

MINUTES

Regular Meeting Board of Trustees

August 12, 2002

The Board of Trustees of the Arkansas Teacher Retirement System met on Monday, August 12, 2002, at 1:30 p.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
Charles Vondran, Vice Chair
Winfred Clardy
Hazel Coleman
Charles Dyer
Dr. Paul Fair
John Fortenberry
Ann Harbison
Mary Harris
Betty McGuire
Frank White
Gus Wingfield

Members of the Board Absent:

Jimmie Lou Fisher
Raymond Simon

Members of the Staff Present:

Wayne Greathouse, Interim Executive Director
Michael Ray, Interim Deputy Director
Suzanne Davenport, ATRS Staff-Accounting
Tammy Medlock, Administrative Assistant

Others Present:

Wesley Brown, Arkansas News Bureau
Steve Cummings, Ennis Knupp + Associates
Tom Ferstl, Affiliated Real Estate Appraisers of Arkansas
Doug Foreman, Trust Company of the West
Doug Forsythe, Nicholas-Applegate
Jack Gastler, Nicholas-Applegate
Bill Hazel, Eubel Brady & Suttman
Robert Horton, Salomon Smith Barney
P.J. Kelly, Ennis Knupp + Associates
John Lowman, Trust Company of the West

Others Present (Cont'd):

Shirley Matheny, Retiree
James McGuire, Guest of Betty McGuire
Kevin Sherman, Doughty Hanson
Rob Suttman, Eubel Brady & Suttman
Leonard Venable, Office of the State Treasurer
Mike Wickline, Arkansas Democrat-Gazette

I. Roll Call

The minutes were recorded by Tammy Medlock of the Teacher Retirement staff.

II. Adoption of Agenda

Dr. Fair made a motion to adopt the agenda. The motion carried.

III. Adoption of Minutes

- **June 12, 2002.** The minutes were corrected to reflect the following (Page 7 of the board brochure, Item IX, Policies Committee Report: "NOTE: The Real Estate Screening Committee Charter (page 106) was revised by deleting item #3..." Mr. Wingfield made a motion to adopt the minutes as corrected. The motion carried.
- **June 27, 2002.** Mrs. Coleman made a motion to adopt the minutes as presented. The motion carried.
- **July 9, 2002.** Dr. Fair made a motion to adopt the minutes as presented. The motion carried.
- **July 10, 2002.** Dr. Fair made a motion to adopt the minutes as presented. The motion carried.

IV. Asset Allocation Recommendations (*Preliminary*) – Steve Cummings, P.J. Kelly – Ennis Knupp + Associates (*Attachment A*)

Recommendations:

- Reclassify the convertibles portfolio into equity.
- Classify mezzanine debt as an alternative investments
- Include the diversified real estate funds (not including Arkansas related) as a separate asset class

Summary of Asset Allocation Recommendations

<i>Asset Category</i>	<i>Minimum</i>	<i>Target</i>	<i>Maximum</i>
Domestic Equity Convertibles	35%	40.0%	60% 45.0%
International Equity	0%	17.5%	25% 20%
Domestic Fixed Income (Convertibles and Mezzanine Removed)	10.0%	25.0%	40% 30.0%
Alternatives Private Equity Mezzanine Funds	0% 4.0%	10% 6.0%	17% 8.0%
Real Estate (Removed From Alternatives)	3.0%	5.0%	7.0%
Timberland	0%	1.5%	3.0%
Arkansas Related	5%	5.0%	10% 7.0%
Cash Equivalents	0%	1.0% 0.0%	10% 3.0%

NOTE: It was determined the maximum for Arkansas related would remain at 10%.

V. Investment Policies - Steve Cummings, P.J. Kelly – Ennis Knupp + Associates

Revised investment policies were presented for review and comments for editing. The Policies Committee will review the revisions at the next meeting scheduled for August 26, 2002.

VI. Consultant's Performance Evaluation Report – Steve Cummings, P.J. Kelly – Ennis Knupp + Associates

Mr. Cummings commented on the following topics:

- Ennis Knupp will “slow down” changes to the investment program in accordance with the trustees’ wishes
- Mr. Cummings and Mr. Kelly only will report to the Board. David Russell will not attend meetings.
- Acknowledgement of Board’s wishes that the consultants do not communicate individually with trustees, but directly with the Interim Executive Director
- Will require the reporting of soft dollars through money managers’ contracts

After review of the fund’s performance for the 2nd quarter of 2002, the following actions were taken:

Mr. Greathouse indicated \$804 million was available to put into the index fund. Mr. Wingfield made a motion to place \$500 million in the index fund. The motion carried. Mr. Vondran made a motion to allocate up to 17% in international equity and the remaining funds to growth managers. The motion carried. Dr. Fair and Ms. Harris voted "no."

VII. Investment Program Reports

- A. Eubel Brady & Suttman – Rob Suttman, Bill Hazel
- B. Nicholas/Applegate – Doug Forsythe, Jack Gastler
- C. Trust Company of the West – Doug Foreman, John Lowman
- D. Doughty Hanson – Kevin Sherman

The meeting recessed at 5:30 p.m.

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