

Minutes

Arkansas Teacher Retirement System
Board of Trustees

August 5, 2003

The Board of Trustees of the Arkansas Teacher Retirement System met in regular session on Tuesday, August 5, 2003 at 10:00 a.m. The meeting was held in the ATRS Board Room, Arkansas Teacher Retirement Building, 1400 West Third Street, Little Rock, Arkansas.

Members of the Board Present:

Linda Parsons, Chair
Bunny Adcock
Monty Betts
Winfred Clardy
Hazel Coleman
Charles Dyer
Dr. Paul Fair
John Fortenberry
Ann Harbison
Robin Nichols
Ray Simon
Ellen Terry
Jim Wood

Guests Present:

Tom Gay, Attorney General's Office
Tom Ferstl, Ferstl Enterprises
Judith Kermans, Gabriel Roeder, Smith
Brian Murphy, Gabriel Roeder, Smith
Evelyn Nelsen, RTA
Mike Wickline, Ark. Democrat-Gazette

Members of the Board Absent:

Betty McGuire
Gus Wingfield
Ray Simon-absent after 11:30 a.m.

Staff Present:

David R. Malone, Ex. Director
Julie M. Cabe, Deputy Director
Wayne Greathouse
Debbie White
Hugh Roberts
George Snyder
Michael Ray
Bernice Smith
Gail Blair
Barbara Waldrop
Dena Dixson
Donna Hobbs

I. Roll Call

Linda Parsons, Chair called the meeting to order and welcomed the newly elected trustees to the Board. Debbie White of the Teacher Retirement staff recorded the Minutes.

II. Adoption of Agenda

The Chair advised that the Executive Director would like to add two additional items of New Business; Real Estate Insurance Contracts and a Management Contract for Northridge Nursing Home. The Director also requested an Executive Session to discuss personnel issues. Hazel Coleman made a motion to adopt the agenda, with added items. Ann Harbison seconded the motion, which passed.

III. Approval of Minutes

The Minutes for June 12, 2003, June 17, 2003 and July 1, 2003 were presented in the Agenda Binder. Mr. Fortenberry noted a correction needed to be made on Item IX of June 17, 2003, on a roll call vote tally, which should read 5 (five) AGAINST the motion, instead of the recorded 4 (four). The correction was noted and will be made. Dr. Fair asked for clarification on two other items, but no changes were deemed necessary. Therefore, Mr. Fortenberry made a motion to approve all three sets of Minutes, with the June 17, 2003 correction to be made. Ann Harbison seconded the motion, which was approved. *(Correction shown in Attachment 1 of these Minutes)*

IV. 2003 Election of Officers to the Board of Trustees

Linda Parsons, Chair gave a brief summary of election procedures. She asked Julie Cabe to address the Attorney General's opinion regarding the use of written ballots. Ms. Parsons then appointed Ray Simon as Chairman pro tem to preside over the meeting during the election process. The Executive Director reviewed ATRS policy regarding elections of Chair and Vice-Chair positions of the Board. Mr. Simon opened and entertained nominations for the position of Chairman of the Board. The following nomination was made:

Dr. Paul Fair nominated Linda Parsons to serve a second term as Chair.

Mr. Simon asked if there were any further nominations. Hearing none, he stated there was one nomination for the Chairman position. With no second required, Mr. Simon declared the nominations closed. Mr. Fair made a motion that Ms. Parsons be declared Chair by acclamation. With 10 (ten) votes to approve the motion, the motion was accepted by general consent.

Mr. Simon then congratulated and relinquished the floor to Linda Parsons who opened the floor for nominations of Vice-Chair.

Ann Harbison nominated Hazel Coleman to serve as Vice-Chair.
Winfred Clardy nominated John Fortenberry to serve as Vice-Chair.

Ms. Parsons indicated that voting would be done in the order the nominations were made. The vote indicated 6 (six) **FOR** Hazel Coleman. The vote on the nomination of John Fortenberry indicated 7 (seven) **FOR** Mr. Fortenberry. With no nominee receiving a majority, Ms. Parsons opened the floor for nominations a second time. The following nominations were made:

Ray Simon nominated John Fortenberry to serve as Vice-Chair.
Ann Harbison nominated Hazel Coleman to serve as Vice-Chair.

With no further nominations stated, Ms. Parsons closed the nominations. The vote indicated 8 (eight) **FOR** John Fortenberry, 6 (six) **FOR** Hazel Coleman. With John Fortenberry receiving the majority vote, Ms. Parsons pronounced him the new Vice-Chair. Final results of the 2003 election of officers is as follows and both will serve a two-year term:

Linda Parsons, Chair
John Fortenberry, Vice-Chair

Acceptance statements were made by Ms. Parsons and Mr. Fortenberry.

V. RFQs for Outside Legal Counsel-National

A list of 10 (ten) firms was presented by memo from the Executive Director in the agenda binder. He reported that the staff would like to interview the firms of Entwistle & Cappucci, Ltd., Cauley Geller Bowman & Rudman, L.L.P., and Berstein Litowitz Berger & Grossmann, L.L.P. in conjunction with someone from the Attorney General's office. He asked if Board members wished to participate and did not receive an indication of interest. He stated the desired staff recommendation would be to give the Executive Director and staff consent to narrow down the search to one firm and negotiate with that firm, and possibly APERS to attain an advantageous fee schedule. After this process, one firm would be presented to the board for final approval. Mr. Dyer made the motion to approve the Director's recommendation. Ann Harbison seconded the motion, which was unanimously approved.

