

MINUTES

**ARKANSAS TEACHER RETIRMENT SYSTEM
BOARD of TRUSTEES
1400 West Third Street
Little Rock, AR 72201**

**Monday, October 6, 2008
1:00 p.m.**

| ATTENDEES | |
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| Board Members Present | ATRS Staff |
| Dr. Richard Abernathy | Gail Bolden, Chief Operating Officer |
| Monty Betts | Judy Brown, Supv. Retiree Payroll |
| Hazel Coleman, Vice Chair | Christa Clark, Chief Legal Counsel |
| Mike Creekmore designee for Martha Shoffner | Suzanne Davenport, Chief Financial Officer |
| Dr. Paul Fair | Paul Doane, Chief Executive Officer |
| John Fortenberry | Kim Godfrey, Deputy Legal Counsel |
| Steve Kelly designee for Jim Wood | Markay Grimmett, Investments |
| Beverly Leming | Wayne Greathouse, Dir. Public Sectors |
| Susannah Marshall designee for Candice Franks | Mullahalli Manjunath, Mgr. Data Processing |
| Robin Nichols, Chair | Willana Prince, Member Services |
| Linda Parsons | Michael Ray, Dir. Member Services |
| Janelle Riddle | Hugh Roberts, Dir. of Real Estate |
| | George Snyder, Chief Risk Management/Internal Audit |
| Board Members Absent | Jane Toledo, Secretary |
| Dr. Ken James | Leslie Ward, Dir. of Private Equity |
| Bobby Lester | |
| | Guests |
| Consultants Present | Bryant Cranford, Esq., Rose Law Firm |
| PJ Kelly, Ennis Knupp | Hellen Halloway, ARTA President Elect |
| Joe Marzano, Ennis Knupp | Richard Hutchison, AEA |
| | Mike Mertens, AAEA |
| | Matthew Miller, BLR |
| | Evelyn Nelson |
| | Warren Stephens, Stephens, Inc. |
| | Warren Simpson, Stephens, Inc. |
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- I. **Call to Order/Roll Call.** Chair, Robin Nichols, called the meeting to order at 1:05 p.m. Roll call was taken and Dr. Ken James and Bobby Lester were noted as absent.
- II. **Adoption of Agenda. THE MOTION FOR ADOPTION OF THE AGENDA WAS MADE BY DR. ABERNATHY AND SECONDED BY MS. PARSONS. CHAIR, ROBIN NICHOLS MADE TWO CHANGES TO THE AGENDA MOVING ITEM "IX. SELECTION OF OPPORTUNISTIC GLOBAL EQUITY MANAGERS" TO BECOME ITEM V. AND ADDING AS NEW ITEM AS PART OF THE CHIEF EXECUTIVE OFFICER'S REPORT. "PRESENTATION BY MR. WARREN STEPHENS". THE AGENDA, AS AMENDED, WAS UNANIMOUSLY APPROVED BY THE BOARD.**
- III. **Approval of Board of Trustees Minutes from August 7, 2008. THE MOTION FOR APPROVAL OF THE AUGUST 7, 2008 BOARD OF TRUSTEES MINUTES WAS MADE BY MS. LEMING, SECONDED BY MS. COLEMAN, AND UNANIMOUSLY APPROVED BY THE BOARD.**
- IV. **Committee Meeting Reports/"DRAFT" Minutes.** The following Minutes (items A-E) were presented to the Board for review as an update of Committee actions and will be presented at future Committee meetings for approval.
 - A. **Combined Executive and Policies/Legislative Committee of August 7, 2008.** Robin Nichols, BOT Chair
 - B. **Investment Committee of August 7, 2008 and September 23, 2008.** Beverly Leming, Chair
 - C. **Administrative Personnel Committee of September 22, 2008.** Janelle Riddle, Chair
 - D. **Executive Committee of September 22, 2008.** Dr. Richard Abernathy, Chair
 - E. **Policies/Legislative Committee of September 23, 2008.** Linda Parsons, Chair
 - 1) **Approval of Certain Rules & Regulations Changes.** (Resolution No. 2008-60) Christa Clark, Chief Legal Counsel gave a brief overview of this Resolution which authorizes staff to proceed with policy changes previously presented and approved by Committees. Policy 9-1 clarifies the implementation of the Compound Cola, Policy 9-3 is technical corrections on Disability Retirement, Policy 8-7 clarifies the requirements for ATRS members who are establishing service credit for Free Military Service under A.C.A. §24-7-601, Policies 11-3 and 11-4 updates ATRS' model QDRO order (adopted in 1995) to include

legislative changes, address T-DROP, and make language consistent with how our plan is currently operating. These QDRO changes are primarily technical and will assist staff in performing calculations as well as avoiding the need to utilize ATRS' actuary for calculations.

