

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

**Monday, June 3, 2013  
1:00 p.m.  
1400 West Third Street  
Little Rock, AR 72201**

**ATTENDEES**

**Board Members Present**

Dr. Richard Abernathy, Chair  
Jeff Stubblefield, Vice Chair  
Lloyd Black  
David Cauldwell  
Hazel Coleman  
Candace Franks  
Wes Goodner, voting designee for Honorable  
Charles Robinson  
Peggy Gram, designee for Honorable Charlie  
Daniels  
Bobby Lester  
Donna Morey  
Robin Nichols  
Janelle Riddle  
Honorable Charles Robinson

**Board Members Absent**

Dr. Tom Kimbrell  
Danny Knight

**Consultants Present**

Michael Bacine, Franklin Park  
Kart Hartman, Franklin Park  
Chae Hong, Hewitt EnnisKnupp  
P. J. Kelly, Hewitt EnnisKnupp

**Reporters Present**

Mike Wickline, Arkansas Democrat Gazette

**ATRS Staff Present**

George Hopkins, Executive Director  
Gail Bolden, Deputy Director  
Shane Benbrook, Internal Audit/Risk Mgmt  
Donna Bumgardner, Investment Manager  
Will Crow, Litigation Attorney  
Kay Daniel, Director's Assistant  
Mitzi Ferguson, Chief Fiscal Officer  
Vicky Fower, Dir. Human Resources  
Laura Gilson, General Counsel  
Amy Glavin, Administrative Assistant  
Rod Graves, Ret. Investment Specialist  
Wayne Greathouse, Dir. Public Markets  
Manju, Dir. Data Processing  
Jerry Meyer, Dir. Real Estate  
Tammy Porter, Paralegal  
Michael Ray, Dir. Member Services  
Gaye Swaim, Operations Administrator  
Leslie Ward, Dir. Private Equity  
Brenda West, Internal Audit/Risk Mgmt

**Guests Present**

Chris Caldwell, Div. of Legislative Audit  
KaTina Hodge, Attorney General's Office  
David Lawson, UBS  
Jessica Middleton-Kurylu  
Steve Singleton, ARTA

- I. **Call to Order/Roll Call.** Dr. Abernathy, Chair, called the Board of Trustees meeting to order at 12:59 p.m. Roll call was taken. Mr. Danny Knight and Dr. Tom Kimbrell were absent.
- II. **Welcome to the New State Treasurer.** Dr. Abernathy welcomed Honorable Charles Robinson to the Board.
- III. **Motion to Excuse Absences.**

**Mr. Lester *moved to excuse* Dr. Kimbrell and Mr. Knight from the June 3, 2013, Board of Trustees meetings. Mr. Black *seconded the motion*, and the Board *unanimously approved the motion*.**

- IV. **Adoption of Agenda.**

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

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

- VI. **Approval of Board of Trustees Minutes of April 1, 2013.**

**Ms. Riddle *moved for approval of the Minutes of the Board of Trustees meeting of April 1, 2013*. Mr. Lester *seconded the motion*, and the Board *unanimously approved the motion*.**

- VII. **Adoption of Interest Rate for T-DROP Accounts for 2013-2014 (June 30, 2014).**

- A. **Resolution 2013-15.**

**Mr. Lester *moved to adopt* Resolution 2013-15, determining the T-DROP account interest rate for the 2013-2014 fiscal year at 6%, based on market performance. Ms. Nichols *seconded the motion*, and the Board *unanimously adopted the resolution*.**

- B. **Preliminary Portfolio Performance Update for the Month Ended March 31, 2013.** The annual T-DROP interest rates are based on the returns at the end of March. The report showed a return of 12.1% for March 2013.

- VIII. **Adoption of Interest Rate for Post 10-Year T-DROP Accounts for 2013-2014 (June 30, 2014).**

A. **Resolution 2013-16.**

**Ms. Coleman moved to adopt Resolution 2013-16, determining the post 10-Year T-DROP account interest rate for the 2013-2014 fiscal year at 6%, based on market performance. Ms. Riddle seconded the motion, and the Board unanimously adopted the resolution.**

B. **Preliminary Portfolio Performance Update for the Month Ended March 31, 2013.** The annual post 10-year T-DROP interest rates are based on the returns at the end of March. The report showed a return of 12.1% for March 2013.

