

ARKANSAS TEACHER RETIREMENT SYSTEM BOARD OF TRUSTEES

MINUTES December 4, 2006

The Arkansas Teacher Retirement System Board of Trustees held a regular meeting on Monday, December 4, 2006, in the Board Room of the ATRS Building at 1400 West Third Street in Little Rock, Arkansas.

Board Members Present:

John Fortenberry, *Chair*
Robin Nichols, *Vice Chair*
Dr. Richard Abernathy
Monty Betts
Hazel Coleman
Lawrence Colston
Dr. Paul Fair
Beverly Leming
Linda Parsons
Ellen Terry

Others Present:

Estella Smith, *BLR*
Matthew Miller, *BLR*
Bobby Lester, *ARTA*
Steve Cummings, *Ennis Knupp*
P. J. Kelly, *Ennis Knupp*
Brett Nelson, *Ennis Knupp*
Judith Kermans, *Gabriel Roeder*
Betty McGuire, *former Board member*
Jim McGuire
Mike Wickline, *Democrat/Gazette*

Board Members Absent:

Robert (Bunny) Adcock, Jr.
Dr. T. Kenneth James
Gus Wingfield
Jim Wood

Staff Present:

David Malone, *Executive Director*
Julie Cabe, *Deputy Director*
Wayne Greathouse, *Deputy Director/Finance*
Gail Bolden, *Assoc. Director/Operations*
Christa Clark, *Attorney Specialist*
Mullahalli Manjunath, *DP Manager*
Michael Ray, *Manager, Member Services*
Hugh Roberts, *ATRS Real Estate*

I. Call to Order/Roll Call

John Fortenberry, Board Chair, called the meeting to order at 1:02 p.m. with a quorum present. The absences of Robert (Bunny) Adcock, Dr. T. Kenneth James, Gus Wingfield, and Jim Wood were noted and excused.

II. Adoption of Agenda

Additions to the agenda as mailed include the attachment to **Item No. VI (Appeal of Teresa Graves)** and additions to the legislation proposed in

Item No. II (Report of the Legislative Committee), both scheduled for December 5, 2006. With these additions, Lawrence Colston moved adoption of the agenda, Dr. Paul Fair seconded, and the Board unanimously approved the motion.

III. Public Comment on the Agenda

No one had a comment on the agenda.

IV. Approval of Minutes

- A. Hazel Coleman moved approval of the minutes of the regular meeting of October 2, 2006, Ellen Terry seconded, and the Board unanimously concurred.
- B. Linda Parsons moved approval of the minutes of the regular meeting of October 3, 2006, Beverly Leming seconded, and the Board unanimously approved.
- C. Ms. Coleman moved approval of the minutes of the special meeting on November 13, 2006, Dr. Fair seconded, and the Board unanimously adopted the motion.

V. Actuarial Reports

Judith Kermans of Gabriel, Roeder, Smith & Co. presented the **Annual Actuarial Report, Actuarial Valuation of Active and Inactive Members on June 30, 2006**, and the **Actuarial Valuation of Retirees and Beneficiaries on June 30, 2006**. Ms. Kermans noted that on June 30, 2006, ATRS recorded 67,710 active members, 4,570 T-DROP members, 9,973 deferred members, and 24,153 retired members, with accrued liabilities of \$11,623 million, and applicable assets of \$9,332 million, leaving liabilities to be covered by future contributions of \$2,291 million. She stated that the investment return for the year ending June 30, 2006, exceeded the 8% assumed rate and that ATRS has made good progress in recovering from one of the worst financial downturns in history during 2000-2003. Based on the reports, the actuaries recommended an employer rate increase to 14.54% of payroll to produce a 30-year amortization period.

VI. Consultant's Report

Steve Cummings and P. J. Kelly presented the Ennis Knupp report and introduced Brett Nelson, who will provide additional expertise in the areas of private equity and real estate on the ATRS investment team. Ennis Knupp will have recommendations early next year concerning a couple of money managers who have experienced poor returns or have announced personnel changes. A review of the ATRS-U. S. Equity Structure was

presented and recommended transferring assets from the ICC, ING, Kennedy, and Nicholas Applegate portfolios to reduce small cap bias and the benchmark risk level of the overall U. S. equity portfolio. Mr. Colston moved approval of the Ennis Knupp recommendation on transferring assets with the allocations determined by the Executive Director working with Ennis Knupp. Dr. Abernathy seconded the motion, which was unanimously approved by the Board.

Mr. Fortenberry declared a break at 3:00 p.m. The meeting resumed at 3:15 p.m.

