

## MINUTES

Arkansas Teacher Retirement System  
Board of Trustees Meeting  
February 10, 2003

The Board of Trustees of the Arkansas Teacher Retirement System met on Monday, February 10, 2003 at 1:00 p.m. The meeting was held in the ATRS Board Room, 1400 West Third Street, Little Rock, Arkansas.

### **Members of the Board Present:**

Linda Parsons, Chair  
Charles Vondran, Vice Chair  
Winfred Clardy  
Hazel Coleman  
Charles Dyer  
Dr. Paul Fair  
John Fortenberry  
Ann Harbişon  
Betty McGuire  
Frank White  
Gus Wingfield

### **Others Present:**

Lloyd Black, ARTA  
Bobby Lester, ARTA  
Annie Curtis Norris, Merrill Lynch  
Dennis Curtis, Merrill Lynch  
Jay Gadberry, Morgan Stanley  
Culum Graham, AIB Govett  
Robert Horton, Smith Barney  
Andrew Joy, Cinven  
P.J. Kelly, Ennis Knupp & Associates  
Evelyn Nelson, Craighead Cty. RTA

### **Members of the Board Absent:**

Mary Harris  
Raymond Simon  
Jim Wood

### **Members of the Staff Present:**

David R. Malone, Executive Director  
Debbie White, Project Analyst  
Wayne Greathouse-Investments  
Donna Bumgardner-Investments

I. Roll Call

Debbie White of the Teacher Retirement staff recorded the minutes.

II. Adoption of Agenda

Betty McGuire made the motion to adopt the agenda, seconded by Frank White, motion carried.

III. Adoption of Minutes – January 9, 2003 & January 23, 2003 (*agenda brochure attach. 1 & 2*)

John Fortenberry made the motion to approve both sets of minutes; Winfred Clardy seconded the motion, which was approved.

IV. Next Meeting Date

The next regular meeting of the Board of Trustees was scheduled for April 7-8, 2003. Meeting times shall be 1:00 p.m. April 7<sup>th</sup> and 10:00 a.m. on April 8<sup>th</sup>. Mr. Vondran made the motion to approve the dates; Frank White seconded the motion, which was approved.

V. Ennis Knupp & Associates Report

Mr. P.J. Kelley briefed the board on the fourth quarter and Year 2002 consultant's report. Director Malone expressed his concern over the lack of a current investment policy. Guidelines for individual managers (*agenda brochure, attachment 3, page 24 of Ennis Knupp & Associates recommendations*) were discussed. Mr. Vondran made a motion to adopt the suggested guidelines starting on page 24. Dr. Fair seconded the motion, which passed. [*Page 49 as distributed contained an incorrect fee schedule; the attachment has been corrected in these minutes*]. In addition, because of a lot of discussion about directed trades, Director Malone sought authority to write a letter to money managers requesting quarterly reports until a formal policy has been adopted. (*agenda brochure, attachment 4, memo from Executive Director with pages 20 & 21 recommendations*) Dr. Fair made a motion to grant the Director authority to write letters of requests. Mr. Vondran seconded the motion, which passed.

VI. Investment Program Reports

- a. AIB Govett- Mr. Calum Graham
- b. Cinven – Mr. Andrew Joy
- c. ICC Capital Management – Mr. Andrew Richey & Ms. Jennifer Cute
- d. Hyperion – Mr. John Dolan & Mr. Clifford Lai
- e. Regions – Mr. Leslie R. Denison

*With no further business to be addressed, the Chair declared the meeting adjourned at 5: 30 p.m.*

  
Debbie White, *Project Analyst*

  
David R. Malone, *Executive Director*

  
Linda Parsons, *Chair*

*Date of Approval:* 3-18-03

STATEMENT OF INVESTMENT POLICY

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**INVESTMENT GUIDELINES FOR  
AELTUS INVESTMENT MANAGEMENT FOR THE  
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)**  
(Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

**STRATEGY**

The Manager utilizes a bottom-up stock selection process, searching for companies with positive business momentum at a reasonable price.

**BENCHMARK**

The portfolio will be benchmarked to the Russell 2000 Growth Index.