THE MOTION FOR ADOPTION OF RESOLUTION NO. 2008-60 WAS MADE BY MS. PARSONS, SECONDED BY MS. COLEMAN, AND UNANIMOUSLY APPROVED BY THE BOARD.

- V. **Selection of Opportunistic Global Equity Managers.** (Resolution No. 2008-64) PJ Kelly of Ennis Knupp reviewed the presentation "Global Equity Manager Finalists" dated October 2008 with the Board. This is a request for approval to retain a series of managers (at least three) that have been recommended by the Investment Committee and who would offer complementary yet unique strategies with their global portfolio platforms. Funds would be drawn from other global and US active and passive managers.

THE MOTION THAT THE BOARD OF TRUSTEES APPROVE THE RECOMMENDATION OF THE INVESTMENT COMMITTEE TO RETAIN THE FOLLOWING THREE INVESTMENT FIRMS AS GLOBAL EQUITY MANAGERS: BEDLAM ASSET MANAGEMENT, LONDON, UK (\$200 MILLION ALLOCATION); DE SHAW, NEW YORK, NY (\$300 MILLION ALLOCATION) AND LAZARD INVESTMENT MANAGEMENT (\$300 MILLION ALLOCATION. FUNDING IS TO COME FROM THE EXISTING GLOBAL PORTFOLIO AS PROPOSED BY THE ENNIS GLOBAL EQUITY MANAGER FINALISTS REPORT OF OCTOBER 2008 AND FURTHER TO INSTRUCT THE STAFF TO UNDERTAKE ALL NECESSARY ACTIONS, INCLUDING NEGOTIATION OF FEES, TO EFFECTUATE THIS MOTION.

AND

THE MOTION THAT THE BOARD OF TRUSTEES APPROVE THE RECOMMENDATION OF THE INVESTMENT COMMITTEE TO CONVERT THE EXISTING MANDATES OF WELLINGTON MANAGEMENT'S GLOBAL RESEARCH PORTFOLIO, OPPENHEIMER CAPITAL'S DOMESTIC LARGE CAP VALUE PORTFOLIO AND T ROWE PRICE DOMESTIC LARGE CAP GROWTH PORTFOLIO INTO THE FOLLOWING PORTFOLIO STRATEGIES OFFERED BY WELLINGTON MANAGEMENT, BOTH ITS GLOBAL OPPORTUNITY FUND (\$100 MILLION) AND ITS GLOBAL PERSPECTIVES PORTFOLIO (\$200 MILLION), AND T ROWE PRICE, ITS GLOBAL PORTFOLIO (\$200 MILLION). FUNDING IS TO

COME FROM THE EXISTING PORTFOLIOS WITH EACH FIRM ACCORDING TO THE ENNIS KNUPP GLOBAL EQUITY MANAGER FINALISTS REPORT OF OCTOBER 2008 AND FURTHER TO INSTRUCT THE STAFF TO UNDERTAKE ALL NECESSARY ACTIONS, INCLUDING NEGOTIATION OF FEES WHERE POSSIBLE, TO EFFECTUATE THIS MOTION WAS MADE BY MS. LEMING, SECONDED BY MS. PARSONS, AND UNANIMOUSLY APPROVED BY THE BOARD.

The Board requested negotiation of Lazard Investment Management's higher fees.

VI. Staff Reports.

- A. **Medical Board Report.** Willana Prince, Supervisor Benefits and Counseling, presented the July, August and September, 2008 Summaries of Disability Applications Submitted for Consideration by the Medical Committee to the Board.

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

- B. **Personnel Report.** Gaye Swaim, Director of Human Resources, presented the Personnel Report, the Office of Personnel Management of the Department of Finance and Administration's Pay Plan Study and 2009-2011 Pay Plan Implementation Recommendations. Ms. Swaim reviewed ATRS' Hiring Process, including OPM job classification (job description), advertisement/posting requirements, application review and selection process, candidate interview and selection process, the interview panel, the scoring of the candidate, the Position Disposition Form signed by the Executive Director, background checks and the Offer Letter.
- C. **Chief Fiscal Officer's Report.** Suzanne Davenport, Chief Financial Officer, provided the Financial Comparison versus Previous Year report for April and May of 2008 to the Board and reviewed details of the June 2008 Balance Sheet/Income Statement.
- D. **Payroll Report.** Judy Brown, Supervisor of Retiree Payroll, provided the March, April, May, June, July, August and September, 2008 Payroll Report and reviewed details with the Board. The Board was also provided with a review of the Cost-of-Living increase comparing July 2007 and July 2008.

