

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

**Tuesday, June 16, 2009**

**1:00 p.m.**

**1400 West Third Street  
Little Rock, AR 72201**

**Board Members Present**

Dr. Richard Abernathy, Chair  
Hazel Coleman, Vice Chair  
Mike Creekmore, in place for Martha Shoffner  
Dr. Paul Fair  
John Fortenberry  
Candace A. Franks  
Steve Kelly, in place for Jim Wood  
Beverly Leming  
Bobby Lester  
Robin Nichols  
Linda Parsons  
Janelle Riddle

**Staff**

George Hopkins, Executive Director  
Gail Bolden, Deputy Director  
Christa Clark, Chief Legal Counsel  
Wayne Greathouse, Dir. Public Markets  
Clementine Infante, Legal Consultant  
Manju, Dir. Data Processing  
Tammy Porter, Director's Assistant  
Michael Ray, Dir. Member Services  
George Snyder, Dir. Internal Audit/Risk Management  
Gaye Swaim, Dir. Human Resources  
Leslie Ward, Dir. Private Equity  
Amy Wells, Administrative Assistant  
Earl Williams, Senior Auditor

**Board Members Absent**

Dr. T. Kenneth James

**Consultants Present**

Michael Bacine, Franklin Park  
Laura Brasch, Franklin Park  
P.J. Kelly, Ennis Knupp

**ICC Capital Management**

Andy Ritchey  
Vittorio Fratta

**Reporters Present**

Mike Wickline, Arkansas Democrat Gazette

**Guests Present**

Bob Berry, Division of Legislative Audit  
Lawrence Colston  
Erika Gee, Attorney General's Office  
Mike Mertens, AAEA  
Jason Simpson, Inroads Group  
Brenda West, Division of Legislative Audit

- I. **Call to Order/Roll Call.** Chair, Dr. Abernathy, called the Board of Trustees meeting to order at 1:30 p.m. Roll call was taken and Dr. Ken James was absent.
- II. **Adoption of Agenda.** Dr. Abernathy made a motion to amend the agenda to add two items as additional business to the agenda. The first item is a proposed resolution to extend duration of the Doughty Hanson partnership for an additional year, Resolution 2009-19. The additional agenda item is a proposal to approve a counter offer to sell Lot 8 at Chenal Heights, Resolution 2009-20.

**Ms. Parsons moved for adoption of the amended Agenda. Mr. Lester seconded the motion and the Board unanimously approved the motion.**

III. **Executive Summary.** The Executive Summary was reviewed with no discussion.

IV. **Approval of Minutes of April 13, 2009.**

**Ms. Leming moved for adoption of the Minutes of the Board of Trustees meeting of April 13, 2009. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.**

V. **2009 ATRS Board of Trustees Election Results (Resolution 2009-15).** Mr. Hopkins explained that the resolution officially certifies the newly elected members, Jeff Stubblefield and David Cauldwell, and reelected member, Hazel Coleman.

**Ms. Nichols moved for the adoption of Resolution 2009-15 to officially declare Jeff Stubblefield, David Cauldwell and Hazel Coleman to be winners of Position #6, Position #7, and Position #8, respectively. Mr. Fortenberry seconded the motion, and the Board unanimously adopted the Resolution.**

VI. **Policy/Legislative Committee Report.**

A. **Recommendation for Board Member Mentoring and Committee Restructuring.**

1. **Board Member Development (Policy 1-4).** Mr. Hopkins explained that the policy needed to be revised to reflect the concerns regarding new Board member orientation as it relates to Open Meetings guidelines of one-on-one meetings with Trustees. The Policy/Legislative Committee recommended to the Board that Policy 1-4 be revised to eliminate item 3, the provision requiring designation of one Board member to be a mentor for a new Trustee.

**Ms. Parsons moved for the adoption of the proposed Policy 1-4 which deleted item 3 from the policy. Dr. Fair seconded the motion, and the Board unanimously approved the motion.**

2. **Investment Committee Charter (Policy 1-10).** The Policy/Legislative Committee recommended proposed Policy 1-10, alternative 1A, with the additional language including “up to 8

*members” and “upon acceptance of the position” by ex-officio members in section 1.*

**Ms. Parsons moved for the adoption of the proposed Policy 1-10 1a as amended. Dr. Fair seconded the motion, and the Board unanimously approved the motion.**

3. **Policy/Legislative Committee Charter (Policy 1-11).** Ms. Parsons explained the Policy/ Legislative Committee recommended that this Committee be eliminated and combined with the Operations Committee.