VII. Report of the Investment Committee

Ms. Nichols, Investment Committee chair, reviewed the draft minutes of the committee meeting on November 13, 2006, and presented a committee recommendation for approval of **Certificate of Deposit Procedures for Arkansas-Related Investments** (*Attachment No. 1*). Ms. Parson moved approval of the procedures, Monty Betts seconded, and the Board unanimously concurred.

VIII. Report on Victory Building

Mr. Malone reported on a change in the management of the Victory Building. Proposals were taken from several firms, and Irwin Saviers was selected. He also reported that the State Auditor's office on the first floor of the ATRS Building was interested in moving into the Victory Building, which would make the space available for ATRS.

IX. Adjournment

Mr. Fortenberry adjourned the meeting at 3:48 p.m.

Katherine Corcoran, *Recorder*

David Malone, *Executive Director*

John Fortenberry, *Board Chair*

Date Approved

CERTIFICATE OF DEPOSIT PROCEDURES-ARKANSAS RELATED**August 21, 2006**

The Arkansas Teacher Retirement System ("ATRS") may invest up to \$50,000,000.00 in insured Certificates of Deposit ("CD") of Arkansas financial institutions subject to the following conditions:

- A) **FDIC Insurance:** ATRS must obtain a letter from FDIC legal counsel that a CD purchased by ATRS qualifies for "pass through" deposit insurance coverage. All depository banks must demonstrate sufficient proof that it meets the requirements set forth by the FDIC for ATRS to obtain "pass through" federal deposit insurance coverage up to \$100,000.00 contingent interest per ATRS member prior to accepting any deposits, including providing sufficient proof that it qualifies to accept brokered deposits and is adequately capitalized.
- B) **Amount of Participation:** The \$50,000,000.00 authorized for this program is a maximum authorization that can be increased only by action of the Board of Trustees. The Investment Committee with the advice of Investment Counsel will determine the amount actually invested under this authorization from time to time. Decisions of the Committee will be based on:
- 1) The amount of money that the System has available for fixed income investments.
 - 2) Rates of return available from this program compared with other investment opportunities.
 - 3) The amount that the System needs to invest in Arkansas to satisfy the requirements of Act 412 of 1985.
- C) **Rates of Return:** CD rates will be indexed off the U.S. Treasury Bill rate plus twenty-five (25) basis points for the desired maturity at the time the money is offered for deposit. The rate will not be less than the bond equivalent Treasury yield.
- D) **Maturity schedules** up to a maximum of six (6) months will be set by the System when funds are made available. There will be no automatic renewals.
- E) **Interest** will be due and payable at the date of the CD's maturity. Interest will be calculated on a 365 day basis.
- F) **Funds** must be invested in Arkansas. Each depository institution receiving funds under this program will be required to agree in writing that such funds will be used for First Mortgage Home Loans, Home Improvement Loan, Consumer Loans, Business, Commercial, Industrial or Agricultural Loans within the institutions commonly known "trade area". Funds invested in the

program may not, in any manner, be used by a Depository Institution for lending outside the State of Arkansas.

STEPS FOR PURCHASING CERTIFICATES OF DEPOSIT

- 1) The ATRS Supervisor/Real Estate will administer the program.
- 2) Three bids will be obtained from financial institutions in the State. The bid and the name of the financial institution will be listed on a bid sheet (copy attached). The bids will be requested for a six-month time period.
- 3) The individual acting on behalf of the financial institution with the highest bid will be contacted.
- 4) The ATRS Supervisor/Real Estate will inform the individual of the financial institution how the Certificate of Deposit needs to be styled and the time period for the deposit. All Certificates purchased will be styled "Arkansas Teacher Retirement System, Trustee and Fiduciary for its Plan Members, the Arkansas Public School Employees." Electronic wiring instructions will be obtained in order to transfer funds for deposit. The Arkansas Banks Participation Agreement will be faxed to the authorized individual for signature. The hard copy will be returned by U.S. Mail along with a copy of the CD, a signature card, and a form for signature stating ATRS's desire to have the Certificate held in their Safekeeping Department.
- 5) Prior to wiring the deposit to the financial institution, the ATRS Supervisor/Real Estate will verify that no actions have been taken by a state or federal regulatory institution that would negatively affect the bank's ability to accept the deposit.
- 6) The financial institution will be instructed to pay the interest on the CD at maturity by electronic wire transfer.
- 7) The financial Institution will notify the ATRS Supervisor/Real Estate in writing at least two weeks prior to the CD's maturity.
- 8) Prior to the maturity of the CD, the ATRS Supervisor/Real Estate will reinitiate the bidding process, including the institution that currently has the Certificate. If another financial institution outbids the current one, all monies will be transferred by electronic wire transfer.