**RISK CONTROL**

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - The use of futures, leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

**PERFORMANCE EXPECTATION**

The portfolio's return is expected to exceed the return of the Russell 2000 Growth Index over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee as calculated by the following fee schedule:

70 Basis points (.70%) on the first	\$ 150 million (U.S.);
50 Basis points (.50%) on amounts over	\$ 150 million (U.S.).



## STATEMENT OF INVESTMENT POLICY

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### INVESTMENT GUIDELINES FOR ALLIANCE CAPITAL MANAGEMENT, L.P. FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)

(Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### STRATEGY

The Manager aims to provide long-term capital appreciation through concentrating its investments in a select number of large-capitalization companies that it believes possess appealing and high-quality attributes. The investment strategy emphasizes bottom-up stock selection, and concentrates in favored stocks whose prospective earnings growth rates are at least double the S&P 500 longer-term trend of 6% per year.

#### BENCHMARK

The portfolio will be benchmarked to the S&P 500 Index

#### RISK CONTROL

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the Russell 1000 Growth Index ~~S&P 500 Index~~ over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

20 Basis points (.20%) on the first	\$ 250 million (U.S.);
17 Basis points (.17%) on the next	\$ 250 million (U.S.);
13 Basis points (.13%) on amounts over	\$ 500 million (U.S.).

## STATEMENT OF INVESTMENT POLICY

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### INVESTMENT GUIDELINES FOR DARUMA ASSET MANAGEMENT, INC FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)

(Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### STRATEGY

The Manager focuses on small cap equities with capitalizations below \$2 billion using a bottom-up, value-oriented, fundamental approach. The Manager searches for stocks with accelerating earnings growth that is not reflected in current share prices.

#### BENCHMARK

The portfolio will be benchmarked to the Russell 2000 Value Index.

#### RISK CONTROL

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less. Cash shall not exceed 10% of the total portfolio.

#### PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the Russell 2000 Value Index over a full market cycle (approximately 5 years), net of fees and expenses.



## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

70 Basis points (.70%) on the first	\$ 150 million (U.S.);
50 Basis points (.50%) on amounts over	\$ 150 million (U.S.).

## STATEMENT OF INVESTMENT POLICY

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### INVESTMENT GUIDELINES FOR EUBEL BRADY AND SUTTMAN ASSET MANAGEMENT FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS) (Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### STRATEGY

The Mid Cap Value strategy is a disciplined value approach. The Manager looks for companies which are trading below their evaluated intrinsic value, ~~carry low levels of debt~~, and have the ability to grow its revenue, increase profit margins or increase its market price.

#### BENCHMARK

The portfolio will be benchmarked to the Russell Mid Cap Value Index.

#### RISK CONTROL

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the Russell Mid Cap Value Index over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

50 Basis points (.50%) on the first	\$ 100 million (U.S.);
30 Basis points (.30%) on the next <u>amounts over</u>	\$ 100 million (U.S.);
<del>20 Basis points (.20%) on amounts over</del>	<del>\$ 200 million (U.S.).</del>

## STATEMENT OF INVESTMENT POLICY

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### **INVESTMENT GUIDELINES FOR ICC CAPITAL MANAGEMENT FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS) (Adopted \_\_\_\_\_)**

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### **STRATEGY**

The Aggressive Equity strategy rotates across investment styles, economic sectors and capitalization levels by using all publicly available data to formulate both top-down and bottom-up portfolio construction decisions.

#### **BENCHMARK**

The portfolio will be benchmarked to the Russell 1000 Index.

#### **RISK CONTROL**

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### **PERFORMANCE EXPECTATION**

The portfolio's return is expected to exceed the return of the Russell 1000 Index over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

20 Basis points (.20%) on the first	\$ 250 million (U.S.);
17 Basis points (.17%) on the next	\$ 250 million (U.S.);
13 Basis points (.13%) on amounts over	\$ 500 million (U.S.).



## STATEMENT OF INVESTMENT POLICY

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### INVESTMENT GUIDELINES FOR KENNEDY CAPITAL MANAGEMENT FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS) (Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### STRATEGY

The Manager's small cap value strategy seeks out stocks deemed undervalued when compared to discounted cash flow valuations, and underfollowed by analysts or major brokerage firms.

#### BENCHMARK

The portfolio will be benchmarked to the Russell 2000 Value Index.

#### RISK CONTROL

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the Russell 2000 Value Index over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

60 Basis points (.60%) on the first	\$ 100 million (U.S.);
50 Basis points (.50%) on amounts over	\$ 100 million (U.S.).

## STATEMENT OF INVESTMENT POLICY

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### INVESTMENT GUIDELINES FOR OPPENHEIMER CAPITAL FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)

(Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### STRATEGY

The Intrinsic Value Strategy invests in large-capitalization companies thought to be trading at a discount to their value. The manager utilizes a bottom-up stock selection process to identify high quality, mispriced companies.