**Ms. Parsons moved for the adoption of the proposed Policy 1-11. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.**

4. **Executive Committee Charter (Policy 1-16).** Ms. Parsons explained that the Policy/Legislative Committee recommended that the Executive Committee be eliminated and combined with the Operations Committee.

**Ms. Riddle moved for the adoption of the proposed Policy 1-16. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.**

5. **Administrative/Personnel Committee Charter (Policy 1-17).** Ms. Parsons explained the Policy/ Legislative Committee recommended that the Administrative/Personnel Committee be eliminated and combined with the Operations Committee.

**Ms. Riddle moved for the adoption of the proposed Policy 1-17. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.**

6. **Audit Committee Charter (Policy 1-18).** The Legislative/Policy Committee recommended to the Board that the Audit Committee be eliminated and combined with the Operations Committee. Mr. Kelly voiced concerns about the elimination of the Audit Committee. He expressed that the Audit Committee was highly regarded by the Division of Legislative Audit and other state officials and allows direct input when necessary to the Board by staff without interference of senior staff. The Trustees discussed the Committee and its function, and agreed with Mr. Kelly.

Mr. Kelly suggested that section 2 be revised to allow direct access by Legal and Internal Audit to the Audit Committee. Mr. Hopkins advised that DFA Internal Audit staff could be contacted to assist ATRS in examining the Audit Committee charter instead of doing piecemeal changes to the policy during the meeting.

**Ms. Coleman *moved* to *reject* the recommendation of the Policy/Legislative Committee regarding proposed Policy 1-18 that eliminates the Audit Committee. Ms. Leming *seconded* the *motion*, and the Board *unanimously approved the motion*.**

**7. Operations Committee Charter (Policy 1-19).** Mr. Hopkins explained that the Operations Charter as presented and recommended by the Policy/Legislative Committee should be amended to delete the incorporation of the Audit Committee duties because the Board voted to retain the Audit Committee.

**Ms. Parsons *moved* for the *adoption* of the proposed Policy 1-19 as amended to add an Operations Committee to the Board. Ms. Leming *seconded* the *motion*, and the Board *unanimously approved the motion*.**

**B. Recommendation for Amended Rules and Regulations to Implement Certain 2009 Legislation.**

**1. Salary Determination for Retirement System Purposes (Policy 7-11).** Mr. Hopkins explained that this change implements the 120% anti-spiking rule and other retirement legislation changes from the 2009 session on an emergency basis as of July 1.

**Ms. Parsons *moved* for the *adoption* of the proposed Policy 7-11. Dr. Fair *seconded* the *motion*, and the Board *unanimously approved the motion*.**

**2. Proof of Years of Service (Policy 7-2).** The Policy/Legislative Committee recommended to the Board that the clarification language in Policy 7-2 be adopted.

**Ms. Parsons *moved* for the *adoption* of the proposed Policy 7-2. Mr. Fortenberry *seconded* the *motion*, and the Board *unanimously approved the motion*.**

3. **Age and Service (Voluntary) Retirement (Policy 9-1).** The Policy/Legislative Committee recommended adoption of the changes to Policy 9-1 which clarified retirement eligibility, the effective date of benefits, the threshold for benefits adjustments, and the termination requirements before returning to work for a participating ATRS employer.

**Ms. Parsons *moved* for the *adoption* of the proposed Policy 9-1. Ms. Coleman *seconded* the *motion*, and the Board *unanimously approved* the *motion*.**

4. **Retirant's Return to Covered Employment (Policy 10-2).** The Policy/Legislative Committee recommended adoption of the changes to Policy 10-2 which eliminated the ATRS earnings limitation and the waivers of the earnings limitation for the shortage of certified teachers in a critical academic area or the hiring of superintendents for reconstitution or reorganization of a public school.

**Ms. Parsons *moved* for the *adoption* of the proposed Policy 10-2. Ms. Coleman *seconded* the *motion*, and the Board *unanimously approved* the *motion*.**

5. **Lump-Sum Death Benefit (Policy 11-2).** The Policy/Legislative Committee recommended adoption of the changes to Policy 11-2 which grandfathered retirees who retired on or before July 1, 2007 to become eligible for the death benefit with only five or more years of actual service, to make the benefit tax exempt, and to prorate the amount of the benefit based upon the member's contributory and noncontributory service credit.