VI. Investment Guidelines for Fixed Income, Core Plus Managers

A brief discussion of new Investment Guidelines for Fixed Income, Core Plus Managers was held. The Executive Director called attention to a sentence in the Transaction Costs of the guidelines for Western Asset regarding the "soft dollar policy". He advised that since no soft dollar policy had been developed yet, reference to that policy will be deleted from the Investment Guidelines, and the corrected paragraph regarding Transaction Costs needed to be inserted in the Guidelines for all 4 (four) Fixed Income, Core Plus Managers.

With that explanation, Dr. Fair made the motion to approve Resolutions No. 2003-04, 2003-05, 2003-06 and 2003-07. Mr. Simon seconded the motion, which was approved. (*Resolutions and Guidelines, Attachment 2 of these Minutes*)

VII. Woodland Heights Management Contract

The Executive Director gave an update on the Woodland Heights Retirement property. He advised that an interim manager was needed while the prospect of selling the property was being explored. The staff recommendation of Affiliated Management Company, LLC (Tom Ferstl & Jeff Siebold) was presented in Resolution No. 2003-08. (*Attachment 3 of these Minutes*) Ann Harbison made the motion to adopt the Resolution. Ellen Terry seconded the motion. Ms. Harbison called for the question after a brief discussion and the Resolution was approved.

VIII. Northwest Arkansas Properties- Real Estate Management Contracts

The Executive Director reviewed a memo outlining staff recommendations for real estate property managers as follows:

Bank of America, Fayetteville	Irwin Management Co.
Highfill property, Fayetteville	Hathaway
Cherrybrook Building, Little Rock	Hathaway

After discussion, Mr. Fortenberry made a motion to separate the vote for the management of the Bank of America, Fayetteville contract. Mr. Clardy seconded the motion to separate the votes. The motion passed. Dr. Fair then moved to approve a contract with Irwin Management for the Bank of America, Fayetteville Building. Mr. Dyer seconded the motion, which passed. Additional discussion on the two remaining contracts ended with a motion made by Ann Harbison to contract with Hathaway to manage the Highfill acreage, Fayetteville and the Cherrybrook building, Little Rock. Ellen Terry seconded the motion, which was approved. Resolution No. 2003-09 was amended to reflect the approval of the above two approved motions. (*Resolution 2003-09, Attachment 4 of these Minutes*)

IX. Gabriel Roeder, Smith Contract

The Executive Director reviewed the status of the contract for actuarial services. He summarized concerns that some Board members presented to him regarding the services of Gabriel Roeder, Smith. He advised that Gabriel Roeder, Smith brought copies of all correspondence, reports and other data regarding the T-DROP program and their recommendation, which seem to be the area of most concern.

After a brief discussion of the matter, Charles Dyer made a motion to approve Resolution 2003-10 (*Attachment 5 of these Minutes*). Ann Harbison seconded the motion. At the request of Mr. Clardy, the Director stated he would instruct Gabriel Roeder, Smith to explore alternatives to equalizing benefits of T-DROP and non T-DROP participants but that the 30 year rule currently prohibits ATRS from enhancing benefits, thus limiting options. Ann Harbison called for the question and the vote indicated approval of the motion.

X. ATRS Staff Reports

A. Personnel, *Donna Hobbs*, No action taken

The Executive Director advised that Wayne Greathouses' position had been reclassified by Office of Personnel Management. Winfred Clardy and Gus Wingfield sought the reclassification and increase in pay, under authorization by the Board during the period Mr. Greathouse served as Interim Director.

B. Medical Board Reports and Counseling, *Michael Ray*

Michael Ray presented the Medical Board Reports for June 18, 2003 & July 16, 2003. Mr. Fortenberry made a motion to approve the reports, with second by Dr. Fair. The motion was approved.

C. Accounting, *Bernice Smith*- No action taken

Bernice Smith presented a new accounting summary which was included in the Agenda binder and acknowledged a discrepancy which as been corrected. Mr. Malone stated that continued efforts would be made to provide relevant reports.

D. Investment Report and Ark. Related Reports, Wayne Greathouse-No action taken

The Executive Director advised that the Donaghey Foundation issued a request regarding the escrow account of that loan. An appraisal, set forth as a condition for release of that escrowed amount, was recently sent to ATRS. However, the appraisal has been deemed insufficient for the staff to recommend release of the monies at this time and they will be notified that the appraisal does not seem to meet the requirements.

Mr. Malone also reported that the Pinnacle property loan had been paid off.

E. Membership & Payroll, Dena Dixson-No action taken

F. Pre-Retirement Education, Barbara Waldrop-No action taken

XI. Old Business

A. Arkla Building Parking

The Director reviewed the status of the parking situation for the Arkla Building. Resolution 2003-11 was presented in the Agenda Binder as the staff recommendation to remedy the parking issue. (*Attachment 6 of these Minutes*). Charles Dyer made a motion to approve the Resolution, Hazel Coleman seconded his motion. After a brief discussion, Ms. Coleman called for the question and the vote indicated approval of the Resolution.