IX. **Audit Committee Report.** Ms. Nichols, Audit Committee Chair, presented the Audit Committee report.

A. **Board Approval of Ricky Quattlebaum Appointment.** The Board of Trustees will need to approve Mr. Quattlebaum's appointment before he can serve as an at-large member of the Audit Committee

**Ms. Nichols moved to approve the appointment of Ricky Quattlebaum as an at-large member of the Audit Committee. Mr. Stubblefield seconded the motion, and the Board unanimously approved the motion.**

B. **Resignation of Shane Benbrook, CPA.** Mr. Benbrook resigned from the Audit Committee as of April 4, 2013, and joined ATRS staff as part of the Internal Audit department May 13, 2013.

C. **Nominees for Vacancy on Audit Committee.** There were two nominees for the vacancy left by Mr. Benbrook's resignation: John McCollough and Chuck Marshall.

**Ms. Nichols moved to approve the appointment of John McCollough as an at-large member of the Audit Committee. Mr. Lester seconded the motion, and the Board unanimously approved the motion.**

D. **Election of Audit Committee Vice Chair.** Mr. Benbrook's resignation left the Audit Committee Vice Chair vacant. The Committee would normally nominate a Vice Chair for immediate replacement. However, the Committees of the ATRS Board of Trustees are due for reappointment after July 1, 2013, by the ATRS Board Chair. The Board Chair term also ends after July 1, 2013. The current Board Chair has made the decision to wait until he is either re-elected or a new Chair is elected before making Committee assignments. It was recommended to the Committee to wait until after the Committee assignments are made to vote for a new Vice Chair.

- E. **Payroll Department's Response to Internal Audit Report – Death Benefit Payments Audit.** The Payroll Department did seek the guidance of Bryant Cranford from the Rose Law Firm at the recommendation of the Internal Audit department. The Payroll Department will implement the instructions Mr. Cranford provided regarding the application of the unrecovered cost to the member and beneficiaries on IRS tax form 1099-R. Mr. Cranford also recommended that the payroll department correct IRS tax forms 1099-R that were previously incorrect for the years 2010 through 2012.

The Payroll Department is currently working with Data Processing to identify the incorrect tax forms.

- F. **2013-2014 Internal Audit Plan. Office of Internal Audit Independence and Conflict of Interest Statement.** The Internal Audit scheduled eight audits for the next fiscal year and various special projects. All audits, findings, and responses will be presented to the Committee as they are completed. Independence and Conflict of interest statements for all members of the Internal Audit Department were also provided for reference.

**Ms. Nichols moved to approve the 2013-2014 Internal Audit plan. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.**

- X. **Investment Committee Report.** Ms. Nichols, Investment Committee Chair, presented the Investment Committee report.

A. **Private Equity Investment Consultant Update – Franklin Park.**

1. **Private Equity Portfolio Review for the Quarter Ended December 31, 2012.** The net IRR for the aggregate portfolio since inception was 9.0%, with a committed capital of approximately \$2.86 billion. The percent change in portfolio value for the quarter was 3.9%.
2. **Recommendation to Commit up to \$25 Million to Lime Rock Resources III, L.P. Without Imminent Need.** The fund will primarily acquire and harvest mature oil and natural gas properties that are classified as proven developed producing reserves. This investment differs from similar oil and natural gas investments that ATRS has made previously due to the fact that Lime Rock directly operates the reserves with in-house resources instead of management teams. Franklin Park and ATRS staff recommended a commitment of up to \$25 million to this investment because of the attractive fund strategy, the fund's senior team is highly experienced, and Lime Rock has an attractive track record.

a. **Resolution 2013-17.**

**Ms. Nichols moved to adopt Resolution 2013-17, approving the recommendation to commit up to \$25 million to Lime Rock Resources III, L.P. Mr. Cauldwell seconded the motion, and the Board unanimously adopted the resolution.**

**B. Arkansas Real Estate and Investment Update.**

1. **RMK Timberland Contract Assignment to BTG Pactual.** Regions Timberland Group (RTG) announced that it has been acquired by BTG-Pactual (BTG), an international investment platform headquartered in Sao Paulo, Brazil. ATRS Staff and Hewitt EnnisKnupp will monitor the transition and report to the Board any significant developments.

a. **Resolution 2013-18.**

**Ms. Nichols moved to adopt Resolution 2013-18, approving the recommendation to re-assign the RMK Timberland Contract to BTG Pactual. Mr. Lester seconded the motion, and the Board unanimously adopted the resolution.**

