

MINUTES

Arkansas Teacher Retirement System
Board of Trustees Meeting
April 5, 2004

The Board of Trustees of the Arkansas Teacher Retirement System met on Monday, April 5, 2004 at 1:00 p.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*
Monty Betts
Winfred Clardy
Hazel Coleman
Charles Dyer
Dr. Paul Fair
Betty McGuire
Robin Nichols
Ellen Terry
Gus Wingfield
Steve Kelly for Jim Wood

Press Members Present:

Mike Wickline, *Arkansas Democrat Gazette*

Members of the Board Absent:

Bunny Adcock

Staff Members Present:

David R. Malone, *Executive Director*
Julie M. Cabe, *Deputy Director*
Debbie White, *Project Analyst*
Wayne Greathouse, *Investments*

Guests Present:

Lawrence Colston, *Incoming Trustee*
Lori Crosley, *EnnisKnupp*
Stephen Cummings, *EnnisKnupp*
Jim McGuire, *Trustee spouse*

I. Roll Call

Chair Linda Parsons called the meeting to order. Roll was taken and Minutes recorded by Debbie White.

II. Approval of Agenda

The Executive Director advised that he would need to add four additional items for consideration before the Manager Reports were presented that came up after the publication of the Agenda. Mr. Fortenberry [moved](#) to accept the revised Agenda. Ellen Terry seconded the motion, which carried.

III. Added Agenda Items

A. Real Estate-Cherry Brook property in Little Rock

The Executive Director presented to the Board an offer from the President of the Hathaway Group to purchase the Cherry Brook property in west Little Rock for \$1.2 million. Hazel Coleman made the [motion](#) to authorize the Director to proceed with the sale; Betty McGuire seconded the motion, which was approved.

B. Cooper Realty Investments (Nashville property)

Mr. Malone advised that Cooper Realty Investments had requested a cash call of \$2.4 million to revamp the parking lot at the Nashville office site in order to accommodate an out-parcel lease. He advised that an offer to purchase ATRS's partnership percentage had also been made for the property, but after due diligence research by Tom Ferstl had been done, Mr. Ferstl's and staff's recommendation would be that the offer was not viable at this time. Therefore, the staff recommendation presented was to turn down the offer from Cooper to buy out ATRS's percentage of the partnership, but that the cash call needed to be done in order to protect ATRS's partnership percentage. Charles Dyer made a [motion](#) to approve staff's recommendation. Winfred Clardy seconded the motion, which was approved.

C. Wachovia Timberland Investment Management Contract

The Executive Director advised that Wachovia had been sold to Regions, Morgan Keegan, but that the same people handling ATRS's investments would continue, with no other changes. Therefore, staff's recommendation was upon receipt of notification from Regions, Morgan Keegan, that the Executive Director has the authority to execute a management contract with Regions, Morgan Keegan in order for a smooth transition. Betty McGuire made a [motion](#) to approve the staff recommendation. Charles Dyer seconded the motion, which passed.

D. Fixed Income Manager Guidelines

Mr. Malone advised that the consultants had presented revised Investment Guidelines (*attachment 1 of these Minutes*) for Wellington, Capital Guardian and UBS. Mr. Malone stated that because of concerns as a result of some prior investments in India, these revisions would limit the manager's ability to invest in direct holdings in India, but give access to this market through commingled vehicles, ADRs, GDRs and participation notes. Mr. Fortenberry made a [motion](#) to approve these revisions. Gus Wingfield seconded the motion, which was approved.

IV. Executive Director's Comments

A. Rebalancing of Portfolio

Mr. Malone reviewed information that was discussed at the Investment Committee on March 15, 2004 regarding the need to rebalance the portfolio. He advised that the Investment Committee had interviewed prospective managers and approved the staff recommendation to hire Capital Guardian as a large cap manager. He advised that since that recommendation Cap Guardian had moved into more of a mid to large cap range. The staff recommendation is to take \$50 million from Eubel Brady, \$50 million from Daruma and \$100 million from Kennedy, for a total of approximately \$200 million that would be moved to Capital Guardian as soon as possible. There was some discussion regarding the choices of managers that would be losing funding and different manager's styles. The Executive Director advised that after the approval of the new contract for Capital Guardian comes through the legislative process, he and Wayne Greathouse would look at where the portfolio was positioned at that time and select the proper managers to take funds from in order to bring the portfolio into balance. Further discussion was held on how to mitigate the style bias within the portfolio. Stephen Cummings, of EnnisKnupp stated that mitigating the style bias has been one of the consultant's main issues for over two years. Lori Crosley advised that managers chosen to take funds from, should not be considered as being penalized, but profits they've made would be taken to use in moving toward reaching the benchmark. Mr. Malone stated the need to be flexible in order to reposition when styles change to reap growth when the opportunity comes. He advised rebalancing should be done as a discipline to reach the most potential in the investment pool. Mr. Wingfield asked Mr. Malone to clarify the process and timing of the rebalancing plans. Mr. Malone stated that ATRS Policy gives the authority to the Executive Director to do the allocation and report it to the Board periodically.

He stated his desire to alleviate any concerns from Trustees about this process, but advised that because he is unbiased in his opinion about manager's performances and because of the fast switches within the market, his intention was to proceed with staff allocation choices when the contract was in place. No action was required or taken.

V. Portfolio Manager Reports

The following U.S. equity managers presented their annual report to the Board:

Nicholas Applegate, *Jack Gastler, Doug Forsythe*
TCW, *John Lowman, Doug Foreman*
Kennedy Capital, *Richard Sinise*
Daruma, *Noreen McKee, Mariko Gordon*
ING Aeltus, *Michael Beane*

VI. Additional Executive Director Updates

A. Securities Monitoring

Mr. Malone advised that Bernstein Litowitz Berger and Grossmann, attorneys hired to monitor trades in the system portfolio, has recently identified and reported a situation that could lead ATRS to become the lead plaintiff in litigation. Mr. Malone advised that if this becomes the case, ATRS should be prepared for some attention from the press. He will continue to communicate with the attorneys and advise the Board as necessary.

B. The Executive Director advised that a hearing on the right to possession in the Kilgore nursing center situation was set for April 8, 2004, but a request for continuance was being sought which would move the hearing to April 19, 2004.

C. Alternative Investments

Mr. Fortenberry made a [motion](#) to authorize the Executive Director and staff to handle some probable decisions coming up in the near future within alternative investments, with regards to contracts and possible extensions. Gus Wingfield seconded the motion. After some time of discussion, Mr. Wingfield called for a vote on the question. The motion was approved.

VII. Adjournment

With no other business to be heard, the meeting adjourned by common consent.