B. Real Estate Insurance Contracts

Mr. Malone reviewed his memo and an Executive Summary of Real Estate Insurance Contracts. Resolution 2003-12 was presented. (*Attachment 7 of these Minutes.*) Hazel Coleman made a motion to approve the Resolution. Ann Harbison seconded the motion, which was unanimously approved.

C. Northridge Management Contract

The Executive Director advised that Mr. Kilgore is not interested in purchasing the property and no longer desires to manage the property. Mr. Malone stated that negotiations are under way with two firms as a possible manager and one needs to be approved by August 15, 2003. Mr. Malone stated that an agreement would hopefully be worked out by the end of the week and he recommended that a Board Meeting by teleconference would be the easiest way to approve a contract. After some discussion it was decided that a midweek, late afternoon, Board Meeting, via teleconference would be held.

D. South Nursing Home Update

Mr. Malone advised that financial statements for this property are being examined by accountants and negotiations would hopefully be brought to a close in the very near future.

E. Investment Policy and Committee Charter Drafts

The Executive Director advised that Ms. Cabe has finished a draft Investment Policy and proposed ATRS Committee Charter amendments. (*Attachment 8 of these Minutes*). Ms. Cabe advised that the draft Investment Policy will go to the Investment Committee and the Committee Charters will go to the Policies Committee and hopefully these proposals will be ready for approval at the October Board Meeting.

F. October Meeting Date

After a brief discussion regarding dates for the October meeting. Ann Harbison made a motion to set the dates for October 6 & 7, 2003. Hazel Coleman seconded the motion, which was approved.

XII. Executive Session

The Board of Trustees met in Executive session for discussion of personnel matters. The session adjourned with no action taken.

XIII. Adjournment

As there was no further business to be taken into consideration, the meeting adjourned by general consent at 12:45 p.m.



Debbie White, Project Analyst


David R. Malone, Executive Director


Linda Parsons, Chair

Date of Approval: 10-6-03

ARKANSAS TEACHER RETIRMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2003-04

Investment Guidelines
PACIFIC INVESTMENT MANAGEMENT COMPANY
(PIMCO)

RESOLVED, that the Arkansas Teacher Retirement System desires to establish Investment Guidelines for PIMCO. The attached guidelines were developed by the system's consultant, Ennis Knupp and Associates and reviewed and approved by the staff of ATRS.

FURTHER RESOLVED, that the above mentioned guidelines shall be effective on the date of funding and remain in force until new guidelines are recommended by the system's consultant and approved by the Board of the Arkansas Teacher Retirement System.

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System approves the proposed guidelines for PIMCO.

Adopted this 5th day of August, 2003.


Linda Parsons, Chair
Arkansas Teacher Retirement System

ARKANSAS TEACHER RETIRMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2003-05


Investment Guidelines
BlackRock

RESOLVED, that the Arkansas Teacher Retirement System desires to establish Investment Guidelines for *BlackRock*. The attached guidelines were developed by the system's consultant, Ennis Knupp and Associates and reviewed and approved by the staff of ATRS.

FURTHER RESOLVED, that the above mentioned guidelines shall be effective on the date of funding and remain in force until new guidelines are recommended by the system's consultant and approved by the Board of the Arkansas Teacher Retirement System.

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System approves the proposed guidelines for *BlackRock*.

Adopted this 5th day of August, 2003.


Linda Parsons, Chair
Arkansas Teacher Retirement System

ARKANSAS TEACHER RETIRMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2003-06

Investment Guidelines
State Street

RESOLVED, that the Arkansas Teacher Retirement System desires to establish Investment Guidelines for *State Street*. The attached guidelines were developed by the system's consultant, Ennis Knupp and Associates and reviewed and approved by the staff of ATRS.

FURTHER RESOLVED, that the above mentioned guidelines shall be effective on the date of funding and remain in force until new guidelines are recommended by the system's consultant and approved by the Board of the Arkansas Teacher Retirement System.

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System approves the proposed guidelines for *State Street*.

Adopted this 5th day of August, 2003.


Linda Parsons, Chair
Arkansas Teacher Retirement System

ARKANSAS TEACHER RETIRMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2003-07

Investment Guidelines
Western Asset

RESOLVED, that the Arkansas Teacher Retirement System desires to establish Investment Guidelines for *Western Asset*. The attached guidelines were developed by the system's consultant, Ennis Knupp and Associates and reviewed and approved by the staff of ATRS.

FURTHER RESOLVED, that the above mentioned guidelines shall be effective on the date of funding and remain in force until new guidelines are recommended by the system's consultant and approved by the Board of the Arkansas Teacher Retirement System.

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System approves the proposed guidelines for *Western Asset*.

Adopted this 5th day of August, 2003.


Linda Parsons, Chair
Arkansas Teacher Retirement System

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2003-08

BE IT RESOLVED, that the Executive Director is hereby granted the authority to execute a contract with *Affiliated Management Company, LLC* for real estate management services at *Woodland Heights Retirement Center* for the Arkansas Teacher Retirement System for a period ending June 30, 2005.

