earn service credit in a different retirement system after retirement from APERS. At the time the 1999 act was passed, many ATRS employers began enrolling retirees from APERS as new members in ATRS. The passage of Act 743 of 2009, which required ATRS employers to pay matching on all school employees beginning July 1, 2009, has caused ATRS to discover several APERS retirees that have failed to be enrolled in ATRS. The costs to the employee (if contributory) and employer could be hundreds of thousands of dollars. ATRS feels it should be mandatory to find and enroll APERS retirees in ATRS and to bill back as far as July 1, 1999. Mr. Hopkins is going to research the possibility of allowing the employers to sign promissory notes for the matching portion of the prior service, which would allow the employers to pay over a long term with no interest.
- C. **Earnings Limitation for Past Years.** Mr. Hopkins presented two different problems that have been discovered as a result of the passage of Act 743 of 2009 that requires ATRS employers to pay matching on all school employees beginning July 1, 2009. One problem was with Act 1293 of 1995 that exempted retirees who returned to work in an ATRS covered position for a state college, university, or vocational technical school. The Board discussed that Executive Director Bill Shirron told retirees this exemption would be for life. Act 384 of 1997 repealed the exemption. However, ATRS has discovered several retirees that continued to work for these higher institutions and did not report earnings to ATRS because they assumed they were still covered by the 1995 act. The second group of retirees are ones that worked after 1997 for various types of employers that were not reported under the earnings limitation. The Board discussion led to the following motions:

**Mr. Caldwell *moved to recommend* that the Board of Trustees delegate authority to the Executive Director to resolve the earnings limitation issues as two separate groups: those who worked for**

higher institutions during 1995 to 1997, and the others who worked for ATRS covered employers after 1997 but failed to report earnings to ATRS. Mr. Lester *seconded the motion*. Steve Kelly *moved to supplement the motion* to state that the delegation of authority to the Executive Director be within known statutes and following any precedents available. Dr. Fair *seconded the supplemental motion*. A roll call vote was taken on the supplemental motion and the motion *passed with eight yes votes*. A vote was taken on the original motion, and the Board *unanimously approved the motion* delegating authority to the Direction.

- D. **Interest Calculations for Unreported Prior Service.** Mr. Hopkins asked Mindy Looney, ATRS Reporting Supervisor, to prepare a document showing three examples of how interest can be calculated on prior unreported service. One example is currently being used by the Accounting Reporting section to begin calculating interest on the member contributions with the July 1 following the date the member is billed for the unreported service. Another example is currently being used by the Counseling Department to begin calculating interest on the member contributions the year after the service was earned. Neither method charges interest to the employer. Mr. Hopkins explained the interpretation by senior staff, including himself, is that interest should begin for both the employee and employer with the fiscal year after the service is earned. The Board had no objections to the interpretation.
- E. **Higher Education Membership in ATRS.** Mr. Hopkins explained the complexity ATRS staff is facing trying to decipher the various laws enacted by the different university systems, and explained that ATRS is drafting a letter to the Arkansas Attorney General asking for guidance in deciding if the colleges and universities are ATRS covered employers for the purposes of paying employer matching on ATRS retirees under Act 743 of 2009, as well as issues.

Mr. Hopkins mentioned two other areas of concern that have arisen recently. Student workers are required to be a member of ATRS and have not been previously reported; disability retirees who work for an ATRS covered employer after July 1, 2009, will be returned to active status and disability retirement will be cancelled if not age 60.

VI. **Other Business.**

VIII. **Adjourn.**

**Mr. Lester *moved to adjourn* the Board of Trustees Meeting. Mr. Stubblefield *seconded* the *motion*, and the Board *unanimously approved the motion*.**

**Meeting adjourned at 2:51 p.m.**

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George Hopkins,  
Executive Director

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Dr. Richard Abernathy, Chair  
Board of Trustees

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Amy Wells,  
Recorder

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Date Approved