

MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

Dr. Richard Abernathy, Chair

Monday, April 5, 2010

1:00 p.m.

1400 West Third Street
Little Rock, AR 72201

Board Members Present

Dr. Richard Abernathy, Chair
Hazel Coleman, Vice Chair
David Cauldwell
Mike Creekmore, designee for Hon. Martha Shoffner
John Fortenberry
Steve Kelly, designee for Hon. Jim Wood
Tom Kimbrell, Ed.D.
Beverly Leming
Bobby Lester
Susannah Marshall, designee for Candace Franks
Robin Nichols
Janelle Riddle
Jeff Stubblefield

Board Members Absent

Dr. Paul Fair

Consultants Present

Michael Bacine, Franklin Park
Heather Christopher, Ennis Knupp
P. J. Kelly, Ennis Knupp

Staff Present

George Hopkins, Executive Director
Gail Bolden, Deputy Director
Bob Berry, Chief Fiscal Officer
Judy Brown, Ret. Section Manager
Susan Crosby, Senior Investment Analyst
Kay Daniel, Director's Assistant
Laura Gilson, General Counsel
Rod Graves, Ret. Investment Specialist
Wayne Greathouse, Dir. Public Markets
Clementine Infante, Staff Attorney
Mindy Looney, Ret. Section Manager
Manju, Dir. Data Processing
Jerry Meyer, Dir. Real Estate
Michael Ray, Dir. Member Services
Leslie Ward, Dir. Private Equity
Amy Wells, Administrative Assistant
Brenda West, Dir. Operations

Guests Present

Lloyd Black, ARTA
Chris Caldwell, Div. of Legislative Audit
Sarah Ganahl, Bureau of Leg. Research
Erika Gee, Attorney General's Office
Mike Mertens, AAEA
Donna Morey, AEA

- I. **Call to Order/Roll Call.** Chair, Dr. Abernathy, called the Board of Trustees meeting to order at 1:02 p.m. Roll call was taken and all members were present except for Dr. Paul Fair.
- II. **Motion to Excuse Absences.**

Ms. Leming *moved to excuse the absence of Dr. Paul Fair from the April 5, 2010, Board meeting. Dr. Kimbrell seconded the motion and the Board unanimously approved the motion.*

III. Adoption of Agenda.

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

IV. Executive Summary. The Executive Summary was provided for reference with no questions or expansions on the written summary.

V. Approval of Minutes – Board of Trustees.

A. February 1, 2010.

Ms. Nichols *moved for adoption of the Minutes of the Board of Trustees meeting of February 1, 2010. Mr. Lester seconded the motion, and the Board unanimously approved the motion.*

B. March 23, 2010.

Mr. Lester *moved for adoption of the Minutes of the Board of Trustees meeting of March 23, 2010. Ms. Riddle seconded the motion, and the Board unanimously approved the motion.*

VI. Ratify Technical Correction to Resolution 2010-11. Mr. Hopkins explained that after the March 23, 2010, Board of Trustees meeting, staff noticed that the act on Resolution 2010-11 to hire State Street Global Advisors was incorrect. Act 79 of 2009 should have been Act 1211 of 2009 due to the fund manager type.

Mr. Fortenberry *moved to ratify the technical correction to Resolution 2010-11 to hire State Street Global Advisors. Ms. Marshall seconded the motion, and the Board unanimously approved the motion.*

VII. Investment Committee Report. Ms. Leming gave an update on the Investment Committee meeting.

A. Renewal of Consulting Contracts. Investment manager contracts are up for renewal. Without further input from the Board, the Investment Committee recommended the Board empower staff to renew these contracts.

B. Arkansas Real Estate Update. The sale of Lots 7 and 8 in Chenal Heights is proceeding forward. There is continued interest in the sale of the Victory Building, with offers expected in the near future. ATRS staff is evaluating crop farmland for quality long-term investments.

C. General Investment Consultant Update – Ennis Knupp. The total fund performance was favorable across the board, ending the year up 22.4% and beating the benchmark of 16.1%, ranking ATRS as 27th among their peers.

Total U.S. equity is performing well, over 64% for the one year ending February 28, 2010. Fixed income outperformed across the board.

D. Real Estate Consultant Update – Ennis Knupp.

1. Recommendation to Fund Open-End Core Funds. The Board had approved a \$100 million allocation to Core real estate investments at the December 2009 Board meeting. Core real estate is starting to show signs of recovery, and Ennis Knupp recommends the \$100 million be evenly allocated between two core investments: Commingled Pension Trust Fund of JPMorgan Chase Bank, N.A. and UBS Trumbull Property Fund, resulting in a \$50 million increase in each fund. Due to existing funds with each investment, adding \$50 million to each portfolio will enhance the fee structure. The Investment Committee recommended both transactions to the Board.

a. JPMorgan Chase Bank, N.A. (Resolution 2010-12).

Ms. Leming *moved to adopt* Resolution 2010-12, approving an additional investment of up to \$50 million in the Commingled Pension Trust Fund (Strategic Property) of JPMorgan Chase Bank, N.A. Ms. Nichols *seconded the motion*, and the Board *unanimously adopted the resolution*.

b. UBS Trumbull Property Fund L.P. (Resolution 2010-13).

