

Minutes

Arkansas Teacher Retirement System
Board of Trustees

October 7, 2003

The Board of Trustees of the Arkansas Teacher Retirement System met in regular session on Tuesday, October 7, 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
John Fortenberry, Vice Chair
Robert H. "Bunny" Adcock
Monty Betts
Winfred Clardy
Hazel Coleman
Charles Dyer
Dr. Paul Fair
Ann Harbison
Betty McGuire
Robin Nichols
Ellen Terry

Guests Present:

Lloyd W. Black, ARTA
Tom Gay, Office of the Attorney General
Bobby Lester, ARTA
Jim McGuire, Trustee spouse
Evelyn Nelsen, Retired Teacher

Press Present:

Mike Wickline, Arkansas Democrat Gazette

Members of the Board Absent:

Ann Harbison, arrived late (10:20 a.m.)
Raymond Simon
Gus Wingfield
Jim Wood

Members of the Staff Present:

David R. Malone, Executive Director
Julie M. Cabe, Deputy Director
Debbie White, MPA
Gail Blair
Dena Dixson
Wayne Greathouse
Donna Hobbs
Michael Ray
Hugh Roberts
Bernice Smith

I. Roll Call

Debbie White of the Teacher Retirement System recorded the minutes of the meeting.

II. Adoption of Agenda

Robin Nichols made a motion to approve the Agenda. Betty McGuire seconded the motion, which was approved.

III. Public Comments on Agenda Items

No comments were stated.

IV. Investment Committee Report

A. Investment Policy Amendments

Mr. Dyer made a motion to approved Resolution 2003-14, Investment Policy Amendments (*attachment 1 of these Minutes*). Ellen Terry seconded the motion, which was approved.

B. State Street Global

Mr. Dyer made the motion to approved Resolution No. 2003-15, State Street Global- Market Index Fund Guidelines (*attachment 2 of these Minutes*). Ellen Terry seconded the motion, which was approved.

C. Arkansas Related Investments-Loans

Mr. Fortenberry made a motion to adopt Resolution No. 2003-16 as amended on Item IX of the Criteria/Procedures to read, "The debt to equity ratio must *not* exceed 4 to 1." (*attachment 3 of these Minutes*). Ann Harbison seconded the motion, which was approved.

D. The Executive Director presented a Site Conceptual Plan for the Chenal property that was introduced at the September 15, 2003 Investment Committee Meeting. (*attachment 4 of these Minutes*). No action was needed.

V. Policies Committee Report

A. QDRO Policy Revision & Forms

Dr. Fair made the motion to approve Resolution No. 2003-17 (*attachment 5 of these Minutes*). Mr. Fortenberry seconded the motion, which was approved.

B. Committee Charter Amendments

Julie Cabe, Deputy Director presented the proposed changes to Committee Charters as approved by the Policies Committee. She noted that the charter amendments for both the Investment Committee and Policies committee had been reviewed. Mr. Dyer made a motion to approve Resolution No. 2003-18, with amended language being added on the Investment Committee Charter, item 2 to read, "The Committee shall meet on call by the *Committee* Chair and/or the Executive Director, but not less than on a quarterly basis". (*attachment 6 of these Minutes*). Dr. Fair seconded the motion, which was approved.

VI. National Legal Counsel Recommendation

The Executive Director presented Resolution No. 2003-19, Securities Litigation Legal Representation, for approval (*attachment 7 of these Minutes*). The Resolution authorizes the Executive Director to contract with Bernstein Litowitz Berger and Grossmann, LLP for legal services. Mr. Fortenberry made a motion to adopt the Resolution. Second to the motion was by Betty McGuire. The motion passed.

VII. Staff Reports

Donna Hobbs presented the September Personnel Report. The Medical Board Report for September 10, 2003, was presented by Michael Ray and was approved unanimously after a motion made by Robin Nichols, seconded by Ellen Terry.

Bernice Smith advised that fiscal year books had not closed due to the complex nature of collecting coinciding data. The Executive Director briefed the Board on the process and staff necessary to complete the closing. Ms. Smith advised that the closing was nearing completion and the Board would be receiving the information at the next meeting.

Brief reports were given by Wayne Greathouse, for the Investment Department and Dena Dixson, for the Membership & Payroll Department.

VIII. Membership Software Development Report

Gail Blair gave a progress report on the membership software development program. She advised that the design phase is approximately 95% complete and the new system could be in operation as early as July 1, 2004, even though the contract completion date is not until July 1, 2005. A brief question, answer and suggestion period followed.

IX. Old Business

Dr. Fair made a motion that an Ad-Hoc Committee be appointed to look into the possibility of converting the death benefit into a non-taxable status. After a brief discussion, the motion was withdrawn. The Executive Director advised that the staff needed time to explore all areas that would be impacted by such a change. Dr. Fair then made a motion that the Executive Director and staff be authorized to gather information and prepare possible alternatives for Board review. Ann Harbison seconded the motion, which was unanimously approved.

Dr. Fair advised that he had written a letter requesting a status report from the Prosecuting Attorney's office regarding the investigation on the purchase of a parking lot made during past ATRS Administration in April 2002.

Betty McGuire suggested that more time may be needed for EnnisKnupp's consulting reports. She suggested that additional time could possibly be added during the December meeting and she encouraged all Trustees to attend Investment Committee Meetings. The Executive Director and Mr. Fortenberry advised that the October 20, 2003 Investment Committee meeting would not be necessary.

X. Executive Director Comment

No additional comments were given.

XI. Adjournment


With no further business to be heard, the meeting was adjourned without objection.



Debbie White, Project Analyst



David R. Malone, Executive Director



Linda Parsons, Chair

Date of Approval: 12-9-03

REVISION OF ATRS INVESTMENT POLICY

On August 18, 2003, the Investment Committee approved amendments to the ATRS Investment Policy (attached here).

In compliance with the Administrative Procedures Act, public notice that the Board would consider adoption of rules and regulations in the form of certain amendments to the Investment Policy was given by publication in a newspaper of general circulation, on the Secretary of State's website, and on the ATRS website beginning August 28, 2003. Interested persons were invited to submit their view. No public comments were received.