- E. **Investments Report.** Wayne Greathouse, Director of Public Sectors, reviewed the updated Public Securities status report for the ATRS portfolio as of September 30, 2008 indicating only two significant changes 1) most managers balances have gone down due to the market situation and funding some of the real estate and private equity draws are coming out of the public sectors, and 2) the addition of Lincoln Vale, was noted and will be funded with \$15 million on November 1, 2008. Per the Boards' request a 5-year review of manager fees was provided. Fees and percentage of assets going towards fees and commissions remain the same over this time period.
- F. **Chief Operating Officer's Report.** Gail Bolden updated the Board on renovations, which included adding additional cubes on the second floor, are complete. Plans to enhanced security measures are moving forward, Senior Staff members obtained and reviewed bids for security cameras to monitor the parking areas, Irwin Saviers will oversee the installation of the cameras. The Pre-Retirement counselors are taking laptops with them out in the field. In order to secure our member's data, all data is encrypted, only the counselors have the keys and if someone were to get into one of these laptops the only thing that could be done is to reformat the drive.
- G. **Chief Legal Counsel's Report.** Christa Clark

Legal is currently reviewing the tax issue of withholdings on the lump sum death benefit. ATRS has received materials, which are currently being reviewed. A recommendation is expected from Policies/Legislative Committee for the December meeting.

The pending fiduciary insurance issue is also being reviewed. One of the major carriers that had bid on the Boards fiduciary insurance changed their policy and developed their own form for the insurance. ATRS' insurance broker was not familiar with the new form and was not comfortable making a recommendation until was reviewed by specialists. A recommendation is expected for the December meeting.

1) **Selection of Alternatives Investment Counsel.**

With the growing demands on in house legal staff to address the expanding commitments to private markets, it is important to have a relationship with special investment counsel experienced in the subtleties and legal documents related to private equity, real estate, hedge fund partnerships and other vehicles that are part of the private market/alternatives investment arena. The

firms will be billing in increments on a monthly basis, but their rates are very competitive.

THE MOTION TO HIRE THE TWO FIRMS OF KUTAK ROCK, LLP AND MORGAN LEWIS, LLP AS ALTERNATIVES INVESTMENT COUNSEL WAS MADE BY MS. LEMING, SECONDED BY DR. ABERNATHY, AND UNANIMOUSLY APPROVED BY THE BOARD.

2) **Selection of Portfolio Monitoring Counsel.**

This request involves the area of class action counsel and the pursuit of fraud and other misdeeds by the management of public companies in which ATRS is invested. Currently we employ the firm of Bernstein Litowitz Berger for such services. This firm will continue to be engaged by ATRS. The general policy is to have several such firms who monitor our portfolio and when they determine that there is a potential claim or defensible action against a company, they will notify and seek to have ATRS serve in a lead plaintiff action to recover losses incurred due to fraudulent or other wrongful action. A formal RFP process was undertaken. The firms are to be engaged on a purely contingent basis for Portfolio Monitoring Services. ATRS will receive quarterly monitoring reports and recommendations for review by legal counsel.

THE MOTION TO ADD THREE FIRMS TO THE ATRS APPROVED LIST OF MONITORING COUNSEL OF 1) KAPLAN FOX, LLP OF NEW YORK; 2) NIX, PATTERSON & ROACH, LLP OF DANGERFIELD, TEXAS; AND 3) LABATON SUCHAROW, LLP OF NEW YORK, WAS MADE BY MS. LEMING, SECONDED BY MS. RIDDLE, AND UNANIMOUSLY APPROVED BY THE BOARD.

- H. **Chief Risk Management/Internal Audit Report.** George Snyder reported that as of September 22, 2008 ATRS is completely staffed. There is one person directly responsible for the Business Continuity Plan, which is moving along really well. Will provide draft when available. The Internal Audit has started doing the assessment of risk, breaking down from agency to division, to processes, to steps and figuring out what internal controls are in place, if any. From that process a level of risk is assigned, then the materiality of the risk is assessed with recommendations of changes and processes with follow-ups to be monitored monthly. Internal Audit is systematically

going through the System looking at every process and every department to create a complete flowcharted narrative design of how everything in the agency works. From that Risk Management will determine levels of risk by examining what is in place to control potential errors that could happen and from that recommending changes dealing with the monitoring, set the levels of where we are going to do what we are going to look and design and entire audit plane. It is anticipated that within 4-6 months there will be a draft available for Committee and Board review.