#### BENCHMARK

The portfolio will be benchmarked to the Russell 1000 Value Index.

#### RISK CONTROL

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the Russell 1000 Value Index over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

20 Basis points (.20%) on the first	\$ 250 million (U.S.);
17 Basis points (.17%) on the next	\$ 250 million (U.S.);
13 Basis points (.13%) on amounts over	\$ 500 million (U.S.).

## STATEMENT OF INVESTMENT POLICY

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### **INVESTMENT GUIDELINES FOR TCW ASSET MANAGEMENT COMPANY FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS) (Adopted \_\_\_\_\_)**

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### **STRATEGY**

The Manager focuses on companies with market capitalizations in the range of \$100 million to \$2 billion that exhibit improving fundamentals and strong earnings growth. The bottom-up process seeks companies underestimated by Wall Street consensus, which may potentially deliver earnings surprises.

#### **BENCHMARK**

The portfolio will be benchmarked to the Russell 2000 Growth Index.

#### **RISK CONTROL**

- **Prohibitions or Limitations**
  - Securities eligible for investment include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### **PERFORMANCE EXPECTATION**

The portfolio's return is expected to exceed the return of the Russell 2000 Growth Index over a full market cycle (approximately 5 years), net of fees and expenses.



## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

75 Basis points (.75%) on asset below	\$ 150 million (U.S.);
70 Basis points (.70%) on assets at	\$ 150 million (U.S.);
50 Basis points (.50%) on amounts over	\$ 150 million (U.S.).

## STATEMENT OF INVESTMENT POLICY

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### **INVESTMENT GUIDELINES FOR AIB-GOVETT, INC. GOVETT INVESTMENT MANAGEMENT LIMITED FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS) (Adopted \_\_\_\_\_)**

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### **STRATEGY**

The Manager's International Emerging Growth strategy searches for companies, sectors and countries that offer the most attractive growth opportunities, and thus the greatest potential returns. The Manager focuses on ~~global~~ international small-cap stocks and emerging markets.

#### **BENCHMARK**

The portfolio will be benchmarked to the MSCI All-Country World Ex-U.S. Free Index. Attention will also be paid to the manager's performance relative to a customized benchmark consisting of the MSCI All-Country World Ex-U.S. Free Index with constituent capitalizations < \$5 billion.

#### **RISK CONTROL**

- **Prohibitions or Limitations**
  - Securities eligible for investment include, non-US dollar denominated, publicly traded, exchange listed equities and ADRs, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### **PERFORMANCE EXPECTATION**

The portfolio's return is expected to exceed the return of the MSCI All-Country World Ex-U.S. Index over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

78 Basis points (.78%) on the first	\$ 125 million (U.S.);
50 Basis points (.50%) on amounts over	\$ 125 million (U.S.).

## STATEMENT OF INVESTMENT POLICY

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### INVESTMENT GUIDELINES FOR UBS GLOBAL ASSET MANAGEMENT FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)

(Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### STRATEGY

The Manager's investment philosophy focuses on determining the underlying value of a security -- the manager buys and sells securities where the market price differs significantly from its estimate of the stock's value.

#### BENCHMARK

The portfolio will be benchmarked to the MSCI World Ex-U.S. Index.

#### RISK CONTROL

- **Prohibitions or Limitations**
  - Securities eligible for investment include, non-US dollar denominated, publicly traded, exchange listed equities and ADRs, rule 144A securities, convertible securities, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The active management of currency exposure through the use of forward currency exchange contracts or similar instruments is permitted as a means to enhance returns or reduce risk.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

#### PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the MSCI World Ex-U.S. Index over a full market cycle (approximately 5 years), net of fees and expenses.

## STATEMENT OF INVESTMENT POLICY

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### PROXY VOTING

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

### TRANSACTION COSTS

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### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

50 Basis points (.50%) on the first	\$ 100 million (U.S.);
40 Basis points (.40%) on next	\$ 200 million (U.S.);
25 Basis points (.25%) on amounts over	\$ 300 million (U.S.).



STATEMENT OF INVESTMENT POLICY

**FIXED INCOME PORTFOLIO GUIDELINES FOR  
LOOMIS, SAYLES & COMPANY, L.P. FOR THE  
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)  
(Adopted \_\_\_\_\_)**

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

**OBJECTIVE**

The goal of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

**BENCHMARK**

The portfolio will be benchmarked to the Lehman Brothers Aggregate Bond Index.

