

MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

Dr. Richard Abernathy, Chair

Monday, June 7, 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
Dr. Paul Fair
John Fortenberry
Steve Kelly, designee for Hon. Jim Wood
Tom Kimbrell, Ed.D.
Beverly Leming
Robin Nichols
Janelle Riddle
Jeff Stubblefield

Board Members Absent

Candace Franks
Bobby Lester

Consultants Present

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

Reporters Present

Andy Davis, Arkansas Democrat-Gazette

Staff Present

George Hopkins, Executive Director
Gail Bolden, Deputy Director
Susan Crosby, Senior Investment Analyst
Kay Daniel, Director's Assistant
Reed Edwards, Litigation Attorney
Laura Gilson, General Counsel
Amy Glavin, Administrative Assistant
Rod Graves, Ret. Investment Specialist
Wayne Greathouse, Dir. Public Markets
Clementine Infante, Staff Attorney
Manju, Dir. Data Processing
Jerry Meyer, Dir. Real Estate
Michael Ray, Dir. Member Services
Gaye Swaim, Dir. Human Resources
Leslie Ward, Dir. Private Equity
Brenda West, Dir. Operations

Guests Present

Frank Anthony, Supt. Pine Bluff Schools
Lloyd Black, ARTA
Erika Gee, Attorney General's Office
Donna Morey, AEA
Jason Simpson, Washington Capital
Steve Singleton, ARTA

- I. **Call to Order/Roll Call.** Chair, Dr. Abernathy, called the Board of Trustees meeting to order at 1:00 p.m. Roll call was taken and all members were present except for Bobby Lester and Candace Franks.
- II. **Motion to Excuse Absences.**

Ms. Coleman moved to excuse Bobby Lester and Candace Frank from the June 7, 2010, Board of Trustees meeting. Ms. Leming seconded the motion, and the Board unanimously approved the motion.

- III. **Adoption of Agenda.** There were two items added to the agenda: Item XII – E – 1. Recommendation to Increase Commitment to RMK Timberland One (Resolution 2010-26) and Item XV – D. Committee Appointments.

Ms. Nichols moved for adoption of the amended Agenda. Dr. Kimbrell 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 Board of Trustees Minutes of April 5, 2010.**

Ms. Coleman moved for adoption of the Minutes of the Board of Trustees meeting of April 5, 2010. Ms. Leming seconded the motion, and the Board unanimously approved the motion.

- VI. **Frank Anthony Appeal.** Mr. Anthony's appeal of the Executive Director's Review determination was brought before the Board after a thorough investigation conducted by a hearing officer. The hearing officer's final opinion was that Mr. Anthony was compliant with the ATRS law regarding his retirement separation period before returning to work. The Board's duty was to affirm, modify, or reverse the decision of the hearing order.

Mr. Anthony made a brief statement to the Board commending the appeal process.

Mr. Stubblefield moved to affirm the hearing officer's recommendation that the Executive Director Review determination of Frank Anthony's member claim to benefits issued on August 14, 2009, be reversed. Ms. Riddle seconded the motion, and the Board unanimously approved the motion.

- VII. **Adoption of Interest Rate for T-DROP Accounts for 2010-2011 (Resolution 2010-19).** Mr. Hopkins explained that Ennis Knupp provided the March 31, 2010, portfolio performance report to ATRS for the adoption of the T-DROP interest rate. Returns were over 8%, so according to T-DROP policy, the interest rate will be set at 6%.

Ms. Nichols moved to adopt Resolution 2010-19, determining the T-DROP account interest rate for 2010-2011 at 6%. Ms. Leming seconded the motion, and unanimously adopted the resolution.

- VIII. **Adoption of Interest Rate for Post 10-Year T-DROP Accounts for 2010-2011 (Resolution 2010-20).** Mr. Hopkins explained that the Board recently adopted a policy to provide an interest rate for members who participate in T-DROP after their 10 years' participation is completed. It is a cost savings to ATRS, and provides provide members with added interest on their T-DROP accounts. The post 10-year T-DROP interest rate will be set at 6% for 2010-2011.