Adopted this 5th day of August, 2003



Chair

Arkansas Teacher Retirement System

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2003-09

BE IT RESOLVED, that the Executive Director is granted the authority to execute a contract for real estate management services for properties as follows:

Property

Management Company

Bank America Building, Fayetteville
Highfill acreage, Fayetteville
Cherrybrook Building, Little Rock

Irwin Saviers Mgt. Company
Hathaway
Hathaway

Adopted this 5th day of August, 2003.


Linda Parsons, Chair
Arkansas Teacher Retirement System

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2003-10

BE IT RESOLVED, that the Executive Director is hereby granted the authority to extend the contract with *Gabriel Roeder, Smith and Company* for actuarial and consulting services for the Arkansas Teacher Retirement System for a period ending June 30, 2005.

Adopted this 5th day of August, 2003.



Chair

Arkansas Teacher Retirement System

RESOLUTION
No. 2003-11

Arkla Building-Parking Lot Purchase

RESOLVED, that the Arkansas Teacher Retirement System desires to enhance the property held by the System, known as the Arkla Building, by purchasing additional property to be utilized for parking space. The desired property at 4th & Rock Streets, Little Rock, Arkansas shall be sought by offer and acceptance with the Leonard N. White, Jr. Trust. Purchase of the property shall be made with a payment price of \$600,000.00. ATRS will pay \$120,000.00 at closing and \$120,000.00 annum on July 31, 2004, 2005, 2006 and 2007 plus simple interest on the unpaid balance annually at the rate of 5%. ATRS will pay all closing cost. Possession shall be immediately upon closing, on or about July 31, 2003.

FURTHER RESOLVED, That the Board of Trustees of the Arkansas Teacher Retirement System approves the proposed purchase of the property and authorizes the Executive Director of the Arkansas Teacher Retirement System to approve the Real Estate Contract (Offer and Acceptance).

Adopted this 5th day of August, 2003


Chair, ATRS Board of Trustees

Atty. Gen. 7

ARKANSAS TEACHER RETIRMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

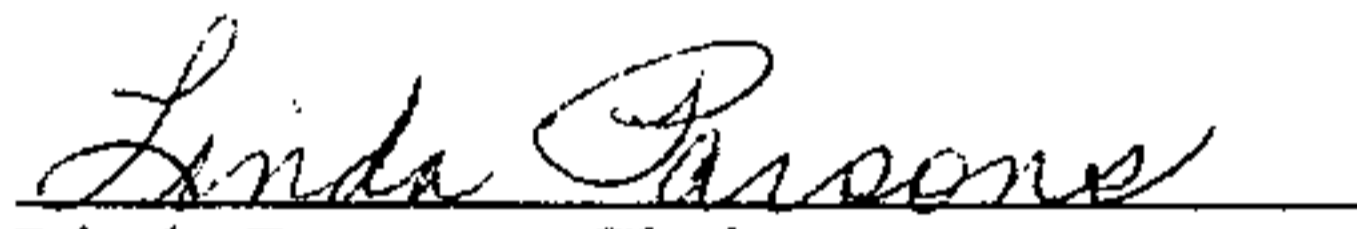
RESOLUTION
No. 2003-12

Real Estate Insurance Contracts

BE IT RESOLVED, that the Executive Director is hereby granted the authority to execute a contract with Rebsamen Insurance, Inc. for insurance management services for a three-year period.

BE IT FURTHER RESOLVED, that the Board of Directors hereby delegates to the Investment Committee the authority to select a firm/firms, and to establish the appropriate terms and conditions of coverage for insuring real estate owned by ATRS those decisions to be ratified by the Board of Trustees at its next regular meeting.

Adopted this 5th day of August, 2003.


Linda Parsons, Chair
Arkansas Teacher Retirement System

POLICY TYPE: Investment**8/04/03****POLICY TITLE: Introduction**

This Investment Policy has been prepared within the context of applicable Arkansas laws and is intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure that both prudence and care are maintained in the execution of the investment program. While safety of principal is given primary consideration, the Board may take appropriate levels of risk to earn higher levels of investment return.

The Board has arrived at this policy through careful study of the rates of return and risks associated with various investment strategies in relation to the current and projected liabilities of the Retirement System. This policy has been chosen as the most appropriate for achieving the financial objectives of the Retirement System.

The Board has adopted a long-term investment horizon so that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of the Retirement System will be invested in a manner that provides the safeguards and diversity to which a prudent investor would adhere. All transactions undertaken on behalf of the Retirement System will be in the sole interest of the members of the Retirement System.

The Retirement System shall manage those assets not specifically allocated to investment managers. Notwithstanding the provisions of this Investment Policy, the Board may direct a specific investment activity and shall be fully responsible for any such action.

POLICY TYPE: Investment

POLICY TITLE: Standard of Care

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting monies in the fund and in acquiring, retaining, managing and disposing of investments of the fund there shall be exercised the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting trust assets and in acquiring, retaining, managing and disposing of investments of the trust assets, there shall be exercised the reasonable care, skill, and caution that a prudent investor would use after considering the purposes, terms, distribution requirements, and other circumstances of the trust.