**Ms. Parsons *moved* for the *adoption* of the proposed Policy 11-2. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved* the *motion*.**

**VII. Authorization to File Emergency Rules and Regulations to Implement Legislative Effective July 1, 2009 (Resolution 2009-16).**

Mr. Hopkins explained that due to the July 1 effective date of 2009 legislation, the policy revisions discussed were being adopted under the emergency rulemaking procedure

**Ms. Leming moved for the adoption of Resolution 2009-16 approving emergency rule-making procedures. Ms. Parsons seconded the motion, and the Board unanimously adopted the Resolution.**

**VIII. Investment Committee Report.**

- A. **Update on Real Estate Tax Appeal.** Mr. Hopkins gave a brief background on the real estate tax appeal issue. ATRS is taking the position that Arkansas real estate taxes are not owed on ATRS directly owned properties or its 100% owned affiliates such as the LLC's. ATRS has sent a letter to the County Judges, Assessors, Collectors and Treasurers in the four counties where the properties are owned stating that we have issues paying further real estate taxes, and they have responded stating they think we do owe the taxes. The Legislature passed a special tax exemption for retirement systems stating that the retirement systems are not subject to local taxes, and the counties take the position that that the tax exemption is unconstitutional. Ultimately, the Arkansas Supreme Court will make the final decision as to whether it is unconstitutional or not.

The law firm of Mitchell Williams has been hired to assist ATRS legal counsel with the process of asking that the property be exempted and to ask for a refund of the previous three years of taxes. The County Judges sitting in those counties will hear the petitions. It is expected that the requests will be denied, and appeals will be made to Circuit Court and then to the Arkansas Supreme Court.

Mr. Hopkins voiced concern over October 10, when property taxes are due. ATRS does not plan to pay the taxes, but through negotiations and to avoid penalties; the taxes may be paid in escrow.

- B. **Hedge Fund of Funds Manager Discussion.** Ms. Leming reported to the Board that the Investment Committee had recommended to not move forward hiring hedge fund of funds manager or managers. P. J. Kelly commented that this was not a necessary addition to the portfolio, and it may be more cost effective to invest in individual funds to gain exposure in this asset class.
- C. **Arkansas Real Estate Update.**
1. **Woodland Heights Update.**
    - a. **Threshold Status.** Ms. Leming gave a brief summary of what was discussed in the earlier Investment Committee meeting.

The Investment Committee has requested the construction consultant to perform additional research on patio doors and thresholds before making final recommendations to the Board.

- b. **Shower Drain Status.** Ms. Leming gave a brief summary of what was discussed in the earlier Investment Committee meeting. The Investment Committee has requested the construction consultant to do research on the shower drains and thresholds before making a recommendation to the Board.
- c. **Mini-Bus Purchase.** Ms. Leming informed the Board that a mini-bus has been purchased and is in the process of being painted with the Woodland Heights logo on the side.
- d. **Woodland Heights Survey Results.** Ms. Leming gave a brief summary of the survey results, which were mostly favorable.

Mr. Hopkins added that the Fox Ridge management contract will expire on June 30, 2009, and ATRS will negotiate carefully with Fox Ridge when renewing their contract to address negative feedback from residents in the survey. The Investment Committee recommended extension of the Fox Ridge contract on a month-by-month basis until a new contract is developed, and the Board accepted this recommendation without objection.

2. **Peabody Loan Update.** Mr. Hopkins gave an update on the Peabody Loan extension. The loan renewal closed on April 17, 2009, for \$24,545,875 at a rate of 7.5%. Peabody Hotel paid all attorney fees, filing fees, and expenses.

**D. Private Equity Investment Update.**

1. **Reallocation of Funding for Insight Equity/Mezzanine (Resolution 2008-65).** The Investment Committee discussed the adoption of Amended Resolution 2008-65 reallocating the previous ATRS commitment to Insight. Michael Bacine explained that Insight had made additional concessions to investors allowing additional commitments in the equity portion of the fund.

**Ms. Leming moved for the adoption of Amended Resolution 2008-65 to reallocate the Insight commitments to be \$30 million to Equity II, and \$10 million to Mezzanine I. Mr. Lester seconded the motion, and the Board unanimously adopted the Resolution.**

2. **Investment in Private Equity Fund - KPS III (Resolution 2009-17).** The Investment Committee recommended the adoption of Resolution 2009-17 approving up to \$40 million in KPS III Supplemental. Michael Bacine presented the investment in KPS III Supplemental to the Board.

**Ms. Leming *moved* for the *adoption* of Resolution 2009-17 to allocate funding for a private equity investment KPS III Supplemental. Dr. Fair *seconded* the *motion*, and the Board *unanimously adopted the Resolution*.**

- E. **Proposal to Extend Doughty Hanson & Co. for One Year (Resolution 2009-19).** The Investment Committee recommended adoption of Resolution 2009-19 approving a one year extension of time for the Doughty Hanson fund. Ms. Leming gave a brief summary of the request by Doughty Hanson to extend the fund to allow additional time to close the investment and sell the remaining assets in more favorable markets.

