

MINUTES

Arkansas Teacher Retirement System Board of Trustees Meeting February 3, 2004

The Board of Trustees of the Arkansas Teacher Retirement System met on Tuesday, February 3, 2004 at 10:00 a.m. The meeting was held in the ATRS Board Room, 1400 West Third Street, Little Rock, Arkansas.

Members of the Board Present:

Linda Parsons, Chair
John Fortenberry, Vice-Chair
Bunny Adcock
Monty Betts
Winfred Clardy
Hazel Coleman
Charles Dyer
Dr. Paul Fair
Betty McGuire
Robin Nichols
Ellen Terry
Gus Wingfield
Jim Wood

Members of the Board Absent:

Tom Courtway

Staff Members Present:

David R. Malone, Executive Director
Julie M. Cabe, Deputy Director
Debbie White, Project Analyst
Suzanne Davenport, Accounting
Wayne Greathouse, Investment
Donna Hobbs, Personnel
Michael Ray, Benefits & Counseling
George Snyder, Internal Auditor

Guests Present:

Lloyd Black, ARTA
Bobby Lester, ARTA
Linda Riley, ARTA
Jim McGuire, Trustee Spouse

I. Roll Call

Linda Parsons called the meeting to order. Debbie White, of the ATRS staff, took roll and recorded the Minutes.

II. Presentation

A plaque was presented to Ann Harbison in appreciation of her service as Trustee.

III. Approval of Agenda

Hazel Coleman made a [motion](#) to approve the Agenda. Bunny Adcock seconded the motion, which passed.

IV. Public Comment on Agenda Items

None

V. Approval of Minutes

John Fortenberry made a [motion](#) to approve the December 8 & 9, 2003 Minutes as presented. Robin Nichols seconded the motion, which was approved.

VI. Actuarial Status Report

The Executive Director presented the June 30, 2003 Actuarial Valuation by Gabriel Roeder, Smith. After a brief discussion, Charles Dyer [moved](#) to accelerate the loss recognition schedule by \$150 million. Second was by Monty Betts. The motion passed. After the motion, the Valuation Report from Gabriel Roeder, Smith was accepted without objection.

VII. Authority to Transact Business

John Fortenberry made a [motion](#) to approve **Resolution 2004-01** (*attachment 1 of these Minutes*). Ellen Terry seconded the motion, which passed.

VIII. Board of Trustees 2004 Travel Reimbursement

Hazel Coleman made the [motion](#) to approve **Resolution 2004-02** (*attachment 2 of Minutes*), with second by Betty McGuire. The motion passed.

IX. Acceptance of Rollovers Policy

Deputy Director, Julie Cabe, presented Resolution 2004-10 (*attachment 3 of these Minutes*) which would approve the revision and restatement of ATRS Policy on Acceptance of Rollovers. Charles Dyer [moved](#) to approve the Resolution. Hazel Coleman seconded the motion, which passed.

X. Investment Committee Report

After a review and discussion of the report from the consultants on a commission recapture and directed trades program, Mr. Fortenberry made a [motion](#) to approve the staff recommendation to contract with the Frank Russell Co. to provide these services. Dr. Fair seconded the motion, which passed.

The following Resolutions were presented recommending Investment Policy Guideline revisions for the following portfolio managers (*attachments 4-8 of these Minutes*):

- Resolution No. 2004-03 BlackRock Financial Management
[Motion](#) by Charles Dyer, second by Dr. Fair, motion passed.
- Resolution No. 2004-04 Western Asset Management
[Motion](#) by Charles Dyer, second by Dr. Fair, motion passed.
- Resolution No. 2004-05 PIMCO
[Motion](#) by Charles Dyer, second by Dr. Fair, motion passed.
- Resolution No. 2004-06 Nicholas Applegate Capital Management
[Motion](#) by Charles Dyer, second by Dr. Fair, motion passed.
- Resolution No. 2004-07 UBS Global Asset Management
[Motion](#) by Charles Dyer, second by Dr. Fair, motion passed.

The following Resolutions were presented recommending the establishment of new Investment Policy Guidelines for the following portfolio managers (*attachments 9-10 of these Minutes*):

- Resolution No. 2004-08 Capital Guardian Trust Company
[Motion](#) by Charles Dyer, second by Dr. Fair, motion passed.
- Resolution No. 2004-09 Wellington Management Company, LLP
[Motion](#) by Charles Dyer, second by Dr. Fair, motion passed.

After a discussion on domestic equity component rebalancing, Charles Dyer [moved](#) to authorize the consultants and Executive Director to organize a search for a new large cap growth manager. Seconding the motion was Hazel Coleman. The motion passed.

The Executive Director gave a real estate report, with no action being taken.

XI. Staff Reports

Departmental reports were sent to the Board with the Agenda prior to the meeting for their review. Medical Board Reports for December 10, 2003 and January 14, 2004 were presented by Michael Ray. Ellen Terry made a [motion](#) to accept the reports. Dr. Fair seconded the motion, which passed.

XII. Executive Director's Comments

The Executive Director updated the Board on recent legislative issues, outside legal counsel activity, status of staff research & work on the lump sum death benefit and 110% rule. No action was taken.

XIII. New Business

Chair, Linda Parsons, announced committee appointments as follows:
(*attachment 11 of these Minutes*)

<u>TRUSTEE</u>	<u>COMMITTEE</u>	<u>TERM EXPIRATION</u>
Hazel Coleman	Investment	1/5/05
Gus Wingfield	Investment	1/1/08
Betty McGuire	Legislative	2/11/06
Robin Nichols	Legislative	2/11/06

The 2004 Board of Trustees meeting schedule was presented. No suggested changes were made. (*attachment 12 of these Minutes*).