Investment and management decisions respecting individual assets shall be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust. The investments of the trust shall be diversified unless the trustees reasonably determine that, because of special circumstances, the purposes of the trust are better served without diversifying. The trust assets shall be invested and managed solely in the interest of the members and benefit recipients of the trust.

Investment and management functions may be delegated to an agent that a prudent trustee of comparable skills could properly delegate under the circumstances. When making such delegation, Trustees shall establish the scope and terms of the delegation, consistent with the purposes and terms of the trust, and shall monitor the agent's performance and compliance with the terms of the delegation. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

The standard of care set forth herein shall be applied by each party serving in a fiduciary capacity for the trust.

Authority:

The prudent investor rule set forth in A.C.A. 24-2-610 – 24-2-619 (Act 151 of 2001).

POLICY TYPE: Investment

POLICY TITLE: Asset Allocation

It is the goal of the Retirement System to maintain the following asset allocation ranges:

Asset Category	Minimum	Target	Maximum
Domestic Equity	35.0%	40.0%	45.0%
International Equity	15.0%	17.5%	20.0%
Domestic Fixed Income	20.0%	25.0%	30.0%
Alternatives ¹	4.0%	6.0%	8.0%
Real Estate	3.0%	5.0%	7.0%
Timberland	0.0%	1.5%	3.0%
Arkansas-related Investments ²	3.0%	5.0%	7.0%
Cash Equivalents	0.0%	0.0%	3.0%

Rebalancing

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will—over time—provide the appropriate risk-adjusted return to the Retirement System.

The Executive Director is responsible to rebalance among the allowable asset classes and individual portfolios at such time that any of the asset classes falls outside of the designated range. The Executive Director will monitor the asset values by classification and for each investment manager on a monthly basis, based on month-end data provided by the custodian bank. The Executive Director shall submit a report to the Board detailing the movement of funds necessary to carry out that rebalancing at the next scheduled meeting following the completion of such transactions.

Whenever the minimum or maximum range on any major asset class has been exceeded, a transfer of funds will occur so as to bring the actual allocation within the prescribed range. Since many alternative, timberland and real estate investments are not liquid and valuations may be estimates or appraisals and may be time lagged, the Executive Director shall use best efforts to use commitments, capital calls, capital contributions and distributions to rebalance such investments.

¹ In determining the asset allocation for Alternatives, the actual amount disbursed by ATRS, not the commitments, is applicable. (Includes domestic private equity, foreign private equity and mezzanine financing)

² A.C.A. § 24-2-608 requires ATRS to seek to invest not less than 5% nor more than 10% of its portfolio in Arkansas-related investments when appropriate investment alternatives are available and when such investments may be made in accordance with the prudent investor rule.

Normal plan cash flows should be used to the extent possible to rebalance. Interest, dividends, and plan contributions should be used to the extent possible to fund asset classes that are below their target. Withdrawals should be made from asset classes that are above their target.

POLICY TYPE: Investment

POLICY TITLE: Goals

The overall goal is to achieve, over a period of years, the greatest rate of return for the Retirement System with due consideration being given to preserving capital and its purchasing power and to maintaining an element of risk at a prudent investor level.

The System's actuary sets an expected return based on the Board's policy decisions. Market cycles may result in the Retirement System earning a return materially above or below the actuarial rate of return for extended periods of time. Therefore, the actuarial rate of return will not be used for performance comparison purposes.

Total System Performance Goals

Specific investment goals for the Retirement System are:

1. To achieve a weighted average of the asset allocation (shown above) based on an appropriate broad market index that best represents investments in that particular asset class. The asset categories, targets and benchmarks will change over time pursuant to Board action. The current targets and asset class benchmarks are as follows:

Asset Category	Target	Benchmark
Domestic Equity	40.0%	Wilshire 5000 Index
International Equity	17.5%	MSCI All Country World Ex-U.S. Index
Fixed Income	25.0%	Lehman Bros. Universal Bond Index
Alternatives	6.0%	Wilshire 5000 Index plus 2.0% per annum
Real Estate	5.0%	The NCREIF Nat'l Property Index
Timberland	1.5%	The Southeast Timberland NCREIF Index
AR Related Investmnts	5.0%	The Lehman Mortgage Index
Cash Equivalents	0.0%	90 Day Treasury Bills

2. To rank above the median in a universe of similar public funds

POLICY TYPE: Investment

POLICY TITLE: Strategy

Domestic Equity

The Board has adopted a multiple manager equity investment strategy to increase diversification and enhance total rate of return.

The manager structure of the domestic equity portfolio's risk and style exposure should resemble the aggregate domestic equity market as measured by the Wilshire 5000 Index. To help achieve this goal, the Board will employ managers utilizing various or multiple capitalization (small, mid and large) and investment styles (growth and value) so that the overall size and capitalization structure of the total component will approximate that of the broad market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the domestic equity assets to a passive investment portfolio that approximates the return of the broad domestic equity market.

Domestic Equity Active/Passive Allocation (as a percent of the domestic equity portfolio)

	Minimum	Target	Maximum
Active Component	50%	70%	90%
Passive Component	10%	30%	50%

The investment consultant will provide an annual report to the Board on the overall absolute and relative risk of the domestic equity component versus the broad market.

The goal for domestic equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic equity market as measured by the Wilshire 5000 Index over a full market cycle (approximately five years).