**GUIDELINES**

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

<ul style="list-style-type: none"><li>▪ U.S. Government / Agency bonds</li><li>▪ U.S. Government-sponsored entity bonds</li><li>▪ U.S. corporate bonds</li><li>▪ Mortgage-backed securities</li><li>▪ Asset-backed securities</li><li>▪ Bonds and preferred stock convertible into common stock</li><li>▪ Preferred stock</li><li>▪ Municipal bonds</li><li>▪ Structured notes</li><li>▪ Yankee bonds</li></ul>	<ul style="list-style-type: none"><li>▪ Cash equivalents</li><li>▪ Closed end bond funds</li><li>▪ Fixed income and currency futures, options, forward contracts and swaps</li><li>▪ Private placement bonds</li><li>▪ Rule 144(a) securities</li><li>▪ Commercial mortgage-backed securities</li><li>▪ Capital notes/Preferred trust certificates</li><li>▪ Commingled funds investing in fixed income securities</li></ul>
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## STATEMENT OF INVESTMENT POLICY

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### RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

### SECURITY TYPE QUALIFICATIONS

Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

Preferred stock and bonds convertible into common stock are permitted provided that they exhibit bond-like characteristics.

### INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% of the effective duration of the Lehman Brothers Aggregate Bond Index.

### CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of A<sub>-</sub>. Issues that are un-rated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least ~~90%~~80% of the total portfolio at the time of purchase.

The portfolio's below-investment grade holdings are limited to a maximum of 1% in any single issuer.

### NON-U.S. EXPOSURE

Non-U.S. exposure must be dollar-denominated. Examples of securities prohibited by this restriction include the following:

<ul style="list-style-type: none"><li>▪ Non-U.S. non-sovereign bonds</li><li>▪ Structured notes linked to non-U.S. markets</li></ul>	<ul style="list-style-type: none"><li>▪ Emerging market sovereign bonds</li><li>▪ Emerging market non-sovereign bonds</li><li>▪ Supranational bonds</li></ul>
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The portfolio may hold a maximum of 1% in bonds issued by any single entity domiciled in a country not included in the J.P. Morgan Government Bond Index.

## STATEMENT OF INVESTMENT POLICY

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### ADDITIONAL SECTOR AND POSITION LIMITS

Privately placed securities, excluding 144(a) securities, shall not exceed 5% of the total portfolio at the time of purchase.

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues are not permitted in the portfolio. Examples of securities likely to qualify as "highly interest rate sensitive" include leveraged CMOs, IOs, POs and inverse floaters.

Preferred stock and bonds convertible into common stock shall not exceed 5% of the total portfolio at the time of purchase.

Excluding U.S. government, U.S. government sponsored entities and agency issues the portfolio is limited to a 5% allocation in any single investment grade U.S. issuer.

**The portfolio's combined allocation to the security types listed below may not exceed 20%.**

Bonds not receiving an investment-grade rating from either Moody's or Standard & Poor's

Preferred stock and bonds convertible into common stock

Privately placed debt, excluding 144(a) securities

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues

### PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Lehman Brothers Aggregate Bond Index over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

15 Basis points (.15%) on the first	\$ 200 million (U.S.);
8 Basis points (.08%) on amounts over	\$ 200 million (U.S.).

**STATEMENT OF INVESTMENT POLICY**

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**FIXED INCOME PORTFOLIO GUIDELINES FOR  
REGIONS FINANCIAL CORP FOR THE  
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)  
(Adopted \_\_\_\_\_)**

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

**OBJECTIVE**

The goal of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by government / credit fixed income portfolios.

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

**BENCHMARK**

The portfolio will be benchmarked to the Lehman Brothers Intermediate Government / Credit Bond Index.

**GUIDELINES**

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

<ul style="list-style-type: none"><li>▪ U.S. Government bonds</li><li>▪ U.S. corporate bonds</li><li>▪ Mortgage-backed securities</li><li>▪ Asset-backed securities</li><li>▪ Municipal bonds</li><li>▪ Structured notes</li><li>▪ Cash equivalents</li></ul>	<ul style="list-style-type: none"><li>▪ Closed end bond funds</li><li>▪ Private placement bonds</li><li>▪ Rule 144(a) securities</li><li>▪ Commercial mortgage-backed securities</li><li>▪ Capital notes/Preferred trust certificates</li><li>▪ Commingled funds investing in fixed income securities</li></ul>
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## STATEMENT OF INVESTMENT POLICY

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### RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration. Futures, options and forward contracts are not to be used in the portfolio. Preferred stock and bonds convertible into common stock are not permitted.