Ms. Coleman *moved to adopt* Resolution 2010-20, determining the post 10-year T-DROP account interest rate for 2010-2011 at 6%. Ms. Nichols *seconded the motion, and unanimously adopted the resolution.*

- IX. **Board of Trustees Election Results (Resolution 2010-21).** Mr. Hopkins provided the Board of Trustees certified election results. Charles B. Dyer was certified the winner of the run-off election for Position #11. Mr. Lloyd Black was certified the winner of Position #9, and Ms. Donna Morey was unopposed for Position #2.

Ms. Leming *moved to adopt* Resolution 2010-21, which declared Ms. Donna Morey as elected to fill Position #2, Mr. Lloyd Black to be the winner for Position #9, and Mr. Charles B. Dyer to be elected to fill two years of an unexpired term for Position #11 as certified by VR Election Services. Ms. Coleman *seconded the motion, and unanimously adopted the resolution*

- X. **Report of Member Interest Waived Under A.C.A. Sec. 24-7-205.** Mr. Hopkins gave a brief overview of the member interest waived.
- XI. **Report of Employer Interest Waived Under A.C.A. Sec. 24-7-411.** Mr. Hopkins gave a brief overview of the employer interest waived.
- XII. **Investment Committee Report.** Ms. Leming gave an update on the Investment Committee meeting.

A. Arkansas Real Estate Update.

1. **Victory Building.** There is ongoing interest in the Victory Building but no official offers have been made. There are two issues that could possibly hinder the sale of the Victory Building. The first issue is ATRS' real estate tax appeal lawsuit. Few buyers would want to pay \$26 million for a building and incur a lingering tax issue. The second issue is that the Victory Building is currently generating \$200,000 per month in revenue, bringing in \$2.4 million per year. New leases were signed in May 2010 and the building is nearing 100% occupancy.

2. **Chenal Properties.** The real estate tax appeal is presenting issues in the sale of Lots 7 and 8, but the circumstances and the price make the tax issue easier to navigate. Deltic Timberland has taken issue with the buyer's plans for the lots. Specifically, there are disagreements on the required retirement age and allowing relatives to live with the retiree. Pickering-Allwine has requested that ATRS attend the next negotiation meeting to help facilitate a resolution. ATRS staff is exploring whether Pickering-Allwine's proposed plan comports with Deltic's requirements and whether the restrictions apply.

Pickering-Allwine has also asked that ATRS extend the purchase agreement due to the negotiations and difficulty with Deltic Timberland. The Investment Committee recommended to the Board authorization of the extension and any additional extensions that may be necessary for this transaction to be completed.

Ms. Leming moved to authorize the extension of the purchase agreement with Pickering-Allwine Group. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

3. **American Center Partnership – Nashville, TN.** ATRS is currently in an 80/20 partnership with Cooper Communities in the American Center Partnership – Nashville, TN. Cooper has an exclusive building management contract that expires this year. Although Cooper has performed well in the management role, ATRS staff believes it is in the best interest of ATRS to have a request for proposal submitted for the continuing management of the building. Substantial cost savings could be obtained due to the real estate market and the competition in building management in Nashville, Tennessee.

The Investment Committee recommended to the Board authorization for staff to submit an RFP for the building management of American Center Partnership

Ms. Leming moved to authorize staff to submit requests for proposals for the building management of American Center Partnership – Nashville, TN. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

B. General Investment Consultant Update – Ennis Knupp.

1. **Portfolio Performance Update for Quarter Ended March 31, 2010, final.** The U.S. markets showed a strong performance for the first

quarter of 2010. The non-U.S. markets were also positive, but did not perform as well as the U.S. markets due to the Euro devaluation relative to the U.S. dollar. The bond market performed well, which was driven by an improvement in the credit markets. During the quarter, there was \$346,281,000 in investment gains, which was offset by \$48,245,000 in net benefit payouts, leaving ATRS' market value at \$10,396,558,000. Ennis Knupp is expecting at least a 10% drop in the ATRS portfolio due to the poor performances in May 2010, which may offset the gains seen so far in this calendar year.