International Equity

The Board has adopted a multiple manager international equity investment strategy to increase diversification and enhance total rate of return.

The manager structure of the aggregate international equity portfolio's risk and style exposure should resemble the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-U.S. Index. To help achieve this goal, the Board will employ managers that invest in a broad array of countries (both developed and emerging markets), capitalization (small, mid and large) and style (growth and value) so that the overall style and capitalization structure of the total component will approximate that of the broad international market. An active management strategy for international equity investments will be used.

The investment consultant will provide an annual report to the Board on the overall absolute and relative risk of the international equity component versus the broad market.

The goal for international equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-U.S. Index over a full market cycle (approximately five years).

Fixed Income

The Board has adopted a multiple manager fixed income investment strategy to increase diversification and enhance total rate of return.

The manager structure of the aggregate fixed income portfolio's risk exposure should resemble the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index. To help achieve this goal, the Board will employ managers that invest assets in a broad array of sectors (Government, mortgage backed, credits, asset backed and commercial mortgage backed bonds), maturities, and credit qualities so that the overall portfolio structure is not materially different from that of the domestic fixed income market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the fixed income assets to a passive investment portfolio that approximates the return of the broad fixed income market.

Fixed Income Active/Passive Allocation (as a percent of the fixed income portfolio)

	Minimum	Target	Maximum
Active Component	85%	90%	95%
Passive Component	5%	10%	15%

The investments consultant will provide an annual report to the Board on the overall absolute and relative risk of the fixed income component versus the broad market.

The goal for fixed income investments shall be to achieve a total rate of return that will exceed, net of all costs and fees, the return of the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index over a full market cycle (approximately five years).

Alternative Investments

The Board has adopted a multiple manager alternative investment strategy to increase diversification and enhance total rate of return.

The structure of alternative investments should include domestic and foreign private equity partnerships, venture capital and mezzanine financing partnerships to diversify the assets and reduce the likeliness of material losses in any individual investment classification.

The investment consultant will provide an annual report on the overall absolute and relative risk of alternative investments to ensure that appropriate diversification is being achieved.

The goal for alternative investments is to achieve a total rate of return that will exceed, net of all costs and fees, the return of the public equity markets, as measured by the Wilshire 5000 Index, plus a liquidity premium of 2.0% per year.

Real Estate

The Board has adopted a strategy to increase diversification and enhance total rate of return.

The system may initiate direct ownership in raw land, commercial, industrial, and residential properties or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

The goal of the real estate investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic real estate market as measured by the NCREIF National Property Index over a full market cycle (approximately five years).

Total real estate investments shall not exceed the system's approved asset allocation as determined by the Board at the beginning of each fiscal year. Should the real estate allocation be exceeded, no additional real estate investments shall be entered into until the asset allocation exceeds the total real estate investments.

The Executive Director, subject to the approval of the Board, will appoint and retain a Real Estate Consultant to provide the necessary expertise and advice on such investments.

Timberland

The Board has adopted a strategy to increase diversification and enhance total rate of return.

The system may initiate direct ownership in timberland or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

The goal of the timberland investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Southeast Timberland NCREIF index over a full market cycle (approximately five years).

Arkansas-Related Investments

The Board has adopted a strategy to meet the requirement of Arkansas statutes for Arkansas related investments.

The System may initiate Arkansas related mortgage loans, direct real estate investments, or purchase insured certificates of deposit or short term securities of Arkansas financial institutions to meet the goals of the mandated requirements.

The Board has directed that Arkansas related investments be in strict conformity with guidelines established by the Board.

Cash Equivalents

The Board has adopted a strategy to preserve capital and maintain liquidity to meet the needs of the System.

The system may hold direct ownership in short-term investments or may permit or require managers to hold cash or cash equivalents to meet liquidity needs of the manager or of the System.

The goal of the cash management shall be to preserve capital and maintain liquidity.

Commingled or Mutual Funds

If a commingled fund or mutual fund is utilized, it is understood that the portfolio will be governed by the prospectus or similar document for the fund. In those cases, the System will utilize the ATRS Investment Guidelines in selecting and evaluating funds initially and in monitoring them on an on-going basis for continued suitability. If the assets of the commingled or mutual fund participate in securities lending, the cash collateral should be prudently invested to avoid risk of loss.

Derivatives

Derivatives may be used to reduce the risk in a portfolio. At no time shall derivatives be used to create a position of leverage or substantially increase the risk of the overall portfolio. Each investment manager's derivative usage shall be specified in the investment management agreement or specific guidelines.

The use of futures and options shall be matched by cash or cash equivalent securities, and all short futures positions shall be matched by equivalent long security positions. Option premiums outstanding at any given time shall be limited to less than 5% of the market value of the total portfolio. The notional value of the underlying securities of the futures contracts shall not exceed 15% of the market value of the total portfolio.

Loaning of Securities

To increase investment income with minimal risk, the Board may loan bonds, stocks, or other securities provided at least 102% of the full market value of the security loaned is collateralized by cash or securities at the time the loan is executed.

At all times during the term of each loan, the collateral shall be equal to not less than 100% of the full market value calculated on the total value of all securities on loan.