The following resolutions are offered for the Board's consideration:

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

RESOLUTION

No. 2003-14

Revision of ATRS Investment Policy

BE IT RESOLVED that the Board of Trustees of the Arkansas Teacher Retirement system adopts the amended ATRS Investment Policy as presented on pages 15-28 of the agenda binder to be effective October 20, 2003;

FURTHER RESOLVED that the Executive Director of ATRS or his designees authorized to promulgate and implement the amendments to the Investment Policy;

FURTHER RESOLVED that in promulgating these amendments, the Executive Director of ATRS or his designee is authorized to make technical corrections when necessary

Adopted this 7th day of October, 2003

Linda Parsons

LINDA PARSONS, *Chair*
Arkansas Teacher Retirement System

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:

<u>Asset Category</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
<u>Domestic Equity</u>	<u>35.0%</u>	<u>40.0%</u>	<u>45.0%</u>
<u>International Equity</u>	<u>15.0%</u>	<u>17.5%</u>	<u>20.0%</u>
<u>Domestic Fixed Income</u>	<u>20.0%</u>	<u>25.0%</u>	<u>30.0%</u>
<u>Alternatives¹</u>	<u>4.0%</u>	<u>6.0%</u>	<u>8.0%</u>
<u>Real Estate</u>	<u>3.0%</u>	<u>5.0%</u>	<u>7.0%</u>
<u>Timberland</u>	<u>0.0%</u>	<u>1.5%</u>	<u>3.0%</u>
<u>Arkansas-related Investments²</u>	<u>3.0%</u>	<u>5.0%</u>	<u>7.0%</u>
<u>Cash Equivalents</u>	<u>0.0%</u>	<u>0.0%</u>	<u>3.0%</u>

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.

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.

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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:

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

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)

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
<u>Active Component</u>	<u>50%</u>	<u>70%</u>	<u>90%</u>
<u>Passive Component</u>	<u>10%</u>	<u>30%</u>	<u>50%</u>

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)

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
<u>Active Component</u>	<u>85%</u>	<u>90%</u>	<u>95%</u>
<u>Passive Component</u>	<u>5%</u>	<u>10%</u>	<u>15%</u>

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.

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.

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).

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.

The goal of Arkansas-related investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Lehman Mortgage Index as measured over a full market cycle (approximately five years).

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 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 or removal 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.

**INVESTMENT GUIDELINES FOR
STATE STREET BANK AND TRUST COMPANY
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.

The manager will invest ATRS assets in the U.S. Total Market Index Securities Lending Fund. Being a commingled fund, this investment is governed by the amendment and fund declaration as set forth in the investment management agreement. The manager will notify ATRS if the commingled fund's investment guidelines are modified to ensure they do not violate the ATRS statement of investment policy and/or investment manager guidelines.

STRATEGY

Approximate the return of the U.S. equity market as represented by the Wilshire 5000 Index.

BENCHMARK

The portfolio will be benchmarked to the Wilshire 5000 Index.

RISK CONTROL

- Prohibitions or Limitations
 - Securities eligible for investment within the commingled fund include, US dollar denominated, publicly traded, exchange listed (including domestic over the counter markets) equities and ADRs, as well as cash, cash equivalents, commingled funds and other pooled instruments.
 - The use of leverage and short selling of stocks is prohibited. Futures and other derivatives instruments may be used to provide market exposure give it does not create a net leveraged position at the aggregate portfolio level.

- Requirements
 - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 1% of assets or less.

PERFORMANCE EXPECTATION

The performance expectation of the Fund shall be to approximate the return of the Wilshire 5000 Index over reasonable measurement periods.

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.

FEE SCHEDULE

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

2 Basis points (.02%) on the first	\$ 500 million
1 Basis points (.01%) on the next	\$ 500 million
0.75 Basis points (.0075%) on assets above	\$1,000 million

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

RESOLUTION
No. 2003-15

State Street –U.S. Total Market Index Securities Lending Fund Guidelines

BE IT RESOLVED that the Arkansas Teacher Retirement System desires to establish Investment Guidelines for State Street Global Advisors U.S. Total Market Index Securities Lending Fund. 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 become 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 Global Advisors U.S. Total Market Index Securities Lending Fund.

Adopted this 7th day of October, 2003

Linda Parsons

LINDA PARSONS, *Chair*
Arkansas Teacher Retirement System

CRITERIA/PROCEDURES FOR ARKANSAS RELATED INVESTMENTS - LOANS

On September 15, 2003, the Investment Committee approved Criteria/Procedures for loans by ATRS pursuant to the Arkansas Related Investment Program (attached here). Criteria/procedures for the sale of real estate interests and the purchase of real property in connection with the Arkansas Related Investment Program are currently being developed, although there is currently a moratorium on the purchase of real property. Staff recommends that promulgation under the Administration Procedures Act be delayed until the sale and purchase criteria/procedures are adopted.

The attached resolution is offered for the Board's consideration:

ARKANSAS RELATED INVESTMENT PROGRAM

CRITERIA/PROCEDURES

The Arkansas Related Investment Program was established by Act 412 of 1985 (A.C.A. §24-2-608). The purpose of the Act is to favorably impact the economic condition of and maximize capital investment in the State of Arkansas when appropriate investment alternatives are available. Such investments are subject to the Prudent Investor Rule.

I. LOANS

A. LOAN APPLICATIONS - CRITERIA

The following criteria will be used by the Arkansas Teacher Retirement System to screen loan applications. Loan applications must conform to these criteria before they will be submitted to the Staff Review Committee. It should be understood that these criteria are minimum requirements and meeting them will not insure approval by the Staff Review Committee.

Loan applications will be considered only for projects located in the State of Arkansas.

I. Minimum Debt Ratio on Loans

<u>TYPE</u>	<u>RATIO</u>
A. Apartments	1.2
B. Hotel/Motel	1.4
C. Manufacturing/Retail	1.2
D. Medical/Health	1.2
E. Office Building/Retail	1.2
F. ADFA/Special Purpose Private Placements	1.2

II. Loan Size

Loans will be considered within a range from \$1,000,000.00 to \$50,000,000.00.