2. **Portfolio Performance Update for the Month Ended April 30, 2010, preliminary.** All market classes outperformed their benchmarks for the month. Even though most of the U.S. Equity managers underperformed for the month, the portfolio has a bias towards small-cap value stocks, which performed well for the month.
3. **Proposed Bedlam Guideline Change.** Bedlam is seeking to modify their guidelines to increase the exposure limit in emerging markets from 20% to 30% and increase the exposure limit in emerging markets single-country from 7% to 10%. It would allow Bedlam to invest in the emerging markets with a greater concentration in particular countries than the current guidelines provide. The Investment Committee recommended to the Board approval of these guideline changes.

Ms. Leming *moved to approve* the recommended changes to the Bedlam guidelines, increasing the exposure limit in emerging markets from 20% to 30% and in emerging markets single-country from 7% to 10%. Ms. Riddle *seconded the motion*, and the Board *unanimously approved the motion*.

4. **Proposed UBS Global Asset Management Contract Change.** UBS Global Asset Management is requesting a contract change to allow investments in initial public offerings (IPOs). UBS believes that there is opportunity in IPOs and that the contract needs further clarification in order to pursue evaluation. The Investment Committee recommended to the Board approval of the contract change. However, Ennis Knupp has requested that UBS tighten the language of the proposed changes to prevent misinterpretation and UBS has agreed.

Ms. Leming *moved to authorize* staff to approve contract changes to the UBS Global Asset contract with the appropriate corrected language. Ms. Nichols *seconded the motion*, and the Board *unanimously approved the motion*.

5. **Proposed PIMCO Guideline Change.** PIMCO is requesting that its guidelines be changed to allow the usage of an additional sector fund, the Short Term Floating NAV Portfolio II. PIMCO believes the added fund will benefit the portfolio through improved diversification in cash holdings, potential improvement of cash yields, and potential lower transaction costs. The Investment Committee reviewed the changes and recommended to the Board approval of the guideline changes.

Ms. Leming *moved to approve* the recommended changes to the PIMCO guidelines, allowing the usage of an additional sector fund, the Short Term Floating NAV Portfolio II. Mr. Cauldwell *seconded the motion*, and the Board *unanimously approved the motion*.

C. Real Estate Consultant Update – Ennis Knupp.

1. **Real Estate Portfolio Performance Update for the Quarter Ended December 31, 2009.** Returns were negative for all property types for the fifth straight quarter, but to a lesser degree than recent quarters. Fourth quarter trends show that transaction volume increased slightly, but remained at a low level, fundamentals continued to weaken, open-end fund redemption queues have continued to decline, and returns for REITS moderated from the outsized gains in the prior two quarters as new equity and debt issuance subsided. Current ATRS pacing projections call for one \$40 million value-added commitment and one \$35 million opportunistic commitment in 2010.

D. Private Equity Investment Consultant Update – Franklin Park.

1. **Portfolio Performance Report for the Quarter Ended December 31.** There was a slight decrease in the capital account since September 2009. LM Wind Power went from 6 times return to 3 times return and Odurson went from 9 times return to 4 times return. The value dropped 1.5%.
2. **Recommendation to Fund Wellspring Capital Partners, V, L.P.** The Wellspring Capital Partners V, L.P. fund is being formed to primarily make acquisitions of established, middle market, U.S. companies in consumer products, manufacturing, retail, distribution, and business and consumer services industries. Wellspring targets undermanaged or underperforming companies possessing strong core franchises and solid fundamentals that can be purchased at reasonable prices.

The Investment Committee recommended to the Board a commitment of up to \$40 million to the Wellspring Capital Partners V, L.P. fund.

Ms. Leming *moved to adopt* Resolution 2010-22, approving an investment in Wellspring Capital Partners V, L.P., fund with a commitment of up to \$40 million. Mr. Cauldwell *seconded the motion*, and the Board *unanimously adopted the resolution*.

E. Other Business.

1. **Recommendation to Increase Commitment to RMK Timberland One (Resolution 2010-26.** RMK Timberland has requested an additional allocation of \$40 million for timberland purchase, plus the authorization to reinvest \$11 million generated from timber and timberland sales from ATRS' present timberland accounts. RMK Timberland is in a position to negotiate with large landowners, forest products companies, and REITS on large timberland tracts that could produce attractive returns. The Investment Committee recommended to the Board an increase in ATRS' commitment to RMK Timberland by \$40 million and authorization of the reinvestment of \$11 million generated from current timberland accounts.