Ms. Leming *moved to adopt* Resolution 2010-13, approving an additional investment of up to \$50 million in the UBS Trumbull Property Fund L.P. Ms. Riddle *seconded the motion*, and the Board *unanimously adopted the resolution*.

E. Private Equity Investment Consultant Update – Franklin Park.

1. **Recommendation to Fund Audax Mezzanine Fund III, L.P. (Resolution 2010-14).** The Investment Committee heard the presentation on the Audax Mezzanine Fund III, L.P., which is invested in subordinated debt securities, alongside private equity sponsors executing leveraged buyouts, recapitalizations, and structured financing. The Investment Committee recommended to the Board to invest up to \$25 million in this fund.

Ms. Leming moved to adopt Resolution 2010-14, approving an investment of up to \$25 million in Audax Mezzanine Fund III, L.P. Ms. Nichols seconded the motion, and the Board unanimously adopted the resolution.

2. **Recommendation to Fund Franklin Park International Fund 2010, L.P. (Resolution 2010-15).** The Investment Committee recommended to the Board to invest up to \$25 million in the Franklin Park International Fund 2010, L.P., in order for ATRS to get a more diversified exposure to global markets and emerging private equity markets in 2010.

Ms. Leming moved to adopt Resolution 2010-15, approving an investment of up to \$25 million in Franklin Park International Fund 2010, L.P. Mr. Fortenberry seconded the motion, and the Board unanimously adopted the resolution.

3. **Recommendation to Fund Mason Wells Buyout Fund III, L.P. (Resolution 2010-16).** The Mason Wells Buyout Fund III, L.P., invests in small and lower middle market companies. The fund targets specialty packaging and paper, engineered products and services, and outsourced business services. Although this is a smaller company with slightly higher risks, Franklin Park recommended this investment to balance the portfolio. The Investment Committee recommended to the Board to invest up to \$40 million in the Mason Wells Buyout Fund III, L.P.

Ms. Leming moved to adopt Resolution 2010-16, approving an investment of up to \$40 million in Mason Wells Buyout Fund III, L.P. Ms. Coleman seconded the motion, and the Board unanimously adopted the resolution.

- F. **Securities Monitoring Policy (Resolution 2010-17).** Mr. Hopkins gave a brief explanation of the Securities Monitoring policy. The procedure that ATRS staff recommended to the Board in 2008 provided that ATRS would typically not participate in a class action unless the loss totaled \$3 million.

This process has become problematic. The amount of the ATRS loss is not the appropriate measure but rather, the potential for a quality recovery. Staff recommends adopting a new policy that would allow staff to analyze the potential claims and decide which claims to allow the law firm to pursue on behalf of ATRS, and the Investment Committee recommended to the Board to adopt the new policy and approve hiring additional firms as needed to provide these services.

Ms. Leming *moved to adopt* Resolution 2010-17, to issue a request for qualifications for up to six outside securities class action and monitoring counsel to provide legal services and expertise related to securities class action monitoring, securities litigation, and asset recovery, and to adopt the revised policy. Mr. Stubblefield *seconded the motion*, and the Board *unanimously adopted the resolution*.

VIII. Operations Committee Report.

A. Approval of Rules after Public Comment Period (Resolution 2010-18).

Mr. Lester *moved to adopt* Resolution 2010-18, adopting the Consent Agenda of Refund of Member Contributions (Policy 8-1), Teacher Deferred Retirement Option Plan (T-DROP) (Policy 10-3), and Administrative Adjudications (Policy 13-0) to submit for review and approval by the Legislature's Rules and Regulations Committee. Ms. Coleman *seconded the motion*, and the Board *unanimously adopted the resolution*.

B. Discussion of Candidacy Eligibility Requirements for Retiree Member Positions of Board of Trustees. Mr. Lester brought before the Board member concerns about the current trustee election. Members have expressed confusion over the eligibility of retired members running for the retiree trustee position who have gone back to work and are drawing an annuity. The Operations Committee will examine this issue further at the next Operations Committee meeting in June.

C. Attorney General's Opinion 2009-164 on Higher Education Institutions' Participation in ATRS. Mr. Hopkins summarized Attorney General's opinion 2009-164 on higher education institutions' participation in ATRS. Currently, higher education institutions have their own laws and policies regarding retirement plans that are not always fair to the ATRS members. ATRS staff recommends setting up a meeting with higher education institutions to come to a better understanding of laws and policies of the different institutions. It was the consensus of the

Operations Committee that this was the best approach to resolve the issues..