III. Terms

The terms of the loans will be 5 years, with an amortization of

15-years to 20-years. In no case can amortization exceed the economic life of the assets. A 7-year call will be considered for variable rate requests.

IV. Interest Rate

The interest rate will be determined by market conditions and the merits of the project. The Staff Review Committee will establish an initial interest rate for the purposes of underwriting. The rate shall be no lower than seven and one-quarter percent (7.25%). Fixed rate requests will be 250 basis points over the 5-year U.S. Treasury Note.

Variable rate requests will be 225 basis points over the 5-year Treasury Note for 5-year calls, and 250 basis points over the 5-year U.S. Treasury for 7-year calls. The rate will be adjusted to maintain the original basis point spread every 12 months, from inception to call. Adjustments made from inception to call will not exceed 300 basis points, or the Arkansas usury maximum.

V. Prepayment Penalty

No additional payments may be made on the principal of the note, except that the maker, on any interest payment date, may prepay, in whole but not in part, the entire principal owed with accrued interest, plus prepayment fees in the manner as follows:

- A. Seven-year calls: Five percent (5%) of the unpaid balance if prepaid during the first year.
Five year call: Four percent (4%) of the unpaid balance if prepaid during the first year.**
- B. Seven year call: Four percent (4%) of the unpaid balance if prepaid during the second year.
Five year call: Three percent (3%) of the unpaid balance if prepaid during the second year.**
- C. Seven year call: Three percent (3%) of the unpaid balance if prepaid during the third year.
Five year call: Two percent (2%) of the unpaid balance if prepaid during the third year.**
- D. Seven year call: Two percent (2%) of the unpaid balance if prepaid during the fourth year.
Five year call: One percent (1%) of the unpaid balance if prepaid during the fourth year.**
- E. No prepayment fee if prepaid after the fourth year.**

VI. Fees

The loan applicant will be responsible for any fees incurred in obtaining a loan from the Arkansas Teacher Retirement System. These fees may include but are not necessarily limited to:

- A. A check made payable to the underwriter of ATRS' choice in the amount of not less than \$2,000.00.**
- B. Charges for any additional appraisals or reviews deemed necessary by ATRS.**
- C. All fees charged by the system's legal counsel pertaining to the loan document preparation and related to preparation for, and actual closing of, the loan.**
- D. Good Faith fee of 1% of the loan amount that will be due at the time of commitment and refunded at the time of loan closing.**

All loans will be closed by an Abstract Company of ATRS' choice or at ATRS' counsel's office.

VII. Net worth

The combined net worth of the Borrowers must exceed the loan amount. If additional money is withdrawn to pay other debts then the Borrower's net worth must exceed the loan amount by 200%.

VIII. Loan To Value

The loan to value ratio must not exceed 80%. The net income should exceed debt service at the time of funding. If additional monies are withdrawn, then the loan to value must not exceed 65%. The occupancy rate should be in the 85% to 90% range. Funding is to pay off debt only.

IX. Debt To Equity

The debt to equity ratio must exceed 4 to 1.

X. Appraisal

All loan applications must contain an appraisal performed by a State certified appraiser approved by the ATRS. The appraiser must also have an appropriate certification from a recognized appraisal organization. The applicant is responsible for verifying ATRS approval of the appraiser with the ATRS Real Estate Consultant.

XI. Assumption

The Investment Committee will consider a one-time assumption with a 2% fee. All expenses are to be paid by the assuming party. The assumption must meet all requirements of a new loan.

XII. Required Collateral

Any combination, or all of the following, may be required by ATRS before consideration of a loan request.

- A. A first mortgage on all property involved in the project.**
- B. Lease and rent assignments.**
- C. Life insurance to key individuals. Insured amounts must be equal to two (2) years of loan payments.**
- D. If deemed necessary, disability insurance on certain professionals.**
- E. Personal guarantees of the individuals, general partners of partnerships, corporate officers, and major shareholders of corporations.**
- F. Certificate of Deposit.**
- G. Letter of Credit.**

XIII. The following documents are required for a complete loan application.

- A. A current appraisal - by a certified, ATRS-approved appraiser.**
- B. An environmental clearance report on hazardous or toxic materials on the site.**
- C. Alta mortgage title insurance and boundary survey.**
- D. Term sheet, which reflects loan amount, terms of amortization, project summary, and any other relevant information.**
- E. A copy of all leases.**
- F. A current rent roll.**
- G. Two to five years of operating statements (balance sheet and income statement prepared by a CPA).**
- H. Color photographs of the property, both interior and exterior.**
- I. Current, signed, personal financial statements of all borrowers must not be over six months old and must be prepared by an accounting firm.**
- J. Resumes and bank references on all borrowers.**
- K. Financial projections of the project.**

- L. Franchise agreement (if franchised).
- K. History

XIV. **Exceptions**

The Investment Committee on an individual basis must approve exceptions to the Staff Review Committee procedures.

- XV. If the loan request involves both a loan and an equity venture or purchase and passes the Staff Review Committee, the following will be required before the loan can be presented to the Investment Committee. It is the applicant's responsibility to contact the Real Estate Consultant and discuss the following requirements after the request has been through the Staff Review Committee.

- A. An Engineering report is to be completed and reviewed by the Real Estate Consultant.
- B. An Environmental study, at a level to be determined by the Real Estate Consultant, is to be completed and reviewed by the Real Estate Consultant.

BORROWERS SHOULD BE AWARE THAT ATRS IS A STATE AGENCY AND IS GOVERNED BY THE FREEDOM OF INFORMATION ACT. BORROWERS' RECORDS CAN BE MADE PUBLIC UPON A PROPER REQUEST SENT TO THE AGENCY.

B. LOAN APPLICATIONS - STAFF REVIEW COMMITTEE/INVESTMENT COMMITTEE PROCEDURES

The initial loan request package will be prepared and presented to the Arkansas Teacher Retirement System based on criteria for the Arkansas Related Investments Program provided to the broker, as set forth in I.A. Loan Applications - Criteria.

The package will be submitted to the Retirement Fund Investment Supervisor for initial screening. The Supervisor will critique the package to see that it meets the criteria set forth by ATRS. This critique will be performed strictly for the purpose of notating any policy violations or obvious weaknesses. The package will then be presented for consideration to the Staff Review Committee consisting of the ATRS Director, Retirement Funds Investment Supervisor, and the Deputy Director of Finance. The package will be

screened for very basic requirements, such as Arkansas location or ownership, net worth, loan to value and debt service. The Staff Review Committee will also determine the interest rate.

If the Staff Review Committee approves the package to be underwritten, the broker will be notified. At that time, the borrower is required to send a check for \$2,000.00 to ATRS. The package and check will be delivered to an ATRS approved underwriter with no interest in the loan request package by ATRS for review and recommendation. The underwriter will perform the necessary due diligence to ensure that all information provided to the System is accurate. This will include, but not be limited to, appraisals, environmental reports, engineering reports if required, additional financial statements, tax returns, etc.

If the loan request package receives a positive recommendation from the underwriter, the broker will be notified and the package will be scheduled for presentation at the next scheduled Investment Committee meeting. (See I.A.XV for additional requirements if the loan request involves both a loan and an equity venture or purchase). An executive summary of all material that has been acquired will be mailed to the members of the Committee and all underlying material will be available for inspection by Committee members.

The ATRS staff and the underwriter will present the investment, along with a recommendation, to the Investment Committee and, if necessary, to the Board of Trustees.

A loan in the amount of \$5 million or less must receive the approval of the Investment Committee only; a loan in an amount over \$5 million must receive approval from the ATRS Board of Trustees following a recommendation by the Investment Committee.

Following appropriate approval of a loan, a Commitment Letter will be sent to the borrower outlining all the provisions of the loan agreement. If the borrower agrees to the provisions of the Commitment Letter, the Letter will be signed and returned to ATRS with a check for 1% of the loan amount which will be held in escrow by ATRS' contracted attorneys until closing. Once the loan is closed, this 1% will be refunded to the borrower.

The Retirement Fund Investment Supervisor will work with ATRS' contracted attorneys to complete the due diligence and documents necessary to close the transaction. Closing of the transaction will be handled by ATRS' contracted attorneys.

II. PURCHASE OF REAL PROPERTY

Currently under moratorium.

Criteria and procedures will be developed.

III. SALE OF REAL ESTATE INTERESTS

Criteria and procedures are being developed.

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

RESOLUTION
No. 2003-16

Criteria/Procedures for Arkansas Related Investments-Loans

BE IT RESOLVED that the Board of Trustees of the Arkansas Teacher Retirement system preliminarily approves the Criteria/Procedures for the Arkansas Related Investment Program – Loans as presented on pages 34-40 of the October 2003 Agenda Binder;

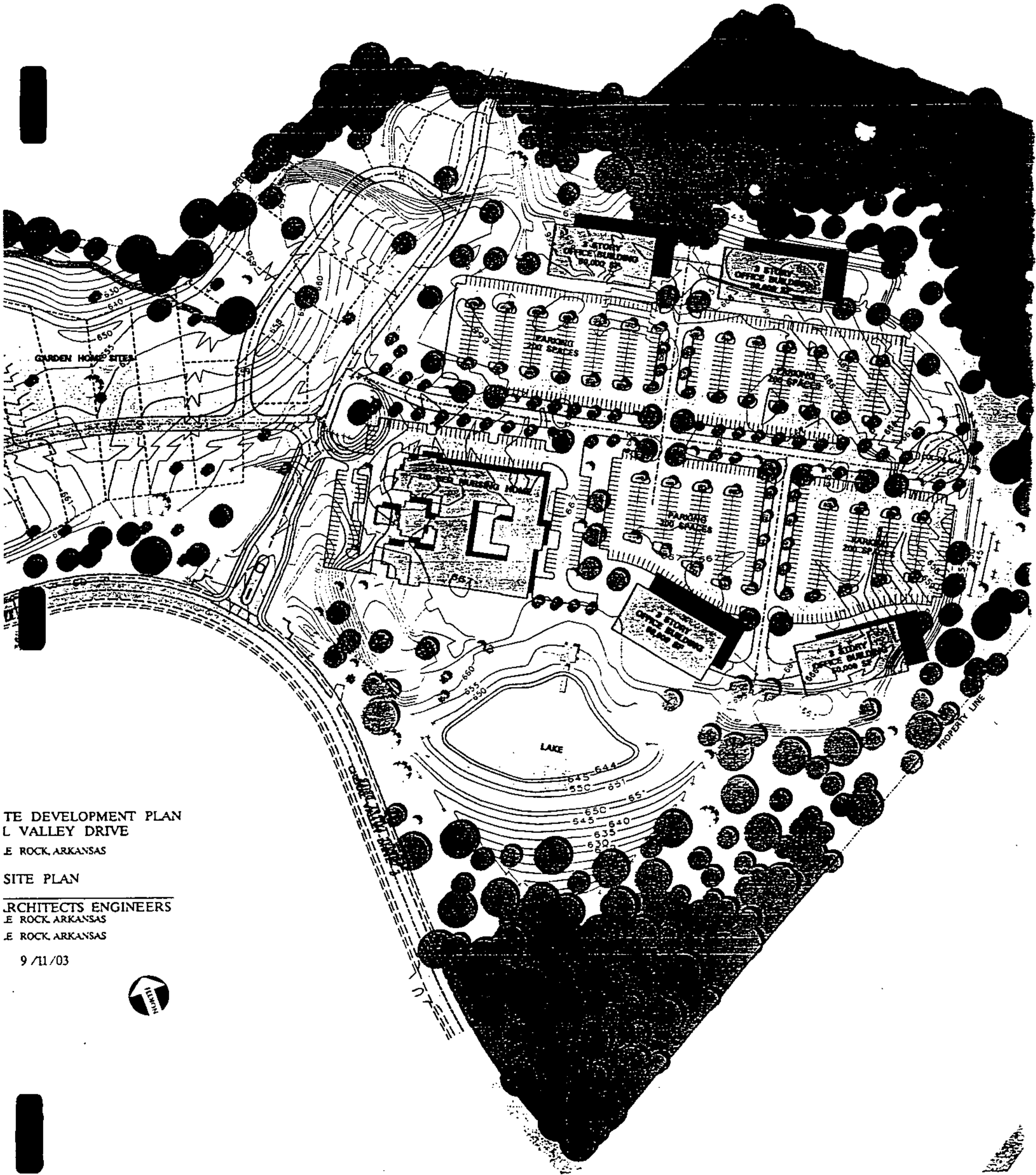
FURTHER RESOLVED that final approval and promulgation under the Administrative Procedures Act will be postponed until criteria/procedures have been developed for the purchase of real property and the sale of real estate interests;

FURTHER RESOLVED that the Executive Director of ATRS or his designee is authorized to make technical corrections to the criteria/procedures when necessary.

Adopted this 7th day of October, 2003

Linda Parsons

LINDA PARSONS, *Chair*
Arkansas Teacher Retirement System



SITE DEVELOPMENT PLAN
 L VALLEY DRIVE
 E ROCK, ARKANSAS

SITE PLAN

ARCHITECTS ENGINEERS
 E ROCK, ARKANSAS
 E ROCK, ARKANSAS

9 /11 /03



**REVISION OF ATRS POLICIES AND FORMS - QUALIFIED DOMESTIC
RELATIONS ORDERS**

On September 15, 2003, the Policies Committee approved amendments to the ATRS policies and forms dealing with Qualified Domestic Relations Orders (attached here)

These amendments clarify that if the participating member rescinds retirement, the monthly benefit for the member and alternate payee will cease, and that benefits for the member and alternate payee will resume when the member subsequently retires or ceases employment in a covered position, or receives a refund of contributions.

In compliance with the Administrative Procedures Act, public notice that the Board would consider adoption of rules and regulations in the form of certain amendments to these policies and forms was given by publication in a newspaper of general circulation, on the Secretary of State's website, and on the ATRS website beginning August 28, 2003. Interested persons were invited to submit their view. No public comments were been received.

The attached resolution is offered for the Board's consideration:

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

RESOLUTION
No. 2003-17

Revision of ATRS Policies and Forms for Qualified Domestic Relations Orders (QDRO)

BE IT RESOLVED that the Board of Trustees of the Arkansas Teacher Retirement system adopts the amended policies and forms dealing with Qualified Domestic Relations Orders as presented on pages 42-55 of the October 2003 Agenda Binder;

FURTHER RESOLVED that the Executive Director of ATRS or his designee is authorized to promulgate and implement the amended policies and forms;

FURTHER RESOLVED that in promulgating these amendments, the Executive Director of ATRS or his designee is authorized to make technical corrections when necessary.

Adopted this 7th day of October, 2003

Linda Parsons

LINDA PARSONS, *Chair*
Arkansas Teacher Retirement System

As approved by the Policies Committee 9-15-03
QUALIFIED DOMESTIC RELATIONS ORDERS
FOR ACTIVE MEMBERS
(Act 1143 of 1993; ACT 644 OF 1995)

DEFINITIONS

"Alternate payee" means a spouse, former spouse, child or other dependent of a participant under Arkansas law.

POLICIES (~~Amended by Act 644 of 1995~~)

1. The qualified domestic relations order of the chancery court is authorized to specify a designated percent of a fractional interest on any retirement benefit payment that may be paid to an alternate payee.
2. Qualified domestic relations orders issued by a chancery court of the State of Arkansas and which apply to a participant of the Teacher Retirement System (retirement plan) shall be accepted by the system, subject to the following restrictions:
 - (a) Benefits to the alternate payee shall begin when the participant retires, or ceases employment in a covered position and receives a refund of contributions.
 - (b) Pursuant to Act 1143 of 1993, a model qualified domestic relations order is added as Addendum A to these policies. Any qualified domestic relations order issued by a chancery court of Arkansas must comply with the content of and substantially follow the form set out in the addendum.
 - (c) When a qualified domestic relations order is received by the retirement plan,
 - (1) the plan administrator shall promptly notify the participant and the alternate payee of the receipt of such order, and
 - (2) within a reasonable time after receipt of the order, determine whether the order is a qualified domestic relations order as set out in Addendum A to these policies and notify the participant and the alternate payee of such determination.
 - (d) Qualified domestic relations orders received prior to a participant's retirement or cessation of employment will be handled as set out in ~~(d)~~ (c) above, but any amounts payable to the alternate payee will be held in the participant's account until due to be paid.
 - (e) Nothing contained in the qualified domestic relations order shall be construed to require the retirement plan to provide an alternate payee any type or form of

benefit or option not otherwise available to the participant; to provide the alternate payee actuarial benefits not available to the participant; or to pay any benefits to the alternate payee which are required to be paid to another alternate payee under a previous qualified domestic relations order.

(f) Should the alternate payee die prior to the receipt of benefits under the qualified domestic relations order, the entire amount due the alternate payee shall revert to the participant.

(g) Should the participant die prior to retirement, the alternate payee shall receive the same percentage of the participant's contributions, if any, as was awarded by the court in dividing the marital property. In no case shall the alternate payee receive monthly benefits from the retirement plan.

(h) Monthly benefits paid the alternate payee shall be computed on the benefit formula in effect at the time of the participant's retirement, but shall include only service credit earned by the participant during the marital relationship.

(i) The retirement plan shall have the right to make any necessary correction to the monthly benefit amount paid both to the participant and the alternate payee and to recover from either, or both, any overpayments made.

(j) If the alternate payee fails at any time to notify the retirement plan of any mailing address change, the retirement plan shall not be eligible for failure to make the payments as due.

(k) Should the retirement plan determine that the alternate payee's monthly benefits are less than \$20.00, the participant shall be paid the total benefit due and shall be responsible for paying the alternate payee the amount due.

(l) Qualified domestic relations order received by the retirement plan before the effective date of Act 1143 of 1993 may be honored but only if the participant or the alternate payee notifies the plan, and it is determined that the order is a qualified order as set out in Addendum A. (~~Board approved 2/10/98~~)

AUTHORITY: Act 1143 of 1993; Act 644 of 1995 (A.C.A. §§9-18-101 – 103)

ADOPTED: August 10, 1993

AMENDED: March 6, 1996; February 10, 1998; May 5, 1998

ADDENDUM A

**ACTIVE MEMBERS
OF THE
ARKANSAS TEACHER RETIREMENT SYSTEM**

MODEL QUALIFIED DOMESTIC RELATIONS ORDER

IN THE CHANCERY COURT OF _____ COUNTY,
ARKANSAS

PLAINTIFF

NO.

DEFENDANT

QUALIFIED DOMESTIC RELATIONS ORDER

(Introduction describing how the case came before the Court for disposition.) The Court finds and orders that this Qualified Domestic Relations Order, pursuant to Act 1143 of 1993 as amended, is an integral part of and is incorporated into the judgment, decree or order of this Court entered _____ (Date) which relates to the provisions therein for child support, alimony or martial property rights, including approval of a property settlement agreement, awarded to a spouse or former spouse, child or other dependent of _____ (Name of Party), a participant in _____ (Name of Plan), hereafter referred to as "the Plan."

I.

BACKGROUND INFORMATION

[MEMBER'S NAME AND SOCIAL SECURITY NUMBER] is the participating member whose last known address is [MEMBER'S ADDRESS]. The member's date of birth is [MEMBER'S DATE OF BIRTH]. [ALTERNATE PAYEE'S NAME AND SOCIAL SECURITY NUMBER] is the alternate payee whose last known address is [ALTERNATE PAYEE'S ADDRESS]. The alternate payee's date of birth is [ALTERNATE PAYEE'S DATE OF BIRTH]. The participating member and the alternate payee were married on [DATE OF MARRIAGE].

**II.
BENEFITS**

Benefits under the plan are distributed as follows: (Choose One)

1. The alternate payee is awarded [_____] % of the member's monthly retirement benefit as of [DATE OF DIVORCE].
[OR]
2. The alternate payee is awarded [\$_____] of [FRACTIONAL INTEREST] of the member's accrued annuity benefit as of [DATE OF DIVORCE].
[OR]
3. The alternate payee is awarded [\$_____] of the member's monthly retirement benefit as of [DATE OF DIVORCE].

**III.
TIME OF BENEFIT RECEIPT**

The plan shall begin benefit payments to the alternate payee upon the earlier event: (1) when the participating member retires, or (2) ceases employment in a covered position and requests a refund of contributions.

**IV.
DURATION OF PAYMENTS TO ALTERNATE PAYEE (Choose One)**

NOTE: Choose the appropriate optional language as applicable under the following alternatives:

- * Choose Option A if the benefits to the alternate payee are to be paid over the member's life under the single life annuity option with no surviving spouse annuity benefits upon the member's death.
- * Choose Option B if the benefits to the alternate payee are to be paid as an actuarial equivalent of the alternate payee's share of the benefits payable over the alternate payee's life.
 - A. Alternate payee shall receive a single life annuity that is equal to the alternate payee's share of the benefit payable throughout the life of the participating member.
 - B. Alternate payee shall receive an adjusted single life annuity that is equal to the actuarial equivalent of the alternate payee's share of the benefit payable throughout the life of the alternate payee. The alternate payee's monthly benefit may not exceed the amount that would be paid under the single life annuity.

V.

WITHDRAWAL FROM RETIREMENT SYSTEM (Choose One)

A. If the participating member discontinues covered employment and withdraws the member contributions in a lump sum, the alternate payee shall receive [_____] % of the member's account balance as of [DATE OF DIVORCE] accumulated with interest as required by the Plan.

[OR]

B. If the participating member discontinues covered employment and withdraws the member contributions in a lump sum, the alternate payee shall receive [_____] % of [FRACTIONAL INTEREST] of the member's accrued annuity benefit of [DATE OF DIVORCE] accumulated with interest as required by the Plan.

[OR]

C. If the participating member discontinues covered employment and withdraws the member contributions in a lump sum, the alternate payee shall receive [\$ _____] from the member's account balance accumulated with interest as required by the Plan.

VI.

LIMITATIONS OF THIS ORDER

A. If the alternate payee dies prior to the receipt of benefits under this Order, the entire amount that may be due to the alternate payee reverts to the participating member.

B. If the participating member dies prior to retirement, the alternate payee will receive [_____] % share of the member's contributions as of [DATE OF DIVORCE], or [_____] % of [FRACTIONAL INTEREST] of the member's accrued annuity benefit as of [DATE OF DIVORCE], or [\$ _____] of the member's accrued annuity benefits as of [DATE OF DIVORCE].

C. The benefit enhancements provided by the Arkansas legislature for service during the marital relationship which are adopted after the end of the marital relationship apply to the alternate payee's portion of benefits under this Order.

D. If the participant or alternate payee receives any distribution that should not have been paid per this Order, the party is designated a constructive trustee for the amount received and shall immediately notify the Arkansas Teacher Retirement System and comply with written instructions as to the distribution of the amount received.

E. Alternate payee is ORDERED to provide the Plan prompt written notification of any changes in alternate payee's mailing address. The Arkansas Teacher Retirement System shall not be liable for failing to make payments to alternate payee if the Arkansas Teacher

Retirement System does not have a current mailing address for alternate payee at time of payment.

F. If payments from the Plan to the alternate payee are determined to be less than \$20.00 a month, the Court orders the Plan to disburse the money to the participating member who shall pay same to the alternate payee.

G. Alternate payee shall furnish a certified copy of this Order to the Arkansas Teacher Retirement System.

H. The Court retains jurisdiction to amend this Order so that it will constitute a qualified domestic relations order under the Plan even though all other matters incident to this action or proceeding have been fully and finally adjudicated. If the Arkansas Teacher Retirement System determines at any time that changes in the law, the administration of the Plan, or any other circumstances make it impossible to calculate the portion of the distributions awarded to alternate payee by this Order and so notifies the parties, either or both parties shall immediately petition to the Court for reformation of the Order.

I. This Order shall not require Arkansas Teacher Retirement System to provide any type or form of benefit, or option not otherwise available to the participating member; nor shall it require the payment of any benefits to the alternate payee which are required to be paid to another alternate payee of another order previously determined to be a qualified domestic relations order. In no event shall the alternate payee have a greater right in the retirement benefits than those, which are available to the participating member. Any provision of this Order, which appears to be, otherwise shall be null and void and have no effect.

IT IS SO ORDERED THIS _____ DAY OF _____, 19__20__

CHANCELLOR

As approved by the Policies Committee 9-15-03)

**QUALIFIED DOMESTIC RELATIONS ORDERS
FOR RETIRED MEMBERS
(Act 1143 of 1993; Act 644 of 1995)**

DEFINITIONS

"Alternate payee" means a spouse, former spouse, child or other dependent of a participant under Arkansas law.

POLICIES (~~Amended by Act 644 of 1995~~)

1. The qualified domestic relations order of the chancery court is authorized to specify a designated percent of a fractional interest on any retirement benefit payment that may be paid to an alternate payee.
2. Qualified domestic relations orders issued by a chancery court of the State of Arkansas and which apply to a participant of the Teacher Retirement System (retirement plan) shall be accepted by the system, subject to the following restrictions:
 - (a) Pursuant to Act 1143 of 1993, a model qualified domestic relations order is added as Addendum A to these policies. Any qualified domestic relations order issued by a chancery court of Arkansas must comply with the content of and substantially follow the form set out in the addendum.
 - (b) When a qualified domestic relations order is received by the retirement plan,
 - (1) the plan administrator shall promptly notify the participant, and the alternate payee of the receipt of such order, and
 - (2) within a reasonable time after receipt of the order, determine whether the order is a qualified domestic relations order as set out in Addendum A to these policies and notify the participant and the alternate payee of such determination.
 - (c) Nothing contained in the qualified domestic relations order shall be construed to require the retirement plan to provide an alternate payee any type or form of benefit or option not otherwise available to the participant; to provide the alternate payee actuarial benefits not available to the participant; or to pay any benefits to the alternate payee which are required to be paid to another alternate payee under a previous qualified domestic relations order.

(d) Should the alternate payee die prior to the receipt of benefits under the qualified domestic relations order, the entire amount due the alternate payee shall revert to the participant.

(e) Should the participant die prior to retirement, the alternate payee shall receive the same percentage of the participant's contributions, if any, as was awarded by the court in dividing the marital property. In no case shall the alternate payee receive monthly benefits from the retirement plan.

(f) The retirement plan shall have the right to make any necessary correction to the monthly benefit amount paid both to the participant and the alternate payee and to recover from either, or both, any overpayments made.

(g) If the alternate payee fails at any time to notify the retirement plan of any mailing address change, the retirement plan shall not be liable for failure to make the payments as due.

(h) Should the retirement plan determine that the alternate payee's monthly benefits are less than \$20.00, the participant shall be paid the total benefit due and shall be responsible for paying the alternate payee the amount due.

(i) Qualified domestic relations order received by the retirement plan before the effective date of Act 1143 of 1993 may be honored but only if the participant or the alternate payee notifies the plan, and it is determined that the order is a qualified order as set out in Addendum A. ~~(Board approved 2/10/98)~~

(j) During any period while it is being determined if the order is a qualified domestic relations order, the plan administrator shall separately account for the amounts which would have been payable to the alternate payee during that time.

(k) ~~Should the participant rescind~~ If a participating member rescinds his or her retirement, the monthly benefit for both the member and the alternate payee shall cease. Benefits for the member and the alternate payee will shall resume when the member subsequently retires, or ceases employment in a covered position or receives a refund of contributions.

AUTHORITY: Act 1143 of 1993; Act 644 of 1995 (A.C.A. §§9-18-101 – 103)

ADOPTED: August 10, 1993

AMENDED: March 6, 1996; February 10, 1998; May 5, 1998

ADDENDUM A

**RETIRED MEMBERS
OF THE
ARKANSAS TEACHER RETIREMENT SYSTEM**

MODEL QUALIFIED DOMESTIC RELATIONS ORDER

IN THE CHANCERY COURT OF _____ COUNTY,
ARKANSAS

PLAINTIFF

_____ NO.

DEFENDANT

QUALIFIED DOMESTIC RELATIONS ORDER

(Introduction describing how the case came before the Court for disposition.) The Court finds and orders that this *Qualified Domestic Relations Order*, pursuant to Act 1143 of 1993 as amended, is an integral part of and is incorporated into the judgment, decree or order of this Court entered _____ (Date) which relates to the provisions therein for child support, alimony or marital property rights, including approval of a property settlement agreement, awarded to a spouse or former spouse, child or other dependent of _____ (Name of Party), a participant in _____ (Name of Plan), hereafter referred to as "the Plan."

I.

BACKGROUND INFORMATION

[MEMBER'S NAME AND SOCIAL SECURITY NUMBER] is the participating member whose last known address is [MEMBER'S ADDRESS]. The member's date of birth is [MEMBER'S DATE OF BIRTH]. [ALTERNATE PAYEE'S NAME AND SOCIAL SECURITY NUMBER] is the alternate payee whose last known address is [ALTERNATE PAYEE'S ADDRESS]. The alternate payee's date of birth is [ALTERNATE PAYEE'S DATE OF BIRTH]. The participating member and the alternate payee were married on [DATE OF MARRIAGE].

II.
BENEFITS

Benefits under the plan are distributed as follows: (Choose One)

1. The alternate payee is awarded [_____%] of the member's monthly retirement benefit as of [DATE OF DIVORCE].
[OR]
2. The alternate payee is awarded [\$_____] of [FRACTIONAL INTEREST] of the member's accrued annuity benefit as of [DATE OF DIVORCE].
[OR]
3. The alternate payee is awarded [\$_____] of the member's monthly retirement benefit as of [DATE OF DIVORCE].

III.
TIME OF BENEFIT RECEIPT

The plan shall begin benefit payments to the alternate payee upon the earlier event: (1) when the participating member retires, or (2) ceases employment in a covered position and requests a refund of contributions.

IV.
DURATION OF PAYMENTS TO ALTERNATE PAYEE (Choose One)

NOTE: Choose the appropriate optional language as applicable under the following alternatives:

- * Choose Option A if the benefits to the alternate payee are to be paid over the member's life under the single life annuity option with no surviving spouse annuity benefits upon the member's death.
- * Choose Option B if the benefits to the alternate payee are to be paid as an actuarial equivalent of the alternate payee's share of the benefits payable over the alternate payee's life.
 - A. Alternate payee shall receive a single life annuity that is equal to the alternate payee's share of the benefit payable throughout the life of the participating member.
 - B. Alternate payee shall receive an adjusted single life annuity that is equal to the actuarial equivalent of the alternate payee's share of the benefit payable throughout the life of the alternate payee. The alternate payee's monthly benefit may not exceed the amount that would be paid under the single life annuity.

V.
LIMITATIONS OF THIS ORDER

- A. If the alternate payee dies prior to the receipt of benefits under this Order, the entire amount that may be due to the alternate payee reverts to the participating member.
- B. The benefit enhancements provided by the Arkansas legislature for service during the marital relationship which are adopted after the end of the marital relationship apply to the alternate payee's portion of benefits under this Order.
- C. If the participant or alternate payee receives any distribution that should not have been paid per this Order, the party is designated a constructive trustee for the amount received and shall immediately notify the Arkansas Teacher Retirement System and comply with written instructions as to the distribution of the amount received.
- D. Alternate payee is ORDERED to provide the Plan prompt written notification of any changes in alternate payee's mailing address. The Arkansas Teacher Retirement System shall not be liable for failing to make payments to alternate payee if the Arkansas Teacher Retirement System does not have a current mailing address for alternate payee at time of payment.
- E. If payments from the Plan to the alternate payee are determined to be less than \$20.00 a month, the Court orders the Plan to disburse the money to the participating member who shall pay same to the alternate payee.
- F. Alternate payee shall furnish a certified copy of this Order to the Arkansas Teacher Retirement System.
- G. The Court retains jurisdiction to amend this Order so that it will constitute a qualified domestic relations order under the Plan even though all other matters incident to the action or proceeding have been fully and finally adjudicated. If the Arkansas Teacher Retirement System determines at any time that changes in the law, the administration of the Plan, or any other circumstances make it impossible to calculate the portion of the distributions awarded to alternate payee by this Order and so notifies the parties, either or both parties shall immediately petition to the Court for reformation of the Order.
- H. This Order shall not require Arkansas Teacher Retirement System to provide any type or form of benefit, or option not otherwise available to the participating member; nor shall it require the payment of any benefits to the alternate payee which are required to be paid to another alternate payee of another order previously determined to be a qualified domestic relations order. In no event shall the alternate payee have a greater right in the retirement benefits than those, which are available to the participating member. Any provision of this Order, which appears to be, otherwise shall be null and void and have no effect.

I. If the participating member shall rescind his or her retirement, the monthly benefit for the member and the alternate payee shall cease. Benefits for the member and the alternate payee shall resume when the member subsequently retires, or ceases employment in a covered position, or receives a refund of contributions.

IT IS SO ORDERED THIS _____ DAY OF _____, 19 20 _____

CHANCELLOR

REVISIONS OF ATRS COMMITTEE CHARTERS

On August 18, 2003, the Investment Committee approved certain amendments to the ATRS Committee Charters as reflected in this attachment. These amendments:

- (1) Abolished the Real Estate Committee and the Real Estate Screening Committee and removed references to them because their duties are being assumed by the Investment Committee and administrative staff;
- (2) Clarified that the Investment Committee will meet on call by the Committee Chair and/or the Executive Director;
- (3) Added provisions allowing the Vice Chair to serve as a voting member of the Legislative Committee and mandating that the Vice Chair will serve as an ex-officio voting member of the Policies Committee;
- (4) Clarified that proposals for the adoption of new investment policies are to be considered by the Investment Committee rather than the Policies Committee.

In compliance with the Administrative Procedures Act, public notice that the Board would consider adoption of rules and regulations in the form of certain amendments to the ATRS policies on Committee Charters was given by publication in a newspaper of general circulation, on the Secretary of State's website, and on the ATRS website beginning August 28, 2003. Interested persons were invited to submit their view. No public comments were received.

On September 15, 2003, the Policies Committee reviewed these amendments and concurred in them with the exception of those mentioned under (2) and (3) above. Members expressed concerns about issues such as consistency among committees, the number and terms of trustees serving on committees, rotation on committees, and the need for new trustees to be included on committees. The amended policies as approved by the Policies Committee are reflected in attachment 9, pages

64-70


The amended policies as approved by the Policies Committee (attachment 9 of this agenda binder, pages ⁶⁴⁻70) reflect only those amendments which have been agreed to by both the Investment Committee and the Policies Committee.

The following resolution is offered for the Board's consideration:



Arkansas
Teacher
Retirement
System

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: Board of Directors
FROM: David R. Malone 
Executive Director
DATE: October 2, 2003
RE: Securities Litigation Counsel

At the last meeting of the Board we identified ten firms that had responded to our request for qualifications for outside legal counsel for representation in the areas of securities litigation, class actions monitoring and advice, and asset recovery.

Acting on the authorization of the Board at the last meeting, interviews were scheduled with the three firms identified as finalists at the last meeting:

Entwistle & Cappucci LLP
Bernstein Litowitz Berger & Grossmann LLP
Cauley Geller Bowman & Rudman LLP

The interviews were conducted by Julie Cabe, David Malone, and a representative of the Office of the Attorney General, Mark Hagenmeier. In addition to our interviews with the firms, we had access to extensive responses to our Request for Qualifications as well as access to web sites, newsletters and other materials.

It is the unanimous recommendation of the interviewers that we recommend the firm of Bernstein Litowitz Berger & Grossmann LLP be retained to act as securities litigation counsel. Attached is their response to our RFQ.

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

RESOLUTION
No. 2003-19

Securities Litigation Legal Counsel

BE IT RESOLVED that the Board of Trustees of the Arkansas Teacher Retirement System hereby authorizes the Executive Director to enter into a contract with the firm of Bernstein Litowitz Berger and Grossmann LLP for representation in the areas of securities litigation, class actions monitoring and advice, and asset recovery.

Adopted this 7th day of October, 2003

Linda Parsons

LINDA PARSONS, *Chair*
Arkansas Teacher Retirement System