Hazel Coleman made a [motion](#) that a Resolution of Appreciation for Ann Harbison be submitted to the Resolutions Committee of NCTR. Winfred Clardy seconded the motion, which was unanimously approved.

IVX. Adjournment

With no further business to be considered by the Board, the meeting was adjourned by common consent without objection.

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

RESOLUTION

No. 2004-01

BE IT RESOLVED that effective the 3rd day of February, 2004, **DAVID R. MALONE**, Executive Director, or **G. WAYNE GREATHOUSE**, Deputy Director-Finance, and they each are, authorized to execute, acknowledge and deliver such agreements, documents and instruments as might be necessary or appropriate in connection with the purchase, sale, pledge, transfer or other transaction of any kind whatsoever involving any investment approved by the Arkansas Teacher Retirement System Board of Trustees or approved by the Investment Committee of said Board; and

BE IT FURTHER RESOLVED that the authorizations contained in the preceding paragraph shall apply to transactions involving ATRS Recoveries, LLC, ATRS Properties, LLC, and ATRS Retirement Properties, LLC (all of which are single member limited liability companies of which the Arkansas Teacher Retirement system is the single member) as well as to transactions in the direct name of the Arkansas Teacher Retirement System; and

BE IT FURTHER RESOLVED that the execution, acknowledgement (if appropriate) and delivery of such agreement, document or instrument by any one of these two named persons shall constitute the valid, binding and enforceable act of the Arkansas Teacher Retirement System and that no third party dealing with the System need inquire further as to the authority of such person to act for and in behalf of the System.

Adopted this 3rd day of February, 2004

LINDA PARSONS, *Chair*
Arkansas Teacher Retirement System

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

RESOLUTION
No. 2004-02

Act 1211 of 1995 (A.C.A. § 25-16-901 et seq.) provides that every state board may, by a majority vote of the total membership of the board cast during its first regularly scheduled meeting of each calendar year, authorize expense reimbursement for each board member for performing official board duties. Such reimbursement cannot exceed the rate established for state employees by state travel regulations.

Because Act 1211 of 1995 is the sole authority for expense reimbursement for members of the Board of Trustees of the Arkansas Teacher Retirement System, it is necessary for the Board to adopt a resolution authorizing expense reimbursements. Therefore,

BE IT RESOLVED that the Board of Trustees of the Arkansas Teacher Retirement System, by a majority vote of its total membership, authorizes expense reimbursement for each board member for performing official board duties during the calendar year 2004.

FURTHER RESOLVED, that the expense reimbursement shall not exceed the rate established for state employees by state travel regulations and shall be in compliance with Addendum A, Resolution 10.22.02, adopted by this Board on February 11, 2003.

FURTHER RESOLVED, that Board members who live in the Little Rock area (excluding ex officio trustees) may be reimbursed for mileage and meal expenses incurred while performing official board duties in Little Rock at a rate not exceeding the rate established for state employees.

FURTHER RESOLVED, that the adoption of this resolution authorizes reimbursement for any such expenses including those incurred in 2004 prior to the adoption of this resolution.

FURTHER RESOLVED, that each Board member shall be reimbursed for no more than three (3) out-of-state retirement related conferences for calendar year 2004.

Adopted this 3rd day of February, 2004

Addendum A
Resolution 10.22.02
Page 1/2

The following regulations have been adopted to provide guidance to board members and employees of the Arkansas Teacher Retirement System (ATRS).

For purposes of these rules, the following definitions shall apply:

1. "Official Station" shall be:
 - a) For board members, the city or town in which a board member has a permanent address.
 - b) For employees, the city or town of the employee's actual location of work
2. Travel expenses will be reimbursed when board members or employees are required to travel away from their official station on ATRS business. Minimization of expenses while traveling should be the same, as a prudent person would exercise if traveling on personal business.
3. A Travel Reimbursement Form (TR-1) must be verified and signed by the traveler, accompanied by the proper receipts, and duly signed by the Executive Director, or designee, before reimbursement may be processed.
4. All travel reimbursement requests, including that within the borders of Arkansas, shall adhere to the reimbursement rates listed in the Federal Travel Directory. Cities not identified or located in listed counties have a Standard Rate of \$55 per day for lodging and \$30 per day for meals. Current rates can be found on the Federal General Services Administration website:
<http://policyworks.gov/org/main/mt/homepage/mtt/perdiem/perd02d.html>, and the Arkansas Department of Finance and Administration website: <http://www.state.ar.us/dfa/accounting/perdiem.html>.
5. Reimbursement may be claimed for actual expenses only, and must not exceed the Federal Directory maximums. In-state meals will not be reimbursed without overnight lodging. There are no exceptions to the maximum meal rates.
6. Exceptions to lodging maximums may be allowed only with good justification, i.e., when conference hotel rates exceed area maximums, and staying elsewhere would incur transportation charges. The Executive Director, or designee, must approve all requests for exceptions prior to incurring the expense.
7. Private vehicle mileage is reimbursable at the current rate per mile authorized by the Arkansas Department of Finance and Administration. If a traveler's personal vehicle is used for transportation to and from the airport, a mileage reimbursement may be requested.
8. Reimbursable travel expenses are limited to those expenses authorized and essential to conducting official ATRS business. Telephone and telegraph expenses shall be allowed only when necessary for the completion of official business. Incidental amounts not directly related to travel (such as postage, small emergency supplies, etc.) may be allowed, when necessary, to the performance of official business while traveling. These necessary incidental expenses shall be itemized on the TR-1 form with receipts attached.
9. If one-way travel exceeds 500 miles from the traveler's official station, reimbursement may be requested for no more than one day prior to, and/or after, the official start/end of an approved conference/convention.
10. Travelers shall not be reimbursed for the purchase of alcoholic beverages, entertainment, tips, flowers, valet service, laundry, cleaning, printing items, or other discretionary purchases.