2. **New Farm Acquisition.** Halderman, the ATRS farmland manager, purchased a farm in Dundy county, Nebraska, called Dundy Farm. It has a total of 3,125 acres and the total cost for the property was \$11,834,890. The farm produces a combination of corn, kidney beans, wheat, and popcorn and is located in one of the most proactive water conservancy districts in the state. ATRS currently has 15,399 acres of farmland that cost \$62.6 million, with a total commitment of \$100 million to farmland. ATRS has approximately \$38 million left to invest in farmland.
3. **Woodland Heights Update.** Woodland Heights acquired a new bus that is being used for resident activities. Lectures and meetings are being held at Woodland Heights, which brings in non-residents and attention to Woodland Heights. The occupancy is approximately 70% with five pre-leased resident move-ins scheduled.
4. **Victory Building Update.** Due to reduced power consumption, open market gas purchasing, and improved tenant metering, the average monthly income of the Victory Building is \$6,700. Occupancy is currently at 97% and lease negotiations are in process with multiple tenants on the remaining 3% of space.

**C. General Investment Consultant Update – Hewitt EnnisKnupp.**

1. **Preliminary Portfolio Performance Update for the Month Ended April 30, 2013.** The total fund had a return of 1.1% for the month, underperforming its benchmark of 1.7%. Fixed income met its benchmark of 1.1% but the other asset classes all underperformed for the month.
2. **Revised Investment Policy Statement.** HEK has recommended that ATRS modify its investment guidelines from the current 10% allocation to real estate and 5% allocation to alternatives and replace it with a 15% allocation to a real assets class. This change will place farmland, timberland, and real estate funds into one asset class. HEK also recommends that ATRS create another new asset class called Opportunistic/Alternatives with an allocation of 5%. This classification would include ATRS' four hedge funds. To create these two new asset classes, adjustments to other asset classes need to be made. U.S. equity will go from 25% to 20% to make room for the new allocations.

**Ms. Nichols *moved to approve* the revisions to the Investment Policy Statement as presented. Mr. Cauldwell *seconded the motion*, and the Board *unanimously approved the motion*.**

3. **Recommendation to Commit up to \$50 Million to Brevan Howard Global Macro Hedge Fund Without Imminent Need.** Brevan Howard is a hedge fund that utilizes all asset classes and is one of the few managers that produced positive returns in 2008. The fund has a 1% management fee and 20% performance fee for the five year lock up period, then will increase to a 2% management fee and 20% performance fee.

**a. Resolution 2013-19.**

**Ms. Nichols *moved to adopt* Resolution 2013-19, approving the recommendation to commit up to \$50 million to Brevan Howard Global Macro Hedge Fund. Ms. Morey *seconded the motion*, and the Board *unanimously adopted the resolution*.**

4. **Review of ICC Capital Management, Inc. With Recommendation to Terminate.** HEK has become uncomfortable with ICC due to the lack of support for ATRS' primary portfolio manager, Andy Richey. ICC has yet to identify a successor to Mr. Richey and the relationship between ICC and Mr. Richey has eroded recently. HEK recommended that ATRS terminate ICC as a manager because of the risks and concerns involved.

**a. Resolution 2013-20.**

**Ms. Nichols moved to adopt Resolution 2013-20, approving the termination of ICC Capital Management, Inc. Mr. Cauldwell seconded the motion, and the Board unanimously adopted the resolution.**

**D. Real Estate Investment Consultant Update – Hewitt EnnisKnupp.**

1. **Real Estate Portfolio Review for the Quarter Ended December 31, 2012.** NFI-ODCE (net) returned 9.8% in 2012, back in line with the upper end of the long run average range for this sector. The core recovery displayed a continuation of its moderating trend as the year progressed and the real estate recovery further matured. REITs delivered another strong year with the U.S. market returning 18.1% and the global market returned 28.7%. Rising values in the underlying portfolios, growing dividends, and increased earnings/cash flow growth aided by lower borrowing costs all contributed to the outsized calendar year returns. Above average volatility, however, is expected to remain in this segment.

The U.S. economy is expected to remain in a slow-growth mode for much of 2013. While still supporting a continuation of measured improvements in real estate fundamentals the pace of improvement is expected to remain modest. Real estate returns are expected to continue their path of moderation given the sector's robust pricing rebound over the past few years. Consensus forecast range for the NPI is 6–9%, which is still generally in line with the sector's long-term average.

2. **Recommendation to Commit up to \$30 Million to Torchlight Debt Opportunity Fund IV Without Imminent Need.** Torchlight is a closed-end, domestic, opportunistic real estate debt fund. The investment strategy will focus on investing in debt and other interests to real estate. The fund is targeting a return of 14%-16% net IRR with a net income distribution rate of 7%-9%. HEK and ATRS staff recommended this fund because of the attractive market opportunity, full range of options in debt space, and the favorable ownership structures.