POLICY TYPE: Investment

POLICY TITLE: Investment Consultant(s)

To achieve the overall goal of the Retirement System as it pertains to investments, one or more investment consultants may be retained by the Board.

The scope of duties, together with the terms and conditions of engagement, of any investment consultant will be set forth in a contract approved by the Board.

Unless otherwise provided by contract, the investment consultants will:

- Assist the board in developing investment policy and making modifications thereto based on broad economic conditions and statutory changes.
- Provide general economic information and information on the market environment.
- Be responsible for the development and articulation of investment strategy, which will be a topic in each of its quarterly reports to the Board.
- Assist the Board and Executive Director in the selection and supervision of investment managers.
- Provide recommendations on asset allocation, portfolio structure, retention of investment managers and various other topics that better equip the Board to make investment decisions for the Retirement System.
- Monitor and report periodically to the Board on the performance of the investments, the performance of the investment managers, any material changes within the investment management firms employed by the Board, and such other matters that are called for by this Investment Policy.

POLICY TYPE: Investment

POLICY TITLE: Investment Manager(s)

Investment managers may be employed pursuant to procedures established by the Executive Director with advice from the Investment Consultant and as approved by the Board.

Investment managers will be given discretion to execute transactions on behalf of the Retirement System within the parameters set forth in their respective investment strategies.

The assets of the System allocated to the Investment Managers shall be diligently managed, which may include selling investments and realizing losses, if such action is considered advantageous to longer-term return maximization.

Investment managers shall file with the Investment Consultant such reports and information as may be requested, and they may be requested to report in person to the Board.

POLICY TYPE: Investment

POLICY TITLE: Soft Dollars

“Soft dollars” or “soft commissions” include any third-party or broker services an investment manager receives in addition to execution, whether these arrangements are explicit or implicit.

Commissions paid by investment managers for the purchase of equity securities are Retirement System assets and must be used for the sole benefit of the System members. Whenever possible, investment managers 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 Retirement System.

So that the Board may fulfill its obligation to ensure that Retirement System assets are being used appropriately, equity investment managers shall provide a comprehensive quarterly report to the Investment Consultant on brokerage activity, commissions, services, and such other information as may be requested by the Investment Consultant or the Board. The Investment Consultant shall provide a periodic report to the Board summarizing such equity investment managers' reports and highlighting any questionable or problem areas.

8/5/03

PROPOSED ATRS COMMITTEE CHARTER AMENDMENTS

Suggested revised language in red with deletions indicated by ~~strikethroughs~~ and additions indicated by underlining.

Comments are indicated by yellow highlighting.

POLICY TITLE: Committee Principles

The Board may establish committees to help carry out its responsibilities.

1. Board committees may not speak or act for the Board except when formally given such authority.
2. Committees ordinarily will assist the Board by preparing policy alternatives and implications for Board deliberation.
3. Board committees may not exercise authority over staff.
4. All members of the Retirement Board shall be notified as to the time and place of all committee meetings. Any Retirement Board member may attend any committee meeting, but only committee members may vote on committee matters.
5. Appointments to committees shall be for four-year terms unless otherwise noted. Initial appointments for less than four years may be reappointed to one full, four-year term.
6. A quorum of each committee and the number of affirmative votes needed for a motion to carry shall be a majority of the designated size of the committee.
7. Board committees shall elect their own chair and vice chair unless otherwise indicated by Board policy.
8. The Executive Director shall serve as secretary and an ex-officio non-voting member of Board committees or shall delegate another member of the staff to serve in this capacity.
9. Committees shall report to the Board following each of their meetings.

Authority: Act 427 of 1973

Adopted: June 12, 2002

Amended:

POLICY TYPE: Governance Process

POLICY TITLE: Investment Committee Charter

1. There shall be an Investment Committee composed of six members of the Board. The Chair of the Board will appoint four members. The Chair and Vice-Chair of the Board shall serve as ex-officio voting members of the Committee.
2. The Committee shall meet on call by the Chair and/or the Executive Director, but not less than on a quarterly basis.
3. The purposes of the Committee shall be:
 - a. To consider investment policies and procedures for recommendation to the Board for adoption.
 - b. To consider asset allocations for recommendation to the Board for adoption.
 - c. To consider all investment proposals for approval or rejection, unless they are assigned to other committees by the Board.
 - d. To monitor all phases of the investment program, including ~~the Real Estate Committee~~ and the Real Estate Screening Committee, and recommend any changes that need to be made to the full Board.

Authority: Act 427 of 1973

Adopted: June 12, 2002

Amended:

POLICY TYPE: Governance Process

POLICY TITLE: Legislative Committee Charter

1. There shall be a *Legislative Committee composed of five members of the Board* appointed by the Board Chair. The Board Chair may serve as a voting member of the committee.
2. The Committee shall meet twice monthly, or more often if needed, during the three-month pre-legislative fall season and during the General Assembly sessions. At other times, the Committee will meet on call by either the Committee Chair or the Executive Director.
3. The committee shall recommend to the Board for approval a spokesperson to present and support the Board's defined and adopted positions on legislative issues.
4. The purposes of the *Legislative Committee shall be:*
 - a. To preview legislative proposals that will impact the Retirement System and its members.
 - b. To suggest and develop legislative proposals for the benefit of the Retirement System and its members.
 - c. To make recommendations to the Board for initiating or supporting legislative proposals or for opposing proposed legislation.
 - d. To review and monitor enacted legislation relating to the Retirement System and its members. It shall be the ongoing responsibility of the Legislative Committee:
 - i. To see that such legislation is properly incorporated into Retirement System policies and procedures, and
 - ii. To monitor the effect of such legislation as it relates to current and future retirees.
 - e. To monitor meetings of the Legislative Council and the Committee on Social Security and Retirement.