**Ms. Leming *moved* for the *adoption* of Resolution 2009-19 to extend the Doughty Hanson & Co. investment fund for an additional year. Ms. Nichols *seconded* the *motion*, and the Board *unanimously adopted the Resolution*.**

- F. **Proposal to Allow Executive Director to Sign Offer and Other Documents for the Sale of Lot 8 of Chenal Heights Property (Resolution 2009-20).** Ms. Leming gave a brief summary of the sale of Lot 8 of the Chenal Heights Property. The lot was appraised at \$925,000 and an offer has been made for \$930,000. The Investment Committee recommends the Board to accept the offer.

**Ms. Leming *moved* for the *adoption* of Resolution 2009-20 to authorize the Executive Director to accept the offer on Lot 8 Chenal Heights Prd. Ms. Parsons *seconded* the *motion*, and the Board *unanimously adopted the Resolution*.**

IX. **General Investment Consultant Update – Ennis Knupp.**

- A. **Portfolio Performance Update, March, 2009, Final.** Mr. Kelly gave a brief update on the first quarter report, going over the highlights. In the first quarter, there were more negative returns in the equity markets. The losses were offset by the activist managers who are less correlated to the equity markets. There was some improvement in the



fixed income area, adding 1.2% to the portfolio. At the total fund level, ATRS is performing well relative to its peers.

- B. **Portfolio Performance Update, April, 2009, Final.** This item was briefly discussed. P. J. Kelly noted several changes had occurred in the market since this time and the May performance was timelier.
- C. **Portfolio Performance Update, May, 2009, Preliminary.** Mr. Kelly stated that the numbers are preliminary. The stock market bottomed out in March but has shown recovery since that time. Due to losses earlier in the year, the portfolio is currently estimated to be 4.1%. The returns on the emerging market index are up 38%. High yield bonds are up 26.8% year to date, but the government sector is giving a negative return.

ICC is performing well. Other notable performers are Kennedy Capital, up 20 percentage points relative to their benchmark, and T. Rowe Price, up 10 percentage points relative to their benchmark. T. Rowe is transitioning to global in the next few months.

Non-US portfolios have been doing well. Wellington Opportunistic outperformed their benchmark and the more conservative Wellington GRE. Wellington GRE is also moving towards global. UBS Global almost doubled its benchmark.

Fixed income managers have had strong performances after performing poorly in 2008. Loomis Sayles doubled their benchmark return.

Mr. Greathouse gave a brief update on the global transitions. Wellington GRE should be converted before the end of the month. T. Rowe Price should be transitioned by July.

X. **Private Equity Investment Consultant – Franklin Park.**

- A. **Private Equity Portfolio Review for the Quarter Ended December 31, 2008.** Mr. Bacine presented a summary of the private equity investment portfolio and the individual investments in private equity. Overall, ATRS is receiving an 8% return on a yearly basis. Mr. Bacine gave an overview of the portfolio since inception, then summaries by strategy, performance, fund by fund tracking, company, and diversification. He briefly touched on the changes in portfolio values, and explained the J-curve in the early life of funds. The report had a summary of recent commitment activities and annual commitments.

- B. **Updated 2009 Private Equity Commitment Pacing Analysis.** Mr. Bacine gave a brief update on the pacing analysis. The recommendation from Franklin Park for ATRS commitment in 2009 is on track with an additional two funds to be presented this year for consideration.
- XI. **Money Manager of the Year Presentation (Resolution 2009-18).** Mr. Greathouse presented Andy Ritchey of ICC Capital Management with the 2<sup>nd</sup> annual ATRS Money Manager of the Year award. Andy Ritchey accepted and gave a brief statement.

**Dr. Fair *moved* for the *adoption* of Resolution 2009-18 selecting ICC Capital Management as ATRS Money Manager of the Year. Ms. Riddle *seconded* the *motion*, and the Board *unanimously adopted the Resolution*.**

- XII. **Other Business.**

- XIII. **Adjourn.**

**Dr. Abernathy *moved to adjourn* the Board of Trustees Meeting. Ms. Leming *seconded* the *motion*, and the Board *unanimously approved the motion*.**

**Meeting adjourned at 2:45 p.m.**

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George Hopkins,  
Executive Director

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Dr. Richard Abernathy, Chair  
Board of Trustees

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Amy Wells,  
Recorder

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Date Approved