VII. Presentation by Warren Stephens, CEO of Stephens, Inc. Warren Stephens (CEO of Stephens, Inc. since 1986) and Warren Simpson presented their insights with regard to the current market situation. Mr. Warren Stephens provided several handouts and charts to the Board for review, which details what is going on in the financial world and in the credit markets right now which is unprecedented. Of the items reviewed was the VIX Index. The VIX Index is a measure of volatility in the stock market created based on options trading at the Chicago Board of Options looking at a broad base of companies and the buying and selling in those options to create the VIX Index. The U.S. Commercial Paper Market chart show the lack of loans to U.S. Companies in the U.S. Paper market making it hard time for companies to fund their day to day operations. The Federal Reserve injected \$900 Billion to get people lending again. The London Inter-Bank Borrowing Rate (LIBOR) is the rate banks loan other banks and the chart indicates an almost straight up movement in the LIBOR rate meaning banks are not willing to lend to other banks largely due to the real estate backed securities and the derivatives on the books of other financial institutions not be properly priced on the books and the possibility that the bank may not be solvent. Credit Default Slots indicating the increase in insurance premiums to secure returns on investments. Lehman Brothers, Bear Sterns, Merrill Lynch will become part of Bank of American, JP Morgan and Goldman Sachs had to convert to bank holding companies to access to the Fed to be able to keep their operations going. All of these firms are either gone or substantially changed in their format and going forward will mean a great deal of change to the employees and the way they operation. Many of these companies were leveraged 30 to 1 since the 1990s. Additionally, instead of having equities and traditional corporate bonds they had, as a group, 0 asset backed securities in 1990 to 25% of their assets in mortgage backed securities and derivatives (50/50). Not pretty, not fun, will manage to get through current market situation which will require a fundamental change in the way our financial system operates, securitization and regulations. This is not a "wall street bailout" but a way of unfreezing the system.

VIII. Chief Executive Officer's Report. Paul Doane, CEO discussed several areas including details related to the upcoming election of Board Members cycle set to commence later this year. The recently approved Ennis Knupp contract was recently reviewed at the Legislative level and approved. There an update on the earlier approved concept of implementation of a "paperless board meeting".

- A. **Discussion of Committee Reassignments/Appointments.** The Board was provided with a summary of the current Committees listing.
- B. **Board Membership Discussion and Election Schedule.** Summary of the projected timeframe for the upcoming elections for the three positions in the Spring taking office July 1, 2009 including the election vendor selection process. The following corrections were noted on summary of term expirations, Ms. Parsons represents the 4th Congressional District and Ms. Riddle represents the 3rd Congressional District.

Legal Counsel is to provide the Board with a requested copy of the previously adopted rotation schedule regarding committee terms and expirations.

- C. **Code of Conduct.** This is a suggested format for review and possible adoption by the Board at a future meeting of the Board.
- D. **Ennis Knupp Contract.**
- E. **Paperless Meetings Update.** Still proceeding with the Paperless Board Meeting. The Board was provided with a summary of the process as well as the pros and cons for review. It is anticipated that this will be in place at the beginning of the next term (July 1, 2009).

CEO provided a report/summary to the Board regarding upcoming staff travel and will provide a summary at each Board meeting. Trustees were reminded of the requirement (Resolution 2008-01) to provide a written/verbal report to the Board for any conferences attended. CEO provided a brief summary of the allowable expense reimbursements for GSA guidelines, which was also outlined in a memo provided to the Board.

CEO provided an update to members to address some of the financial chaos and the benefits of a defined benefits plan vs. defined contribution plans.

CEO visited with Bernstein Litowitz while on due diligence visits in New York and requested a more user friendly/client sensitive report to be provided on

things specifically affecting ATRS. This is expected at the next reporting cycle.

Rodney Thomason, head of Fox Ridge management team at Woodland Heights. The lease up was started 4-5 months behind schedule and are now on schedule with 14 units leased up on the new building at a pace of 1-1/2 units per month.

IX. Authorization of Staff to Pursue Biennium Contract for Election Vendor.

(Resolution No. 2008-61) Christa Clark, Chief Legal Counsel requested the Board's to authorize the staff to proceed with the process and hiring of a qualified vendor to handle the election of new Board members. To stay on track with the December launch of the election cycle and given the fact that the Board does not reconvene until early December, there would be inadequate time for the Board to approve a vendor at that date. Staff will provide and keep the Board advised of its progress in lining up the firm to conduct this role. Also, it is important from a cost and time saving standpoint to retain a firm that will be able to manage the election process (which will involve a state wide effort for certain positions up for election) for both the 2009 and 2010 years. Three seats are slated to expire each of the next two years.