Authority: Act 427 of 1973

Adopted: June 12, 2002

Amended:

POLICY TYPE: Governance Process

POLICY TITLE: Policies Committee Charter

1. There shall be a Policies Committee composed of five members of the Board. The Board Chair will appoint four trustees to the Committee and will serve as an ex-officio voting member of the Committee.
2. The Committee shall meet bi-monthly, or on call by either the Chair or the Executive Director.
3. The primary purpose of the Policies Committee is to receive and consider proposals for the adoption of new policy, except investment policy which is to be considered by the Investment Committee, and the revision or deletion of existing policy. The Committee is responsible for recommending the adoption or rejection of any such policy proposals to the Board.
4. Recommendations or suggestions for initiating or changing Board policy must be submitted in writing to the Board Chair, the Chair of the Policies Committee and the Executive Director seven days prior to the next meeting of the Policies Committee.

Authority: Act 427 of 1973

Adopted: June 12, 2002

Amended:

POLICY TYPE: Governance Process

~~POLICY TITLE: Real Estate Committee Charter~~

- ~~1. There shall be a Real Estate Committee composed of five members including three members selected from the business community, the Arkansas Banking Commissioner, and the ATRS Real Estate Investment Manager.~~
 - ~~a. The Board shall select six business community members from a list compiled by the Executive Director and the Board. The business community members shall be appointed for one year terms and may be reappointed. Three members will be selected by the Committee Chair to serve at a particular meeting.~~
 - ~~i. The six members from the business community shall be knowledgeable about real estate matters. A person will be deemed to be "knowledgeable with respect to real estate matters" if that person is a present or former lending officer for a federally insured financial institution, or is a licensed Arkansas real estate broker with five years or more experience as such, or is an Arkansas licensed real estate appraiser (state certified general appraiser or MAI designation).~~
 - ~~b. The Real Estate Investment Manager will be employed by the Board to review, monitor and advise on all aspects of the real estate portfolio including management contracts. This will include advice on assets and loans currently in the portfolio as well as future loans and acquisitions. The Real Estate Investment Manager shall have a minimum of ten years experience as a commercial real estate broker, property developer, appraiser, counselor, lender or a combination thereof. CHANGE TO "EXEC DIRECTOR SUBJECT TO BOARD APPROVAL" AND "CONSULTANT" AND MOVE, IN PART TO PAGE 8 OF INVESTMENT POLICY; IN PART TO PROCEDURE.~~
- ~~2. No member of the Committee may do business with ATRS while serving on the committee or for a period of three years thereafter.~~
- ~~3. The Real Estate Investment Manager shall serve as Chair of the Committee.~~
- ~~4. The Committee shall operate under guidelines and procedures approved by the Board.~~
- ~~5. The purpose of the Committee shall be to consider and approve or disapprove all real estate investments submitted by the Real Estate Screening Committee. ATRS Legal Counsel must review all such proposals prior to final approval by the Committee. COVERED BY INVESTMENT COMMITTEE LANGUAGE.~~
- ~~6. The Committee shall have the authority to renew loans that have matured and performed according to loan documents. This shall include, but not be limited to raising and lowering interest rates, substituting or requiring more collateral and~~

~~making adjustments in life insurance premiums.~~ COVERED BY INVESTMENT COMMITTEE LANGUAGE – RENEWAL REQUIRES RE-APPLICATION .
COULD BE ADOPTED AS PROCEDURE OF INVESTMENT COMMITTEE.

~~7. Total real estate investments shall not exceed the system's approved asset allocation as determined by the Board at the beginning of each fiscal year. Should the real estate allocation be exceeded, no additional real estate investments shall be entered into until the asset allocation exceeds the total real estate investments. MOVE TO PAGE 8 OF INVESTMENT POLICY.~~

~~8. Minutes of each meeting will be maintained and reports of all actions taken by the Committee will be presented at the following Investment Committee meeting and Board meeting for final approval.~~

Authority: Act 427 of 1973
Adopted: June 12, 2002
Amended:
Repealed:

POLICY TYPE: Governance Process

POLICY TITLE: Real Estate Screening Committee Charter

1. There shall be a Real Estate Screening Committee composed of four members— including the Investment Committee Chair, one other Board member appointed by the Board Chair, the Retirement Fund Investment Supervisor, and the ~~Associate Director—Investments.~~ Deputy Director – Finance.
2. The Investments Supervisor shall serve as Chair.
3. The primary purpose of the Committee shall be to consider all real estate loans and acquisition proposals for preliminary approval. Proposals approved by the Committee will be submitted for “due diligence” study by underwriters ~~selected by the Real Estate Committee.~~

Authority: Act 427 of 1973

Adopted: June 12, 2002

Amended: