

**MINUTES
REGULAR MEETING
ARKANSAS TEACHER RETIRMENT SYSTEM
BOARD OF TRUSTEES**

**Tuesday, June 10, 2008
11:00 a.m.
Mountain Harbor Resort & Spa
Mt. Ida, AR**

ATTENDEES	
Board Members Present	ATRS Staff Present
Monty Betts	Gail Bolden, Chief Operations Officer
Hazel Coleman, Vice Chair	Christa Clark, Chief Legal Counsel
Dr. Paul Fair	Paul Doane, Chief Executive Officer
John Fortenberry	Wayne Greathouse, Director of Investments
Auditor Jim Wood by Designee Steve Kelly	Michael Ray, Director of Member Services
Beverly Leming	George Snyder, Director of Audit
Bobby Lester	Jane Toledo, Secretary
Robin Nichols, Chair	
Linda Parsons	Ennis Knupp
Janelle Riddle	Scott Brown
Ellen Terry	Joe Marzano
	Christian Reel
Guests	Gabriel Roeder Smith & Company
Helen Doane	Mita Drazilov
Maxine Fortenberry	
Bob Leming	Corbin
	Jim McPartland
	Tracey McHale Stuart

- I. **Call to Order.** Chair, Ms. Nichols, called the meeting of the Board of Trustees to order at 12:10 p.m.
- II. **Approval of Agenda.** A motion for adoption of the Agenda was made by Ms. Terry, seconded by Ms. Riddle, and unanimously approved by the Board of Trustees.
- III. **Approval of Minutes:** The April 7, 2008 Board of Trustees Meeting minutes were not attached and therefore not approved at this meeting.
- IV. **Proposed Change in Benchmark, Daruma Asset Management, to R2000 (Resolution No. 2008-32).** The Investment Committee has endorsed a proposed shift in benchmark for Daruma Asset Management from the Russell 2000 Value to the Russell 2000. Recently the Board shifted the portfolio away from style or cap size compartments and has decided this is an appropriate time to transition to the new index that better reflects the portfolio holdings.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-32 WAS MADE BY MS. PARSONS, SECONDED BY MS. COLEMAN, AND UNANIMOUSLY APPROVED BY THE BOARD.

- V. **Request for RFP for Global Opportunistic Equity Mandate(s) (Resolution No. 2008-33).** The recent shift by the Board from non-US managers to a focus on Global mandates resulted in a disproportionate amount of assets to certain managers. From a diversification standpoint and to avoid an excessive exposure to manager specific risk, staff, consultant and the Committee recommend the Board approve conducting an RFP process/search for at least two additional Global Opportunistic equity mandates.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-33 WAS MADE BY MS. LEMING, SECONDED BY MS. COLEMAN, AND UNANIMOUSLY APPROVED BY THE BOARD.

- VI. **Proposed Sale of Mineral Rights on VA Timberland (Resolution No. 2008-34).** RMK Timberland, timber manager for the System, is requesting to enter into a contract with an Australian mining company, Iluca, granting it the mineral rights and authority to extract known deposits of the minerals titanium, zircon, or other minerals located within some of the System's timber property in Virginia or other properties outside of VA.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-34 WAS MADE BY MS. RIDDLE, SECONDED BY MS. PARSONS.

After additional discussion, the motion was amended:

AN AMENDMENT TO THE MOTION FOR RESOLUTION NO. 2008-34 TO INSURE ALL SUBCONTRACT WORK BE SUBMITTED TO STAFF COUNSEL OR STAFF FOR REVIEW PRIOR TO PERFORMING THE WORK WAS MADE BY MS. RIDDLE, SECONDED BY MS. PARSONS. THE AMENDED MOTION WAS UNANIMOUSLY APPROVED BY THE BOARD.

- VII. **Proposed New Private Equity Investment, \$50 Million in Vista Partners (Resolution No. 2008-35).** Staff and consultant have had several meetings with principals of Vista Partners. The Vista team has had extensive hands on, direct involvement in the software industry prior to establishing the investment group. Vista's disciplined philosophy, exceptional knowledge, contacts and position it holds within the software industry, makes this a special opportunity for ATRS.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-35 WAS MADE BY MS. LEMING, SECONDED BY MS. COLEMAN, AND UNANIMOUSLY APPROVED BY THE BOARD.

- VIII. **Hiring of Ennis Knupp for General Investment Consultant Services (Resolution No. 2008-36)**. The Investment Committee conducted interviews with three finalists that emerged from the RFP process, followed by field visits by several members of the Committee accompanied by three members of the ATRS investment staff. After extensive deliberation, they decided to extend to **Ennis Knupp** to continue its contact for the next two-year period, October 2008-2010. The additional firms interviewed but not selected were Summit Strategies and Wilshire Associates.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-36 WAS MADE BY MS. COLEMAN, SECONDED BY MR. BETTS, AND UNANIMOUSLY APPROVED BY THE BOARD.

- IX. **Grant of Authority to Contract for AR Timber Property to RMK Timberland (Resolution No. 2008-37)**. The Investment Committee recently authorized RMK Timberland to bid up to \$35 million for AR timber parcels conditioned on final Board approval. The Committee proposes to extend this authority another six months, through the end of calendar year 2008. The purpose is to enable RMK to engage in bids on parcels it found to be prudent investments while keeping ATRS staff and chairs of the Committee and Board fully apprised of its actions. This authorization would allow RMK to bind the Board to investments only in Arkansas timber property. At the first appropriate opportunity, the ATRS Board would confirm any such action made via this standing authorization. The authorization will be subject to renewal after December 31, 2008. Resolution 2008-37 was for a bid up to \$35 million. Upon discussion by the Board, it was decided to raise this amount to \$40 million.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-37 WITH AN AMENDED AMOUNT OF \$40 MILLION WAS MADE BY MS. LEMING, SECONDED BY MS. COLEMAN, AND UNANIMOUSLY APPROVED BY THE BOARD.

- X. **Proposed New Real Estate Investment: Heitman European Property Partners Fund IV, \$50 (Resolution No. 2008-38)**. Heitman is an exclusively foreign, regionally focused opportunistic real estate investment. Ennis Knupp has recently completed significant due diligence in Eastern Europe the area in which this fund operates. If approved, this would be part of the opportunistic investment real estate allocation.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-38 WAS MADE BY MS. LEMING, SECONDED BY MS. TERRY, AND UNANIMOUSLY APPROVED BY THE BOARD.

- XI. **Proposed Follow Up on Real Estate Investment: ING Clarion Debt Opportunity Fund III (Resolution No. 2008-39)**. ATRS funded ING Clarion

Debt Opportunity Fund II slightly less than one year ago. The concentration of Fund III in collateralized commercial mortgage backed securities represents a singularly opportune time. Nearly all of the initial \$55 million investment in Fund II has been called and the opportunities in this arena justifies the faster than expected start up of this Fund III. Due to the recently committed \$55 million in Fund II, both Ennis Knupp and staff recommend a smaller but meaningful participation in Fund III.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-39 WAS MADE BY MS. LEMING, SECONDED BY MS. RIDDLE, AND UNANIMOUSLY APPROVED BY THE BOARD.

- XII. **Proposed New Real Estate Investment: New Boston Fund VII, \$10 million (Emerging Strategy Program) (Resolution No. 2008-40).** New Boston is a well established regionally focused, domestic real estate firm with an investment strategy involving mixed use, i.e. office, retail, industrial and some multi family properties, ranging from New England along the Atlantic seaboard, Washington DC area and the Southeast. This is New Boston's VII Fund and will be a value added type fund with low double digit return objectives. Ennis Knupp has done its due diligence with New Boston and finds it very appropriate for the emerging strategy program. Ennis Knupp, and ATRS staff, have met with the principals on more than one occasion and support the commitment of \$10 million.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-40 WAS MADE BY MS. LEMING, SECONDED BY MS. COLEMAN, AND UNANIMOUSLY APPROVED BY THE BOARD.

- XIII. **Hiring of Firm for Actuarial Services (Recommended from Audit Committee) (Resolution No. 2008-41).** ATRS staff, working with the state Office of Procurement, prepared and reviewed responses to an RFQ issued for actuarial services. The review of the RFQ's narrowed the finalists to three firms, the incumbent, Gabriel Roeder Smith & Company, along with Milliman and Kavanaugh MacDonald. ATRS staff conducted field due diligence visits to all candidates. The recently established Audit Committee of the Board held interviews with three finalists on June 2 and made a recommendation to retain the services of Gabriel Roeder Smith and Company.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-41 WAS MADE BY MR. LESTER, SECONDED BY MR. BETTS, AND UNANIMOUSLY APPROVED BY THE BOARD.