Ms. Leming *moved to adopt* Resolution 2010-26, authorizing a commitment increase of \$40 million to RMK Timberland and to reinvest \$11 million generated from return on current timberland accounts. Mr. Fortenberry *seconded the motion*, and the Board *unanimously adopted the resolution*.

XIII. **Operations Committee Report.** Ms. Riddle gave an update on the Operations Committee meeting.

- A. **Final Approval of Rules after Review by Legislative Rules and Regulations Committee (Resolution 2010-23).** These policies were adopted under emergency rules, and now must be adopted officially after review by the Legislative Council

1. **Refund of Member Contributions (Policy 8-2).**
2. **Teacher Deferred Retirement Option Plan (T-DROP)(Policy 10-3).**
3. **Administrative Adjudications (Policy 13-0).**

Ms. Riddle moved to adopt Resolution 2010-23, adopting the following rules: Refund of Member Contributions (Policy 8-2), Teacher Deferred Retirement Option Plan (T-DROP)(Policy 10-3), and Administrative Adjudications (Policy 13-0). Ms. Coleman seconded the motion, and the Board unanimously adopted the resolution.

B. Actuarial Cost Studies. GRS has evaluated the pop-up and pop-down policies that ATRS staff thought may have cost savings. At this time, although there could be cost savings, it appears the change in policy would be of concern to ATRS members. The Committee discussed these options but did not have a recommendation for the Board.

1. Elimination of Pop-Down Option.

2. Pop-Up Option Changes.

XIV. Staff Reports.

A. Medical Committee Reports. The Medical Committee met on April 14, 2010. A total of 15 disability applicants were considered. Twelve cases were approved and one was denied. The Medical Committee met on May 12, 2010. A total of 13 disability applicants were considered. Eleven cases were approved and three were denied.

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

B. Financial Reports. Mr. Hopkins gave a brief update on the March 31, 2010 financial reports. ATRS had a 24% increase in assets since March 31, 2009. Contributions continue to increase and total income has grown 187% from -\$2,411,501,159 to \$2,109,467,709. Refunds increased since March 31, 2009, but that presents a cost savings to ATRS as refunds represent fewer benefits to be paid. Staff and Board travel has decreased since 2009.

C. Preretirement Workshop Attendance Comparison Report. Mr. Ray gave a brief update on the Preretirement workshop attendance report. ATRS has projected 458 retirees for July 2010. Even though there are at least 3,000 members eligible to retire yearly, approximately half that number retires each year due to health care costs and, more recently, the slowing economy.

XV. Other Business.

A. Recognition of Dr. Paul Fair’s Service to the ATRS Board of Trustees (Resolution 2010-24).

Ms. Riddle *moved to adopt* Resolution 2010-24, in recognition of Dr. Paul Fair’s service to the ATRS Board of Trustees from November 7, 1994, to June 30, 2010. Dr. Kimbrell *seconded the motion*, and the Board *unanimously adopted the resolution*.

B. Recognition of John Fortenberry’s Service to the ATRS Board of Trustees (Resolution 2010-25).

Ms. Nichols *moved to adopt* Resolution 2010-25, in recognition of John Fortenberry’s service to the ATRS Board of Trustees from August 10, 1999, to June 30, 2010. Ms. Coleman *seconded the motion*, and the Board *unanimously adopted the resolution*.

C. Suggested Topics for Educational Training Seminar on July 21, 2010.

Mr. Hopkins discussed potential topics for the Board educational training seminar on July 21, 2010. Suggested topics included: when a system should take investment risks, actuarial presentations, real estate and private equity presentations, information from the Attorney General’s office, travel information, securities lending and securities lending assets valuation.

D. Board Committee Appointments. Dr. Abernathy assigned Charles Dyer and Donna Morey to the Investment Committee and Lloyd Black to the Operations Committee effective July 1, 2010.

XVI. 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 2:06 p.m.

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George Hopkins,
Executive Director

Hazel Coleman, Vice Chair
Board of Trustees

Amy Glavin,
Recorder

Date Approved