11. Travel expenses shall not be billed to ATRS by a third party except for lodging, meals, and air transportation, duly approved in advance by the Executive Director.

12. Travel may be achieved by plane, train, bus, private- or system-owned vehicle, rented vehicle, or taxi, whichever method serves the requirements of ATRS most economically and advantageously. The maximum allowable mileage will be computed by the shortest major highway route. Flights resulting in the lowest available airfare for ATRS should be used for all business trips, unless there are extenuating circumstances, such as unreasonable arrival/departure times or unusually long layovers.

13. When common carriers (airplane, train, or bus) are needed to transport persons on ATRS business, ATRS will make the travel arrangements, if possible, in order for the system to be billed direct. If this is not possible, the traveler may make and pay for arrangements and request reimbursement. Items that are properly purchased by, and invoiced directly to ATRS, are not reimbursable to the traveler.

14. For out-of-state travel, reimbursement shall be the lesser of coach class air, or the current rate per mile authorized by the Arkansas Department of Finance and Administration.

15. If more than one traveler is transported in the same vehicle, only the owner can claim a mileage reimbursement.

16. When attending out-of-state conferences, travelers should choose the most economical mode of transportation between airports and hotels, i.e., rental car, shuttle, or taxi. Consideration must be given to mileage, fuel and parking fees when selecting a rental. If a rental car is obtained, and two (2) or more board members or employees travel to the same location, rentals should be shared, if possible.

17. Board members and employees of ATRS shall be reimbursed for their own travel expenses only. Board members and employees shall not be reimbursed for expenses incurred by their spouse or guest.

POLICY TYPE: Governance Process

POLICY TITLE: Reimbursement of Expenses

The Board, by majority vote of the total membership cast at the first regularly scheduled meeting of each calendar year, may authorize expense reimbursement for each trustee for performing official Board duties. Official Board duties are defined as follows:

1. Attending regular and called Board meetings.
2. Attending committee meetings of the Board or any specially appointed committee comprised, in whole or in part, of Board members.
3. Attending conferences approved by the Board of Trustees.
4. Attending legislative committee meetings when acting as spokesperson for the Board.
5. Attending legislative sessions at the request of the Board or Executive Director.

Board members are subject to the same reimbursable expenses as state employees.

Board officers are authorized payment for personal expenses, not otherwise reimbursed, incurred in the performance of their ATRS-related duties. Such reimbursement is to cover (1) any losses in salary or compensation that would otherwise result from their attendance at Board or committee meetings, and will be paid to the officer's employer; and (2) the costs of communication (long-distance telephone calls, postage, etc.) with other trustees or staff members.

Authority: Act 1211 of 1995

Adopted: June 12, 2002

Amended:

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

RESOLUTION

No. 2004-03

BE IT RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System desires to establish Investment Guidelines for:

BlackRock Financial Management and,

FURTHER RESOLVED, that guidelines were originally adopted August 5, 2003 and revisions have been made to those guidelines as a result of recommendations of the consultants and,

FURTHER RESOLVED, that the revised guidelines which are attached to this Resolution No. 2004-03 (*4 printed pages*) have been recommended by the System's consultant and staff and shall be effective on the date of funding and,

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System hereby approves the revised guidelines as attached.

Adopted this 3rd day of February, 2004

Arkansas Teacher Retirement System

- DRAFT -
**FIXED INCOME PORTFOLIO GUIDELINES FOR
BLACKROCK FINANCIAL MANAGEMENT FOR THE
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)**

(Adopted August 5, 2003)

(Revised ~~December 16~~ January 22, 2003)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

OBJECTIVE

The goal of the core plus fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

BENCHMARK

The portfolio will be benchmarked to the Lehman Brothers Universal Bond Index.

RISK CONTROL

The total portfolio may invest in the following types of securities, subject to the restrictions listed below.

<ul style="list-style-type: none">▪ U.S. Government bonds▪ U.S. corporate bonds▪ Mortgage-backed securities▪ Asset-backed securities▪ Bonds and preferred stock convertible into common stock▪ Preferred stock▪ Municipal bonds▪ Structured notes▪ Cash equivalents▪ Closed end bond funds	<ul style="list-style-type: none">▪ Derivative mortgage-backed securities▪ U.S. dollar denominated bonds of developed non-U.S. issuers▪ U.S. dollar denominated bonds of emerging non-U.S. issuers▪ Private placement bonds▪ Rule 144(a) securities▪ Commercial mortgage-backed securities▪ Capital notes/Preferred trust certificates▪ Commingled funds investing in fixed income securities
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RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

SECURITY TYPE QUALIFICATIONS

Futures, options and forward contracts are not allowed.

Structured notes are permitted provided that the note's investment characteristics are of a fixed income nature.

Preferred stock and bonds convertible into common stock are permitted provided that they exhibit bond-like characteristics.

The portfolio may purchase securities on a when issued basis or for forward delivery.

The portfolio may enter into covered dollar rolls on mortgage securities. Covered agreements will be defined as a sale and simultaneous purchase (for forward settlement) whereby the trade date cash balance must remain positive for the life of the roll (until the forward purchase settles).

Cash equivalent investments are defined as any security that has an effective duration under one year, a weighted average life of less than one year, and spread duration under one year.

INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% of the effective duration of the Lehman Brothers Universal Bond Index.

CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of A. Issues that are un-rated by any major credit rating agency shall be rated by the investment manager, who shall compare an unrated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

Bonds rated investment grade by either Moody's or Standard & Poor's must comprise at least 85% of the total portfolio.

The portfolio's below-investment grade holdings are limited to the greater of 1% or 2 times the index weighting in any single issuer.

NON-U.S. EXPOSURE

Non-U.S. bonds shall not exceed 25% of the total portfolio. Investments in non-U.S. bonds must be U.S. dollar denominated. Examples of securities included in this restriction include the following:

<ul style="list-style-type: none"> ▪ Non-U.S. sovereign bonds ▪ Non-U.S. non-sovereign bonds ▪ Structured notes linked to non-U.S. markets ▪ Non-U.S. BlackRock commingled fund 	<ul style="list-style-type: none"> ▪ Emerging market sovereign bonds ▪ Emerging market non-sovereign bonds ▪ Supranational bonds
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10% in bonds issued by entities not domiciled in the J.P. Morgan Government Bond Index. This restriction is meant to limit the portfolio's emerging market exposure to no more than 10%.

~~1% in bonds issued by any single entity domiciled in a country not included in the J.P. Morgan Government Bond Index.~~

The greater of 1% or 2 times the percentage weighting in the Lehman Universal Index in bonds issued by any single entity domiciled in a country not included in the J.P. Morgan Government Bond Index.

ADDITIONAL SECTOR AND POSITION LIMITS

To the extent that the portfolio holds an allocation to non-investment grade emerging market bonds, that exposure shall also count against the total portfolio's 15% high yield maximum and 25% non-U.S. maximum.

Privately placed securities, excluding 144(a) securities, shall not exceed 5% of the total portfolio.

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total portfolio. Examples of securities likely to qualify as "highly interest rate sensitive" include IOs, POs and inverse floaters.

Preferred stock and bonds convertible into common stock shall not exceed 5% of the total portfolio.

Excluding U.S. government and agency issues the portfolio is limited to a 5% allocation in any single investment grade issuer.

The portfolio's combined allocation to the security types listed below may not exceed 35%. Bonds not receiving an investment-grade rating from either Moody's or Standard & Poor's

Bonds issued by non-U.S. entities

Emerging market debt

Preferred stock and bonds convertible into common stock

Privately placed debt, excluding 144(a) securities

Mortgage-backed securities that a manager classifies as exhibiting unusually high interest rate sensitivity relative to typical U.S. Government agency mortgage pass-through issues

PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Lehman Brothers Universal Bond Index over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

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. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis.

FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows, and no other payment shall be due Manager, except as explicitly set forth in the Agreement.

For each calendar quarter during which this Agreement is in effect, Manager shall be paid for its services hereunder during such calendar quarter an amount equal to one quarter of the following percentages of the Fair Market Value of the Assets managed by Manager hereunder:

25 Basis points (.25%) on the first	\$ 100 million (U.S.);
20 Basis points (.20%) on the next	\$ 100 million (U.S.);
17.5 Basis points (.175%) on the next	\$ 100 million (U.S.);
15 Basis points (.15%) on the next	\$ 200 million (U.S.);
10 Basis points (.10%) on amounts over	\$ 500 million (U.S.).

Fair Market Value shall mean the fair market value as computed by ATRS' custodian and shall include any accruals calculated.

All fees are calculated on Fair Market Value as of the final business day of the calendar quarter, except that any contributions or withdrawals during any calendar quarter shall be added to or deleted from the Fair Market Value of the assets as of the date of such contribution or withdrawal, and the fee shall then be calculated on a pro rata basis.

The fee shall be prorated for any calendar quarter during only a portion of which this Agreement is in effect.

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

RESOLUTION
No. 2004-04

BE IT RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System desires to establish Investment Guidelines for:

Western Asset Management and,

FURTHER RESOLVED, that guidelines were originally adopted August 5, 2003 and revisions have been made to those guidelines as a result of recommendations of the consultants and,

FURTHER RESOLVED, that the revised guidelines which are attached to this Resolution No. 2004-04 (*3 printed pages*) have been recommended by the System's consultant and staff and shall be effective on the date of funding and,

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System hereby approves the revised guidelines as attached.

Adopted this 3rd day of February, 2004

Arkansas Teacher Retirement System

**FIXED INCOME PORTFOLIO GUIDELINES FOR
WESTERN ASSET MANAGEMENT FOR THE
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)**
(Adopted August 5, 2003)
(Revised January 22, 2004)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

OBJECTIVE

The goal of the core plus fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

BENCHMARK

The portfolio will be benchmarked to the Lehman Brothers Aggregate Universal Bond Index.

RISK CONTROL

The total portfolio may invest in the following Western commingled funds, subject to the restrictions listed below.

<ul style="list-style-type: none"> • Western Asset U.S. Core Bond Fund, L.L.C. • Western Asset Strategic International Investment Grade Securities Portfolio, L.L.C. • Western Asset Strategic Emerging Markets Portfolio, L.L.C. • Western Asset High Yield Portfolio 	<ul style="list-style-type: none"> • Western Asset Opportunistic International Investment Grade Securities Portfolio, L.L.C. • Western Asset Opportunistic Emerging Markets Portfolio, L.L.C. • Western Asset Opportunistic US\$ High Yield Securities Portfolio, L.L.C.
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RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

SECURITY TYPE QUALIFICATIONS

The portfolio is limited to investments in the Western Asset U.S. Core Bond, L.L.C., Western Asset Opportunistic International Investment Grade Securities Portfolio, L.L.C., Western Asset Opportunistic

Emerging Markets Portfolio, L.L.C., Western Asset Opportunistic US\$ High Yield Securities Portfolio, L.L.C., Western Asset Strategic International Investment Grade Securities Portfolio, L.L.C., Western Asset Strategic Emerging Markets Portfolio, L.L.C., Western Asset High Yield Portfolio.

INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% of the effective duration of the Lehman Brothers Aggregate Universal Bond Index.

CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of A.

ATRS combined investment in the Western Asset Strategic Emerging Markets Portfolio, L.L.C., Western Asset High Yield Portfolio., Western Asset Opportunistic US\$ High Yield Securities Portfolio, L.L.C. and Western Asset Opportunistic Emerging Markets Portfolio, L.L.C. is limited to 40%-20% of the fixed income portfolio. This limitation is intended to ensure at least 90% 80% of the total portfolio is rated investment grade or better.

NON-U.S. EXPOSURE

The fixed income portfolio's non-U.S. exposure shall be gained primarily through the Western Asset Strategic International Investment Grade Securities Portfolio, L.L.C., Western Asset Opportunistic International Investment Grade Securities Portfolio, L.L.C., and the Western Asset Opportunistic Emerging Markets Portfolio, L.L.C., Western Asset Strategic Emerging Markets Portfolio, L.L.C. Non-U.S. exposure shall not exceed 25% of the fixed income portfolio.

ATRS investment in the Western Asset Opportunistic Emerging Markets Portfolio, L.L.C. and Western Asset Strategic Emerging Markets Portfolio, L.L.C. is limited to 10% of the fixed income portfolio.

The portfolio's combined allocation to the funds listed below may not exceed 30%

Western Asset Opportunistic US\$ High Yield Securities Portfolio, L.L.C.,

Western Asset Opportunistic International Investment Grade Securities Portfolio, L.L.C.,

Western Asset Opportunistic Emerging Markets Portfolio, L.L.C.

Western Asset Strategic Emerging Markets Portfolio, L.L.C.

Western Asset Strategic International Investment Grade Securities Portfolio, L.L.C

Western Asset High Yield Portfolio

PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Lehman Brothers Aggregate Universal Bond Index over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

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. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis.

FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows, and no other payment shall be due Manager, except as explicitly set forth in the Agreement.

For each calendar quarter during which this Agreement is in effect, Manager shall be paid for its services hereunder during such calendar quarter an amount equal to one quarter of the following percentages of the Fair Market Value of the Assets managed by Manager hereunder:

30 Basis points (.30%) on the first	\$ 100 million (U.S.);
15 Basis points (.15%) on amounts over	\$ 100 million (U.S.).

Fair Market Value shall mean the fair market value as computed by ATRS' custodian and shall include any accruals calculated.

All fees are calculated on Fair Market Value as of the final business day of the calendar quarter, except that any contributions or withdrawals during any calendar quarter shall be added to or deleted from the Fair Market Value of the assets as of the date of such contribution or withdrawal, and the fee shall then be calculated on a pro rata basis.

The fee shall be prorated for any calendar quarter during only a portion of which this Agreement is in effect.

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

RESOLUTION
No. 2004-05

BE IT RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System desires to establish Investment Guidelines for:

Pacific Investment Management (PIMCO) and,

FURTHER RESOLVED, that guidelines were originally adopted August 5, 2003 and,

FURTHER RESOLVED, that the revised guidelines which are attached to this Resolution No. 2004-05 (*3 printed pages*) have been recommended by the System's consultant and staff and shall be effective on the date of funding and,

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System hereby approves the revised guidelines as attached.

Adopted this 3rd day of February, 2004

Arkansas Teacher Retirement System

**FIXED INCOME PORTFOLIO GUIDELINES FOR
PACIFIC INVESTMENT MANAGEMENT COMPANY (PIMCO) FOR THE
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)**

(Adopted August 5, 2003)

(Revised January 22, 2004)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

OBJECTIVE

The goal of the core plus fixed income portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by broad market fixed income portfolios.

The fixed income portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence.

The portfolio must be managed in accordance with the following guidelines and restrictions.

BENCHMARK

The portfolio will be benchmarked to the Lehman Brothers Universal Bond Index.

RISK CONTROL

The total portfolio may invest in the following PIMCO Funds Private Account Portfolios, subject to the restrictions listed below.

<ul style="list-style-type: none">▪ PIMCO Short Term Portfolio▪ PIMCO U.S. Government Sector Portfolio▪ PIMCO Mortgage Portfolio▪ PIMCO Investment Grade Corporate Portfolio▪ PIMCO Real Return Bond Portfolio	<ul style="list-style-type: none">▪ PIMCO Municipal Sector Portfolio▪ PIMCO Asset-Backed Securities Portfolio▪ PIMCO High Yield Portfolio▪ PIMCO International Portfolio▪ PIMCO Emerging Markets Portfolio
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RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

SECURITY TYPE QUALIFICATIONS

The portfolio is limited to investments in the PIMCO Funds Private Accounts Portfolios outlined in the Risk Control section of these guidelines.

INTEREST RATE SENSITIVITY

The effective duration of the total fixed income portfolio will remain within +/- 20% of the effective duration of the Lehman Brothers Universal Bond Index.

CREDIT QUALITY

The total fixed income portfolio will maintain a minimum average credit quality rating of A.

ATRS combined investment in the PIMCO High Yield Portfolio and PIMCO Emerging Markets Portfolio is limited to 20% of the fixed income portfolio. This limitation is intended to ensure at least 80% of the total portfolio is rated investment grade or better.

NON-U.S. EXPOSURE

The fixed income portfolio's non-U.S. exposure shall be gained primarily through the PIMCO International Portfolio and PIMCO Emerging Markets Portfolio. Non-U.S. exposure shall not exceed 25% of the fixed income portfolio.