### SECURITY TYPE QUALIFICATIONS

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

### INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% of the effective duration of the Lehman Brothers Intermediate Government / Credit Bond Index.

### CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of A. Issues that are un-rated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Bonds not rated investment grade by either Moody's or Standard & Poor's are not allowed in the portfolio.

### NON-U.S. EXPOSURE

Bonds that are not denominated in U.S. dollars are prohibited. Investment grade Yankee bonds are allowed.

### ADDITIONAL SECTOR AND POSITION LIMITS

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues are not permitted in the portfolio. Examples of securities likely to qualify as "highly interest rate sensitive" include leveraged CMOs, IOs, POs and inverse floaters.

Excluding U.S. government and agency issues the portfolio is limited to a 5% allocation in any single investment grade U.S. issuer.



## STATEMENT OF INVESTMENT POLICY

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### PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Lehman Brothers Intermediate Government / Credit Bond Index over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

3 Basis points (.03%) on Fair Market Value of the Assets.

## STATEMENT OF INVESTMENT POLICY

### **FIXED INCOME PORTFOLIO GUIDELINES FOR WESTERN ASSET MANAGEMENT FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)**

(Adopted April \_\_\_\_, 2002)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### **OBJECTIVE**

The goal of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

#### **BENCHMARK**

The portfolio will be benchmarked to the Lehman Brothers Aggregate Bond Index.

#### **RISK CONTROL**

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

<ul style="list-style-type: none"><li>▪ U.S. Government bonds</li><li>▪ U.S. corporate bonds</li><li>▪ Mortgage-backed securities</li><li>▪ Asset-backed securities</li><li>▪ Bonds and preferred stock convertible into common stock</li><li>▪ Preferred stock</li><li>▪ Municipal bonds</li><li>▪ Structured notes</li><li>▪ Cash equivalents</li><li>▪ Closed end bond funds</li></ul>	<ul style="list-style-type: none"><li>▪ Derivative mortgage-backed securities</li><li>▪ Bonds of developed non-U.S. issuers</li><li>▪ Bonds of emerging non-U.S. issuers</li><li>▪ Fixed income and currency futures, options, forward contracts and swaps</li><li>▪ Private placement bonds</li><li>▪ Rule 144(a) securities</li><li>▪ Commercial mortgage-backed securities</li><li>▪ Capital notes/Preferred trust certificates</li><li>▪ Commingled funds investing in fixed income securities</li></ul>
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## STATEMENT OF INVESTMENT POLICY

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### RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

### SECURITY TYPE QUALIFICATIONS

Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

Preferred stock and bonds convertible into common stock are permitted provided that they exhibit bond-like characteristics.

### INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% of the effective duration of the Lehman Brothers Aggregate Bond Index.

### CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of A. Issues that are un-rated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least 90% of the total portfolio.

The portfolio's below-investment grade holdings are limited to a maximum of 1% in any single issuer.

### NON-U.S. EXPOSURE

Bond not denominated in U.S. dollars are restricted. Dollar-denominated non-U.S. debt can be invested but shall not exceed 20% of the total portfolio. Examples of securities included in this restriction include the following:

<ul style="list-style-type: none"><li>▪ Non-U.S. sovereign bonds</li><li>▪ Non-U.S. non-sovereign bonds</li><li>▪ Structured notes linked to non-U.S. markets</li></ul>	<ul style="list-style-type: none"><li>▪ Emerging market sovereign bonds</li><li>▪ Emerging market non-sovereign bonds</li><li>▪ Supranational bonds</li></ul>
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## STATEMENT OF INVESTMENT POLICY

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5% in bonds issued by entities not domiciled in the J.P. Morgan Government Bond Index. This restriction is meant to limit the portfolio's emerging market exposure to no more than 5%.

1% in bonds issued by any single entity domiciled in a country not included in the J.P. Morgan Government Bond Index.

ATRS investments in the Western Asset Management Opportunistic Emerging Markets Portfolio and Opportunistic US\$ High Yield Securities Portfolio, L.L.C. are excluded from the 1% issuer limitation.

### ADDITIONAL SECTOR AND POSITION LIMITS

To the extent that the portfolio holds an allocation to non-investment grade emerging market bonds, that exposure shall also count against the total portfolio's 10% high yield maximum and 20% non-U.S. maximum.

Privately placed securities, excluding 144(a) securities, shall not exceed 5% of the total portfolio.

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total portfolio. Examples of securities likely to qualify as "highly interest rate sensitive" include IOs, POs and inverse floaters.

Preferred stock and bonds convertible into common stock shall not exceed 5% of the total portfolio.