In keeping with the Investment Committee's Agenda, the **Hiring of a Chief Investment Officer** was discussed at this time. Currently the Executive Director position of ATRS serves as the Chief Executive Officer as well as the Chief Investment Officer. This is not the standard practice for public retirement systems across the country. Clearly, these positions require

different roles, responsibilities and experiences. In order to continue to move the ATRS portfolio forward, as the investments become more sophisticated, and as demands placed on the investment team grow, this position will become more critical to the effective operation of the System. It is becoming increasingly hard to fill the Executive Director position because of lack of segregation of these positions. In the future, when the Executive Director position is vacant, the System will be better served by seeking two individuals with different skill sets than by continuing to require one employee to have both.

A MOTION TO PURSUE THE POSSIBILITY OF ADDING A CHIEF INVESTMENT OFFICER WAS MADE BY MS. LEMING, SECONDED BY DR. FAIR, AND UNANIMOUSLY APPROVED BY THE BOARD.

- XIV. **Hiring of Real Estate Firm for Handling Direct Investments.** Currently, the System owns an eclectic group of realty and mortgages/notes on real estate largely within the State of Arkansas. These represent Direct Investment positions in the real estate portfolio. The Direct Investment properties require extensive staff time and monitoring without commensurate benefit. Hiring a professional real estate manager skilled in managing and packaging of various property types is a better course to redirect staff efforts. It is proposed that staff with consultant identify suitable firms to assume this property oversight and management role including, where appropriate, to consider liquidating such properties, individually or as a package, and to identify such firms for consideration by the Committee.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-42 WAS MADE BY MS. TERRY, SECONDED BY MS. RIDDLE, AND UNANIMOUSLY APPROVED BY THE BOARD.

- XV. **Plan for Compounding COLA and Adjustments to Member Base Amounts.** Chair, Ms. Nichols, asked to table this discussion until the August Board of Trustees meeting. This subject had been discussed during the previous day's meetings and no conclusion had been reached. During the interim period until August, the Board was asked to send their concerns to Ms. Nichols or Mr. Doane. Further study by Board, staff, and actuaries will continue.

- XVI. **Update on Hiring of Special Outside Counsel for Partnership Investments.** Christa Clark, Chief Counsel, reported that that a RFP had been issued for outside alternative investment counsel. The RFP process has been closed and ATRS staff will review the proposals. The Board will continue to be updated on this process.

- XVII. **ATRS Medical Board Approval of Report.** Michael Ray, Director of Member Services presented the Medical Board reports for April and May 2008 to the Board.

A MOTION FOR APPROVAL OF THE MEDICAL BOARD REPORTS WAS MADE BY MS. COLEMAN, SECONDED BY MS. TERRY, AND UNANIMOUSLY APPROVED BY THE BOARD.

XVIII. **Other Business.**

Exigent Circumstances. This resolution formalizes the verbal motion made in a prior Board meeting to grant authority to the Executive Director to temporarily modify investment manager guidelines, when appropriate and consistent with the current mandate of the manager. Any changes pursuant to this resolution shall be reported to the Investment Committee or Board at the next regularly scheduled meeting for ratification.

A MOTION FOR ADOPTION OF RESOLUTION NO. 2008-44 WAS MADE BY MS. LEMING, SECONDED BY MR. LESTER, AND UNANIMOUSLY APPROVED BY THE BOARD.

Fiduciary Insurance. Christa Clark, Chief Counsel, reported that based on the status of quotes coming in to her from the underwriters, she recommends this item be tabled until the August Board of Trustees meeting. At that time, adequate information should be available for a recommendation to the Board.

XIX. **Adjourn.**

A MOTION FOR ADJOURNMENT WAS MADE BY MR. LESTER, SECONDED BY MS. TERRY AND UNANIMOUSLY APPROVED BY THE BOARD. CHAIR, MS. NICHOLS ADJOURNED THE MEETING AT 12:35 P.M.

Gail Bolden, Recorder

Paul Doane, Executive Director

Robin Nichols, Chair
Board of Trustees

Date Approved