**a. Resolution 2013-21.**

**Ms. Nichols moved to adopt Resolution 2013-21, approving the recommendation to commit up to \$30 million to Torchlight Debt Opportunity Fund IV. Ms. Gram seconded the motion, and the Board unanimously adopted the resolution.**

XI. **Operations Committee Report.** Mr. Bobby Lester, Operations Committee Chair, presented the Operations Committee report.

A. **Open Forum for Potential Rule or Law Changes by Committee Members and Board Members in Attendance.** No items were discussed.

B. **2013 General Assembly – ATRS Bill Package Summary.** The ATRS Board had a 23 bill package that included its appropriation bill for the coming fiscal year. Of those 23 bills, 22 became a law. Through legislation, ATRS obtained authority to enact laws that will help counter any financial crisis ATRS may face. While there are no laws that need to be acted on immediately, ATRS staff is continuing to work on and develop rules to bring ATRS into compliance with the law.

C. **Discussion on Modification of Rules.** All of the laws impacting ATRS rules were either self-effecting or require more complex rule development. There are no rule changes that need to be made on or before July 1, 2013.

D. **Discussion on Discount Buyout Plan (Act 606).** Act 606 of 2013, the discount buyout plan, will not be effective until August 16, 2013. ATRS staff is working with the ATRS actuaries to develop a formula that will be a quality incentive for inactive members to accept a buyout. This process is complex as member accounts are calculated with different values based on age and service. There is the possibility that ATRS staff will propose to the Board emergency rule making on the discount buyout plan to review in early October 2013.

E. **Discussion on Manifest Injustice (Act 303).** Act 303 of 2013, which allows the Board to determine and address matters of manifest injustice, will not be effective until August 16, 2013. ATRS staff has already had one member request a Board hearing on a manifest injustice claim. The Executive Director currently has the power to waive interest on contributions fees up to \$5,000, but the law leaves manifest injustice at the discretion of the Board.

Dr. Abernathy requested that a process or a committee be set up by ATRS staff to investigate manifest injustice claims before they come before the Board so that the Board is able to make informed decisions. Michael Ray, Director Member Services, Mitzi Ferguson, Chief Fiscal Officer, and Laura Gilson, General Counsel, were suggested to form the proposed committee. ATRS staff will have a proposed rule ready for the July Board meeting.

XII. **Staff Reports.**

- A. **Medical Committee Reports.** Mr. Ray presented the Medical Committee reports for April 2013 and May 2013. In April 2013, there were 13 applicants, 11 were approved, and two needed more information. In May 2013, there were 23 applicants, 16 were approved, and seven needed more information.

**Ms. Nichols *moved approve the April 2013 and May 2013 Medical Committee reports. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.***

- XIII. **2013 ATRS Board of Trustees Election Results.** Mr. Hopkins presented the results of the 2013 ATRS Board of Trustees election. Ms. Robin Nichols was uncontested for Position #1. Ms. Deborah Thompson was the winner of Position #3. Mr. Bobby Lester was the winner of Position #10. The run-off election results between Ms. Janelle Riddle and Ms. Kathy Clayton will not be available until June 5, 2013.

- A. **Resolution 2013-22.**

**Ms. Morey *moved to adopt Resolution 2013-22, declaring Ms. Robin Nichols to be the winner for Trustee Position #1, Ms. Deborah Thompson to be the winner for Trustee Position #3, and Mr. Lester to be the winner for Trustee Position #10. Ms. Riddle seconded the motion, and the Board unanimously adopted the resolution.***

- XIV. **Other Business.**

- A. **Notice of Pending Board Vacancy in Classified Member Position and Board Decision on Process to Address the Pending Vacancy.** Mr. Hopkins presented the notice of a pending Board vacancy for Position #7. Mr. Caudwell sent his letter of resignation to the Board Chair, effective August 31, 2013. The Board has the option of leaving the position unfilled, appointing a replacement until the next election, or calling a special election to fill the position.

**Mr. Lester *moved to approve an appointment to fill a pending Board vacancy to fill Position #7, with applications due by July 19, 2013. Ms. Morey seconded the motion, and the Board unanimously approved the motion.***

- B. **Scheduling Difficulties Concerning Holding the 2013 Board Retreat – Possible July 26 Board Meetings.** Dr. Abernathy discussed scheduling difficulties for the 2013 Board Retreat. The Executive Director suggested July 26 for possible Board and Committee meetings. The Board requested that the Hewitt EnnisKnupp consultants bring information on infrastructure.

XV. **Adjourn.**

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

**Meeting adjourned at 1:43 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 Glavin,  
Recorder

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Date Approved