Excluding U.S. government and agency issues the portfolio is limited to a 5% allocation in any single investment grade U.S. issuer. ATRS investment in the Western Asset Management Opportunistic International Investment Grade Securities Portfolio, L.L.C. is excluded from the 5% issuer limitation.

**The portfolio's combined allocation to the security types listed below may not exceed 25%.**

Bonds not receiving an investment-grade rating from either Moody's or Standard & Poor's

Non US\$ denominated Bonds issued by non-U.S. entities

Preferred stock and bonds convertible into common stock

Privately placed debt, excluding 144(a) securities

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues

## STATEMENT OF INVESTMENT POLICY

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### PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Lehman Brothers Aggregate Bond Index over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

20 Basis points (.20%) on the first	\$ 250 million (U.S.);
17 Basis points (.17%) on the next	\$ 250 million (U.S.);
13 Basis points (.13%) on amounts over	\$ 500 million (U.S.).



## STATEMENT OF INVESTMENT POLICY

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### FIXED INCOME PORTFOLIO GUIDELINES FOR HYPERION CAPITAL MANAGEMENT, INC FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)

(Adopted \_\_\_\_\_)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

#### OBJECTIVE

The goal of the mortgage fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by mortgage market fixed income portfolios.

The fixed income portfolio should be broadly diversified across mortgage markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

#### BENCHMARK

The portfolio will be benchmarked to the Lehman Brothers Mortgage-Backed Securities Index.

#### GUIDELINES

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

<ul style="list-style-type: none"><li>▪ U.S. Government / Agency residential and multi-family mortgage-backed securities (MBS)</li><li>▪ Collateralized mortgage obligations (CMOs)</li><li>▪ U.S. Government securities</li><li>▪ Investment grade non-agency residential MBS and CMOs</li><li>▪ Investment grade commercial and multi-family mortgage-backed securities (CMBS)</li><li>▪ Investment grade asset-backed securities (ABS)</li></ul>	<ul style="list-style-type: none"><li>▪ Mortgage Dollar Rolls</li><li>▪ Commercial paper, certificates of deposit, banker's acceptances rated at least A-1 by Standard &amp; Poor's or P-1 by Moody's</li><li>▪ Repurchase agreements backed by qualifying investments with A-1 rated counterparts and collateralized at 102%</li><li>▪ Reverse Repurchase Agreements</li><li>▪ Options and forward contracts</li></ul>
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## STATEMENT OF INVESTMENT POLICY

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### RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

### SECURITY TYPE QUALIFICATIONS

Options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities.

Investments in collateralized mortgage obligations should not be leveraged investment vehicles, interest only strips, principal strips, inverse floaters, super floaters, jump Z bonds, or other illiquid mortgage obligations.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

### INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% one year of the effective duration of the Lehman Brothers Mortgage-Backed Securities Index.

### CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of A. Issues that are un-rated by any major credit rating agency shall be rated by the investment manager, who shall compare an un-rated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least ~~90%~~80% of the total portfolio.

The portfolio's below-investment grade holdings are limited to a maximum of 1% in any single issuer.

### NON-U.S. EXPOSURE

Bonds issued by any non-U.S. entity bonds are prohibited from inclusion in the portfolio.

### PERFORMANCE MEASUREMENT

The net-of-fee returns of the total fixed income portfolio are expected to exceed those of the Lehman Brothers Mortgage-Backed Securities Index over reasonable measurement periods. The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

## STATEMENT OF INVESTMENT POLICY

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### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

18 Basis points (.18%) on the first	\$ 50 million (U.S.);
12 Basis points (.12%) on the next	\$ 50 million (U.S.);
10 Basis points (.13%) on the next	\$ 100 million (U.S.);
8 Basis points (.08%) on amounts over	\$ 200 million (U.S.).

## STATEMENT OF INVESTMENT POLICY

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**FIXED INCOME PORTFOLIO GUIDELINES FOR  
NICHOLAS APPLGATE CAPITAL MANAGEMENT FOR THE  
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)  
(Adopted \_\_\_\_\_)**

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

### OBJECTIVE

The goal of the total fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by convertible bond market fixed income portfolios.

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

### BENCHMARK

The portfolio will be benchmarked to a performance benchmark comprised of 90% of the Credit Suisse First Boston Convertible Securities Index and 10% of the Salomon Smith Barney High Yield Index.

### RISK CONTROL

The maximum allocation to high yield securities shall be 25%.

### RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

## STATEMENT OF INVESTMENT POLICY

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### SECURITY TYPE QUALIFICATIONS

Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

### INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% of the effective duration of the Performance Benchmark comprised of 90% of the CS First Boston Convertibles Securities Index and 10% of the Salomon High Yield Index.

### CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of BB. Issues that are un-rated by any major credit rating agency shall be rated by the investment manager, who shall compare an un-rated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least 75% of the total portfolio.

### NON-U.S. EXPOSURE

Non-U.S. investments are restricted.

### ADDITIONAL SECTOR AND POSITION LIMITS

Privately placed securities, excluding 144(a) securities, shall not exceed 5% of the total portfolio.

### PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Performance Benchmark, which is comprised of 90% of the CS First Boston Convertible Securities Index and 10% of the Salomon Smith Barney High Yield Index over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.



## STATEMENT OF INVESTMENT POLICY

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### FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

40 Basis points (.40%) on the first	\$ 100 million (U.S.);
30 Basis points (.30%) on the next	\$ 100 million (U.S.);
25 Basis points (.25%) on the next	\$ 100 million (U.S.);
20 Basis points (.20%) on amounts over	\$ 300 million (U.S.).

**INVESTMENT GUIDELINES FOR  
PUTNAM INVESTMENTS  
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)  
(Adopted \_\_\_\_\_)**

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

**STRATEGY**

The Manager's investment philosophy focuses on determining the underlying value of a security – the manager buys and sells securities where the market price differs significantly from its estimate of the stock's value.

**BENCHMARK**

The portfolio will be benchmarked to the MSCI All Country World Ex-U.S. Index.

**RISK CONTROL**

- **Prohibitions or Limitations**
  - Securities eligible for investment include, non-US dollar denominated, publicly traded, exchange listed equities and ADRs, rule 144A securities, convertible securities, as well as cash and cash equivalents as necessary.
  - Leverage and short selling of stocks are prohibited.
  - The active management of currency exposure through the use of forward currency exchange contracts or similar investments is permitted as a means to enhance returns or reduce risk.
  - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
  - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

**PERFORMANCE EXPECTATION**

The portfolio's return is expected to exceed the return of the MSCI All Country World Ex-U.S. Index over a full market cycle (approximately 5 years), net of fees and expenses.

**PROXY VOTING**

The Trustees authorize the manager to vote all proxies related to stocks in which it invests pension assets. The Trustees expect the manager to cast votes solely in the best interest of plan beneficiaries. In addition, the manager will report annually to the Trustees on its proxy-voting policies and activities on the System's behalf.

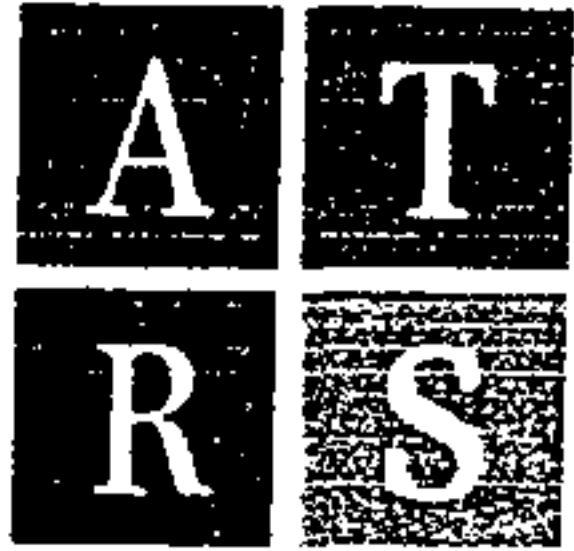
**TRANSACTION COSTS**

In its capacity as a plan fiduciary, the manager is expected to manage the transaction costs it incurs on the System's behalf in the best interests of System beneficiaries. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

**FEE SCHEDULE**

ATRS shall pay Manager a fee to be computed as follows:

35 Basis points (.35%) on the first	\$ 300 million (U.S.);
30 Basis points (.30%) over	\$ 300 million (U.S.);



Arkansas  
Teacher  
Retirement  
System

Attachment 4  
David R. Malone, Executive Director  
1400 West Third, Little Rock, AR 72201  
Phone (501) 682-1827 or (800) 666-2877  
Fax (501) 371-2161  
david.malone@atrs.state.ar.us

TO: Members of the Board  
FROM: David R. Malone, Executive Director *DM*  
RE: Investment Policies and Procedures

Attached is the latest version of the investment policies statement recommended by EnnisKnupp. Wayne and I have gone over it and would like to recommend it for adoption at this time. The managers are operating under an old policy, and they need to be informed as to our current thinking on policies and procedures.