ATRS investment in the PIMCO Emerging Markets Portfolio is limited to 10% of the fixed income portfolio.

The portfolio's combined allocation to the security types listed below may not exceed 30%.

PIMCO High Yield Portfolio

PIMCO International Portfolio

PIMCO Emerging Markets Portfolio

PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Lehman Brothers Universal Bond Index over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

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. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis.

FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows, and no other payment shall be due Manager, except as explicitly set forth in the Agreement.

For each calendar quarter during which this Agreement is in effect, Manager shall be paid for its services hereunder during such calendar quarter an amount equal to one quarter of the following percentages of the Fair Market Value of the Assets managed by Manager hereunder:

50 Basis points (.50%) on the first	\$ 25 million (U.S.);
37.5 Basis points (.375%) on the next	\$ 25 million (U.S.);
25 Basis points (.25%) on amounts over	\$ 50 million (U.S.).

Fair Market Value shall mean the fair market value as computed by ATRS' custodian and shall include any accruals calculated.

All fees are calculated on Fair Market Value as of the final business day of the calendar quarter, except that any contributions or withdrawals during any calendar quarter shall be added to or deleted from the Fair Market Value of the assets as of the date of such contribution or withdrawal, and the fee shall then be calculated on a pro rata basis.

The fee shall be prorated for any calendar quarter during only a portion of which this Agreement is in effect.

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

RESOLUTION
No. 2004-06

BE IT RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System desires to establish Investment Guidelines for:

Nicholas Applegate Capital Management and,

FURTHER RESOLVED, that guidelines were originally adopted February 10, 2003 and,

FURTHER RESOLVED, that the revised guidelines which are attached to this Resolution No. 2004-06 (3 printed pages) have been recommended by the System's consultant and staff and shall be effective on the date of funding and,

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System hereby approves the revised guidelines as attached.

Adopted this 3rd day of February, 2004

Arkansas Teacher Retirement System

-DRAFT-
**CONVERTIBLE SECURITIES PORTFOLIO GUIDELINES FOR
NICHOLAS APPLGATE CAPITAL MANAGEMENT FOR THE
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)**

(Adopted February 10, 2003)

(Revised _____)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

OBJECTIVE

The goal of convertible portfolio is to provide above-average total return in a manner that is consistent with the typical rate-of-return volatility exhibited by convertible bond market fixed income portfolios.

The convertible portfolio should be broadly diversified across markets, sectors, securities, and maturities in a manner consistent with accepted standards of prudence. A maximum 5% of the portfolio may be invested in any one issue or issuer.

The portfolio must be managed in accordance with the following guidelines and restrictions.

BENCHMARK

The portfolio will be benchmarked to the Credit Suisse First Boston Convertible Securities Index.

RISK CONTROL

The portfolio will be limited to investments in convertible securities including convertible bonds, convertible preferreds and common stock as a result of conversion.

RESTRICTIONS

The total portfolio must comply with the restrictions listed below on the basis of both percentage of assets and percentage contribution to total portfolio duration.

SECURITY TYPE QUALIFICATIONS

Futures, options and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities.

Synthetic convertible bonds are permitted provided that the investment characteristics are of a convertible bond nature.

CREDIT QUALITY

The portfolio will not hold distressed or defaulted bonds with a (issues with a credit rating of D). Issues that are un-rated by any major credit rating agency shall be rated by the investment manager, who shall compare an un-rated bond's fundamental financial characteristics with those of rated bonds to determine the appropriate rating.

NON-U.S. EXPOSURE

Investments in bonds of foreign issuers are permitted in the event the investments are U.S. dollar denominated. A maximum 20% of the portfolio may be invested in such securities.

ADDITIONAL SECTOR AND POSITION LIMITS

Privately placed securities, excluding 144(a) securities, shall not exceed 5% of the total portfolio.

PERFORMANCE MEASUREMENT

The portfolio's return is expected to exceed the return of the Performance Benchmark, which is comprised of the CS First Boston Convertible Securities Index, over a full market cycle (approximately 5 years), net of fees and expenses.

The portfolio's performance is also expected to compare favorably to that of the Index on a risk-adjusted basis.

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. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows, and no other payment shall be due Manager, except as explicitly set forth in the Agreement.

For each calendar quarter during which this Agreement is in effect, Manager shall be paid for its services hereunder during such calendar quarter an amount equal to one quarter of the following percentages of the Fair Market Value of the Assets managed by Manager hereunder:

40 Basis points (.40%) on the first	\$ 100 million (U.S.);
30 Basis points (.30%) on the next	\$ 100 million (U.S.);
25 Basis points (.25%) on the next	\$ 100 million (U.S.);
20 Basis points (.20%) on amounts over	\$ 300 million (U.S.).

Fair Market Value shall mean the fair market value as computed by ATRS' custodian and shall include any accruals calculated.

All fees are calculated on Fair Market Value as of the final business day of the calendar quarter, except that any contributions or withdrawals during any calendar quarter shall be added to or deleted from the Fair Market Value of the assets as of the date of such contribution or withdrawal, and the fee shall then be calculated on a pro rata basis.

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

RESOLUTION
No. 2004-07

BE IT RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System desires to establish Investment Guidelines for:

UBS Global Asset Management

FURTHER RESOLVED, that guidelines were originally adopted February 10, 2003 and,

FURTHER RESOLVED, that the revised guidelines which are attached to this Resolution No. 2004-07 (2 printed pages) have been recommended by the System's consultant and staff and shall be effective on the date of funding and,

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System hereby approves the revised guidelines as attached.