D. Proposed Cost Saving Measures for ATRS.

1. **Retiree Pop-Up Limited to One-Year Post Retirement.** Currently, if a member elects an annuity option at retirement time, at any time after that election, if the beneficiary predeceases the member or upon a marriage dissolution, the member's retirement benefit pops up to a straight life benefit. ATRS staff proposes to limit pop ups to one year or some other time period after retirement. This way, the System and the member both share the potential risk of a member or their beneficiary dying before the other. Actuarial valuations would be required for more information.
2. **Eliminate Pop-Down Post Retirement.** Currently, retired members receiving a straight life annuity have the option to add a new spouse with an Option B benefit at any time. ATRS staff has found little policy justification for allowing a retiree to provide coverage for a new spouse well after retirement, which allows the new spouse to draw benefits the rest of his or her life. Neither ATRS nor the member contemplated these circumstances at the time of retirement. ATRS staff proposes to eliminate this option to ensure more accurate actuarial liabilities
3. **Eliminate Benefit Option Change Post Retirement.** Currently, ATRS allows members to change their retirement benefit either up or down during the first year of retirement. If the benefits go up, the retiree has to repay the difference in benefits to ATRS. ATRS staff believes that most systems do not provide this level of benefit. This has a cost to ATRS. ATRS staff proposes eliminating this option. If eliminated, retirement counseling will need to be examined and strengthened to ensure members fully understand the choices available.
4. **Return to Ten Year Vesting.** Currently, vesting requires five years for ATRS members. Five year vesting was originally implemented without reciprocity between systems. Now, reciprocity ties the various retirement systems together by allowing joint counting of years of service, highest average salary, DROP year crediting, and other provisions. This allows members to move between the various retirement systems without substantial risk. ATRS proposes returning to ten year vesting combined with reciprocity. This would save ATRS substantial costs. This is especially true when border area school retirees from other states teach in Arkansas for five years to obtain a

second retirement, when it would have been unlikely with ten year vesting, without a strong commitment to Arkansas schools. This would require legislation to make changes.

5. **Benefit Adjustment Limited to Most Recent Five Years.** Currently, benefit adjustment discoveries force parties to make financial adjustments after long periods of time, costing both members and employers substantial amounts of money. ATRS staff proposes to establish a five-year statute of limitations for ATRS liability, member liability, and employer liability, except in cases of fraud, concealment, or other improper acts. It would be a massive timesaver to staff in terms of research. This would require legislation to make changes.
6. **Increase Days of Service for Credit Eligibility.** Currently, ATRS has a very liberal service crediting provision:

30 days=1/4 year

60 days=1/2 year

90 days=3/4 year

120 days=1 year

The current crediting provision is an expense to ATRS. A person can go to work at a state agency and receive a full year credit before the end of the fiscal year. This crediting law has been in place since 1971. Since 1971, the school year has increased in the number of days. ATRS staff proposes to reconsider an appropriate level of crediting:

40 days=1/4 year

80 days=1/2 year

120 days=3/4 year

160 days=1 year

The Operations Committee recommended actuarial cost studies before the Board makes a final decision to support the proposals.

IX. **Staff Reports.**

- A. **Medical Committee Reports.** The Medical Committee met on February 17, 2010. A total of 11 disability applicants were considered. Ten cases were approved and one was denied. The Medical Committee met on March 17, 2010. A total of 14 disability applicants were considered. Eleven cases were approved and three were denied.

Ms. Nichols moved to approve the February 2010 and March 2010 Medical Committee Reports. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

- B. **Personnel Report.** Mr. Hopkins gave a brief update on the personnel report. ATRS is currently under a self-imposed hiring freeze due to budgeting constraints. ATRS will avoid hiring for open positions unless the funding and appropriations are adequate.
- C. **Retiree Payroll Reports.** Ms. Brown gave an update on the retiree payroll reports.

X. **Other Business.**

- A. **Empowering Staff to Settle Mediation.** Mr. Hopkins explained that ATRS currently is in litigation with Team Health over management of nursing home assets. A mediation has been scheduled and ATRS staff requests authority from the Board to settle the mediation during the scheduled mediation.

Mr. Lester moved to authorize ATRS staff to settle in mediation with Team Health. Dr. Kimbrell seconded the motion, and the Board unanimously approved the motion.

- B. **Review of Agency Contracts.** Mr. Hopkins explained that ATRS has numerous contracts up for renewal, which were listed in the Board materials. Most are annual renewals with no changes. A few may have changes to be negotiated due to the nature of the contract and the services being rendered. Staff requests Board approval to finalize all the contracts with staff authority to negotiate final terms and conditions on contracts subject to additional negotiations.

Ms. Leming moved to authorize ATRS staff to negotiate final terms and conditions on contracts subject to renewal or additional negotiations. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

- C. **RFQ for Attorneys.** The attorney contracts for standard legal work at ATRS are expiring. ATRS staff will submit an RFQ for in-state counsel. ATRS is ready to submit an RFQ for securities monitoring firms to ensure ATRS has proper review of all investment litigation affecting the ATRS portfolio.

D. Fiduciary Insurance Update. ATRS staff is working with the Office of State Procurement to obtain bids for fiduciary insurance on behalf of the Board. The selection process has not yet reached its final stage. Staff will continue to keep the Board updated.

XI. Adjourn.

Ms. Nichols *moved to adjourn* the Board of Trustees Meeting. Ms. Coleman *seconded* the *motion*, and the Board *unanimously approved the motion*.

Meeting adjourned at 1:50 p.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Amy Wells,
Recorder

Date Approved