I know that some attention has been devoted in the past to the directed trades portion of this policy. We are currently operating without a list of preferred brokers and all managers are being asked to follow "best execution," a term that means something in the industry.

The proposed policy will require each equity manager to report to us on a quarterly basis, and in a report format that will give allow us to evaluate their "best execution." Specifically they will be asked to supply us with:

1. A list of brokers used during the quarter.
2. The percentage and dollar amount of commissions paid to each broker.
3. The average per share commission paid to each broker and
4. An itemized list of services provided to ATRS by each broker for soft dollars.

The proposed policy will supply us with the information we need to develop an appropriate commission recapture and/or soft dollar program that will work in the best interest of the System. We do not have the information to formulate these programs at the current time. I hope to attend a conference in February where the latest trends in these types of programs are discussed. We want a program, but we want a program that will work in the best interest of the System.

## STATEMENT OF INVESTMENT POLICY

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### SOFT DOLLAR POLICY

"Soft dollars" or "soft commissions" includes any third-party or broker services investment counsel receives in addition to execution, whether these arrangements are explicit or implicit.

Commissions paid by investment counsel for the purchase of equity securities are ATRS assets and should be used to the sole benefit of the System beneficiaries. Whenever possible, investment counsel should seek to execute trades at the lowest possible commission rate but not to the detriment of best execution, which can result in a higher cost to the ATRS.

In order for the Trustees to fulfill their obligation to ensure System assets are being used appropriately, equity investment counsel shall provide on a quarterly basis to Trustees, Staff and investment consultant a report containing the following information:

1. A list of each broker used during the quarter
2. The percentage and dollar amount of commissions paid to each broker
3. The average per share commission paid to each broker and
4. An itemized list of services provided to ATRS by each broker for soft dollars

To supplement the previous information, equity investment counsel shall provide the following on an annual basis to ATRS Trustees, fund staff and consultant in which investment counsel answers the following questions:

1. Where you are not using execution-only brokerage, please list other services that you buy or benefits that you receive from a broker (such as research and access to IPOs). Please explain how you evaluate the benefit these generate for the ATRS relative to the cost.
2. If you use both external research and in-house research, explain what distinguishes the former, for which ATRS pays an additional charge, from the latter, which is covered by your management fee, and how you decide which to use.
3. Please provide any policy document that you have on the firm's use of soft dollar arrangements.
4. Last year, what percentage of transactions in listed securities involved the use of soft dollars? What was the average commission paid, in cents per share, on trades involving the use of soft dollars vs. trades involving executions only?
5. What were the total commission dollars paid for our portfolio last year? Of these, can you provide an estimate of the amount that could be attributed to non-execution services?



## STATEMENT OF INVESTMENT POLICY

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6. Have you evaluated the execution quality of soft dollar brokers vs. execution-only brokers? If so, can you provide us with the result or the conclusions?
7. If you wish to make a case for soft commission arrangements, explain how our interests are better served by the broker providing you with services rather than by securing lower trading costs for us.

## PAYMENT OF INVESTMENT COUNSEL FEES

1. In addition to the various retirement systems funds established as trust funds in the State Treasury, a bank trust fund or funds may be established and maintained in such depository bank or banks as may be designated by the boards of trustees of the respective retirement systems.
2. Each bank fund shall consist of and there may be deposited in the fund:
  - a) Any and all employer contributions, including any interest;
  - b) Any and all employee contributions, including any interest;
  - c) Interest, dividend, and other incomes realized from investments and reinvestments;
  - d) Interest earned upon any moneys in the fund; and
  - e) Such other proceeds as may be derived from the sale, exchange, redemption, transfer, or disposition of any securities or investments.
3. The following disbursements may be made from the bank funds:
  - a) Payments for any and all securities and investments, the purchase of which is authorized by law, which may include principal, accrued interest, commission, taxes, and fees;
  - b) Payments for money manager and custodian bank fees;
  - c) The deposit to the appropriate State Treasury fund for the payment of annuities and refunds as authorized by law that are paid on vouchers issued by the respective retirement systems and on warrants issued thereon by the Auditor of State;
  - d) The payment of annuities and refunds as authorized by law that are paid on cash fund vouchers issued by the respective retirement systems and on checks or wire transfers issued from bank funds; and
  - e) The deposit to the appropriate State Treasury fund for payments of salaries, maintenance, and operating expenses of the retirement systems supported from investment earnings.