Adopted this 3rd day of February, 2004

Arkansas Teacher Retirement System

-DRAFT-
INVESTMENT GUIDELINES FOR
UBS GLOBAL ASSET MANAGEMENT FOR THE
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)
(Adopted February 10, 2003)
(Revised _____, 2004)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

STRATEGY

The Manager's investment philosophy focuses on determining the underlying value of a security -- the manager buys and sells securities where the market price differs significantly from its estimate of the stock's value.

BENCHMARK

The portfolio will be benchmarked to the MSCI All-Country World Ex-U.S. Index.

RISK CONTROL

- **Prohibitions or Limitations**
 - Securities eligible for investment include, non-US dollar denominated, publicly traded, exchange listed equities and ADRs, rule 144A securities, convertible securities, as well as cash and cash equivalents as necessary.
 - Leverage and short selling of stocks are prohibited.
 - The active management of currency exposure through the use of forward currency exchange contracts or similar instruments is permitted as a means to enhance returns or reduce risk.
 - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
- **Requirements**
 - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the MSCI All Country World Ex-U.S. Index over a full market cycle (approximately 5 years), net of fees and expenses.

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. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows, and no other payment shall be due Manager, except as explicitly set forth in the Agreement.

For each calendar quarter during which this Agreement is in effect, Manager shall be paid for its services hereunder during such calendar quarter an amount equal to one quarter of the following percentages of the Fair Market Value of the Assets managed by Manager hereunder:

50 Basis points (.50%) on the first	\$ 100 million (U.S.);
40 Basis points (.40%) on next	\$ 200 million (U.S.);
25 Basis points (.25%) on amounts over	\$ 300 million (U.S.).

Fair Market Value shall mean the fair market value as computed by ATRS' custodian and shall include any accruals calculated.

All fees are calculated on Fair Market Value as of the final business day of the calendar quarter, except that any contributions or withdrawals during any calendar quarter shall be added to or deleted from the Fair Market Value of the assets as of the date of such contribution or withdrawal, and the fee shall then be calculated on a pro rata basis.

The fee shall be prorated for any calendar quarter during only a portion of which this Agreement is in effect.

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

RESOLUTION
No. 2004-08

BE IT RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System desires to establish Investment Guidelines for:

Capital Guardian Trust Company

FURTHER RESOLVED, that the desired guidelines which are attached to this Resolution No. 2004-08 (3 printed pages) have been recommended by the System's consultant and staff and shall be effective on the date of funding and,

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System hereby approves the revised guidelines as attached.

Adopted this 3rd day of February, 2004

Arkansas Teacher Retirement System

-DRAFT-
INVESTMENT GUIDELINES FOR
CAPITAL GUARDIAN TRUST COMPANY FOR THE
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)
(Adopted February 1, 2004)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

STRATEGY

The Manager's objective is to seek long-term growth of capital through a value-oriented stock selection process.

BENCHMARK

The non-U.S. equity portfolio will be benchmarked to the MSCI EAFE Index.

RISK CONTROL

- **Prohibitions or Limitations**
 - Securities eligible for investment include but are not limited to, equities listed on a stock exchange or traded in another recognized market and include but are not limited to, common and preferred stocks, ADRs and other U.S. dollar denominated foreign securities rule 144A securities, convertible securities, rights, warrants, Real Estate Investment Trusts (REITs), private placements (only those for which a public market exists) as well as cash and cash equivalents as necessary. Instruments acquired as a result of corporate actions are permitted.
 - Equity securities of U.S. companies are prohibited.
 - Leverage and short selling of stocks are prohibited. For the purposes of this limitation short-term overdrafts related to operational difficulties, the purchase of partially-paid shares and the purchase of when-issued securities are not considered to create leverage.
 - The active management of currency exposure through the use of forward currency exchange contracts or similar instruments is permitted as a means to enhance returns or reduce risk. Hedging and Cross-Hedging are both permitted.
 - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.

- The portfolio may not purchase a security of a company of a country not included in the Benchmark (excluding Canada which is not included in this limitation), if, as a result, more than 15% of the portfolio's assets would be invested in such companies, or more than 10% of the portfolio's assets would be invested in emerging markets companies.
- **Requirements**
 - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less except during temporary transitional periods including contributions or withdrawals. The base currency of the portfolio is USD. Cash may be held in base or other non-U.S. currencies.

PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the MSCI EAFE Index over a full market cycle (approximately 5 years), net of fees and expenses.

PROXY VOTING

ATRS authorizes the manager to vote all proxies related to stocks in which it invests pension assets. ATRS expects the Manager to cast votes solely in the best interest of plan beneficiaries. In addition, the Manager will report annually to ATRS on its proxy voting policies and activities on ATRS' behalf.

TRANSACTION COSTS

In its capacity as a plan fiduciary, the Manager is expected to manage the transaction costs it incurs on ATRS' behalf in the best interests of ATRS' beneficiaries. The Manager will report to ATRS on the transaction costs incurred and the brokers used on ATRS' behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows, and in accordance with the Fee Schedule attached to the Agreement.

For each calendar quarter during which this Agreement is in effect, Manager shall be paid for its services hereunder during such calendar quarter an amount equal to one quarter of the following percentages of the Fair Market Value of the Assets managed by Manager hereunder:

70 Basis points (.70%) on the first	\$ 25 million (U.S.);
55 Basis points (.55%) on next	\$ 25 million (U.S.);
42.5 Basis points (.425%) on next	\$ 200 million (U.S.);
37.5 Basis points (.375%) on amounts over	\$ 250 million (U.S.).

Fair Market Value shall mean the fair market value as computed by ATRS' custodian and shall include any accruals calculated.