THE MOTION FOR ADOPTION OF RESOLUTION NO. 2008-61 WAS MADE BY MS. LEMING, SECONDED BY MS. RIDDLE, AND UNANIMOUSLY APPROVED BY THE BOARD.

X. Approval of Investment Committee Policy Change to Add Two Non-Board Members. (Resolution No. 2008-62) Paul Doane, CEO This action would have the Investment Committee add two non-Board members to be selected by the Investment Committee from a group with strong experience in the investment community. There have been excellent candidates that have indicated interest to serve without compensation.

THE MOTION FOR ADOPTION OF RESOLUTION NO. 2008-62 WAS MADE BY MS. LEMING, SECONDED BY MS. PARSONS, AND UNANIMOUSLY APPROVED BY THE BOARD.

XI. IRS Determination Letter Discussion. Paul Doane, CEO and Bryant Cranford, Esq., outside Counsel and staff reviewed the merits of considering the seeking of a Letter of Determination from the IRS that would be important in insuring the continued tax qualified status of the Fund. The last such Letter was secured in 1972 by the Board. There is considerable controversy and differences of opinion about whether it is appropriate to volunteer for this type of examination by the IRS versus taking a "wait and see" attitude. There are

significant costs (\$15-30K) to becoming involved in the process. Bryant Cranford provided a memo which he reviewed summarizing this issue for the Board. Mr. Cranford's final recommendation was to pursue an IRS Determination Letter, which would allow ATRS to reduce the percentage of any fines.

This will also be a topic of discussion at the upcoming NCTR conference being attended by the CEO and several Trustees. A decision needs to be made by January 2009 regarding the filing of an IRS Determination Letter.

This was a discussion only item and no decision was made at this time.

- XII. Approval to Authorize the Undertaking of a System's Compliance Audit.** (Resolution No. 2008-63) Due to the exigent nature of this matter, if it was felt appropriate to pursue, this action would authorize the staff to enter into a process that would result in the selection of a firm to conduct an in-depth audit of the System to best insure its compliance with all appropriate tax laws and statutes. It would be an important step if the Board sought a Letter of Determination or not.

THE MOTION FOR ADOPTION OF RESOLUTION 2008-63 WAS MADE BY MS. LEMING, SECONDED BY MS. RIDDLE, AND UNANIMOUSLY APPROVED BY THE BOARD.

The Board requested to be kept informed as to the status of this process. CEO is to contact Nancy Williams of Ennis Knupp and/or our Actuary, GRS, regarding this item.

- XIII. Other Business.**

Hugh Roberts, Director of Real Estate, provided the Board with information about a potential buyer, Mr. Snyder, to purchase ATRS' property located at 1500 West 3rd Street, Little Rock, AR (a vacant building), which had been a part of the ATRS portfolio for approximately 10 years. The appraisal of the property six months ago was \$420K. Mr. Snyder's original offer was \$360K, which was rejected. Mr. Snyder came back today with an offer of \$390K and Mr. Roberts made a counter-offer of \$405K cash deal for the 6,000 square feet of property, which was accepted by Mr. Snyder.

THE MOTION TO ACCEPT MR. SNYDER'S OFFER OF \$405K TO PURCHASE THE PROPERTY LOCATED AT 1500 WEST 3RD STREET WAS MADE BY MS. LEMING, SECONDED BY MS. PARSONS, AND UNANIMOUSLY APPROVED BY THE BOARD.

Hugh Roberts, Director of Real Estate, updated the Board on the status of property insurance. As of October 1, 2008 ATRS renewed the property insurance with Regions (previously Rebsaman) with same coverage, same excess coverage policy at a saving of approximately \$16K.

Chairman, Ms. Nichols, called an Executive Session to order at 4:20 p.m.

XIV. Adjourn.

THE MOTION TO ADJOURN WAS MADE BY MR. BETTS, SECONDED UNANIMOUSLY, AND UNANIMOUSLY APPROVED BY THE BOARD.

Chairman, Ms. Nichols, adjourned the Board of Trustees meeting at 5:00 p.m.

Jane Toledo, Recorder

Paul Doane, Executive Director

Robin Nichols, Chair
Board of Trustees

Date Approved