All fees are calculated on Fair Market Value as of the final business day of the calendar quarter, except that any contributions or withdrawals during any calendar quarter shall be added to or deleted from the Fair Market Value of the assets as of the date of such contribution or withdrawal, and the fee shall then be calculated on a pro rata basis.

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

RESOLUTION
No. 2004-09

BE IT RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System desires to establish Investment Guidelines for:

Wellington Management Company, LLP

FURTHER RESOLVED, that the desired guidelines which are attached to this Resolution No. 2004-09 (2 printed pages) have been recommended by the System's consultant and staff and shall be effective on the date of funding and,

FURTHER RESOLVED, that the Board of Trustees of the Arkansas Teacher Retirement System hereby approves the revised guidelines as attached.

Adopted this 3rd day of February, 2004

Arkansas Teacher Retirement System

-DRAFT-
INVESTMENT GUIDELINES FOR
WELLINGTON MANAGEMENT COMPANY, LLP FOR THE
ARKANSAS TEACHER RETIREMENT SYSTEM (ATRS)
(Adopted _____, 2004)

These investment guidelines extend the "Statement of Investment Policy for the Arkansas Teacher Retirement System" as amended and revised.

Investment managers appointed to execute the policy will invest pension assets in accordance with the assigned investment guidelines, but apply their own judgments concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual securities, (2) make decisions as to the allocation to cash equivalents and (3) diversify pension assets.

STRATEGY

The Manager's objective is to seek long-term total return in excess of its benchmark using a bottom-up stock selection process.

BENCHMARK

The non-U.S. equity portfolio will be benchmarked to the MSCI All Country World ex-U.S. Index.

RISK CONTROL

- **Prohibitions or Limitations**
 - Securities eligible for investment include, non-US dollar denominated, publicly traded, exchange listed equities and ADRs, rule 144A securities, convertible securities, as well as cash and cash equivalents as necessary.
 - Equity securities of U.S. companies are prohibited.
 - Leverage and short selling of stocks are prohibited.
 - The active management of currency exposure through the use of forward currency exchange contracts or similar instruments is permitted as a means to enhance returns or reduce risk.
 - The portfolio may not hold, at the time of purchase, more than 5% of the issued capital of a company.
 - Emerging markets securities are allowed and may comprise up to 15% of the total portfolio market value.
- **Requirements**
 - The portfolio generally will be fully invested in equity and equity-related securities. The normal cash level, including cash equivalents, will be 5% of assets or less.

PERFORMANCE EXPECTATION

The portfolio's return is expected to exceed the return of the MSCI All Country World ex-U.S. Index over a full market cycle (approximately 5 years), net of fees and expenses.

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 and in accordance with the Manager's Proxy Voting Guidelines. 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. The manager will report to the Trustees on the transaction costs incurred and the brokers used on the System's behalf on a quarterly and annual basis as described in the soft dollar policy outlined in the Statement of Investment Policy.

FEE SCHEDULE

ATRS shall pay Manager a fee to be computed as follows:

For each calendar quarter during which this Agreement is in effect, Manager shall be paid for its services hereunder during such calendar quarter an amount equal to one quarter of the following percentages of the Fair Market Value of the Assets managed by Manager hereunder:

50 Basis points (.50%) on the first	\$ 200 million (U.S.);
45 Basis points (.45%) on amounts over	\$ 200 million (U.S.).

Fair Market Value shall mean the fair market value as computed by ATRS' custodian and shall include any accruals calculated.

All fees are calculated on Fair Market Value as of the final business day of the calendar quarter, except that any contributions or withdrawals during any calendar quarter shall be added to or deleted from the Fair Market Value of the assets as of the date of such contribution or withdrawal, and the fee shall then be calculated on a pro rata basis.

ATRS and Wellington Management Company have agreed that the Discounted Fee Schedule set forth above is contingent upon an initial funding of the Account of US\$300 million and maintenance of a minimum asset level in the Account of at least US \$300 million. If the assets of the Account fall below US \$300 million due to market movement then the Discounted Fee Schedule shall continue to apply, however, if the Account assets fall below US \$300 million due to Client withdrawals or asset allocation shifts, Wellington's Standard Fee Schedule shall apply, as set forth in the Investment Management Agreement.

Committees of the Arkansas Teacher Retirement System

Board of Trustees

Investment Committee

John Fortenberry, Chair *(Elected 8/18/03)*
Linda Parsons, Vice Chair *(Elected 8/18/03)*

Winfred Clardy *(Term Expires 1/1/06)*
Paul Fair *(Term Expires 2/11/07)*
Gus Wingfield *(Term Expires 1/1/08)*
Hazel Coleman *(Term Expires 1/5/05)*

Policies Committee

(Appointed 1/16/01- Terms expire 1/16/05)

Paul Fair, Chair
Hazel Coleman
John Fortenberry
Betty McGuire
Linda Parsons

Legislative Committee

(Appointed 2/11/02 – Terms expire 2/11/06)

Winfred Clardy
Charles Dyer
Betty McGuire
Robin Nichols
Linda Parsons

ARKANSAS TEACHER RETIREMENT SYSTEM

**2004
Meeting Schedule**

REGULAR BOARD MEETINGS

INVESTMENT COMMITTEE

February 2 & 3

January 20 (Tuesday-due to holiday)

March 15

April 5 & 6

May 17

June 13, 14, 15 Board Seminar

July 19

August 9 (Only if necessary)

September 20

October 4 & 5

November 15

December 6 & 7

All Investment Committee meetings are scheduled for 1:00 p.m. Regular Board meeting times will depend on the business at hand and will be announced in advance of the meetings.