

**MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING**

**Thursday, July 26, 2013
11:00 a.m.
1400 West Third Street
Little Rock, AR 72201**

ATTENDEES

Board Members Present

Dr. Richard Abernathy, Chair
Jeff Stubblefield, Vice Chair
Lloyd Black
David Cauldwell
Hazel Coleman
Candace Franks
Wes Goodner, voting designee for Honorable
Charles Robinson
Peggy Gram, designee for Honorable Charlie
Daniels
Bobby Lester
Donna Morey
Robin Nichols

Board Members Absent

Kathy Clayton
Hazel Coleman
Dr. Tom Kimbrell
Deborah Thompson

Reporters Present

David Smith, Arkansas Democrat Gazette

ATRS Staff Present

George Hopkins, Executive Director
Shane Benbrook, Internal Audit/Risk Mgmt
Kay Daniel, Director's Assistant
Mitzi Ferguson, Chief Fiscal Officer
Laura Gilson, General Counsel
Amy Glavin, Administrative Assistant
Rod Graves, Ret. Investment Specialist
Wayne Greathouse, Dir. Public Markets
Manju, Dir. Data Processing
Jerry Meyer, Dir. Real Estate
Tammy Porter, Paralegal
Michael Ray, Dir. Member Services
Gaye Swaim, Operations Administrator
Leslie Ward, Dir. Private Equity
Brenda West, Internal Audit/Risk Mgmt

Guests Present

Mary Cameron, Bureau of Leg. Research
KaTina Hodge, Attorney General's Office
Sarah Ganahl, Bureau of Leg. Research
P. J. Kelly, Hewitt EnnisKnupp
Aaryn McCosh, Div. of Legislative Audit
Steve Singleton, ARTA

- I. **Call to Order/Roll Call.** Dr. Abernathy, Chair, called the Board of Trustees meeting to order at 10:59 a.m. Roll call was taken. Kathy Clayton, Hazel Coleman, Dr. Tom Kimbrell, and Deborah Thompson were absent.
- II. **Motion to Excuse Absences.**

Mr. Lester moved to excuse Ms. Clayton, Ms. Coleman, Dr. Kimbrell, and Ms. Thompson from the July 26, 2013, Board of Trustees meetings. Mr. Stubblefield seconded the motion, and the Board unanimously approved the motion.

III. Adoption of Agenda.

Mr. Knight moved for adoption of the Agenda. Ms. Nichols seconded the motion and the Board unanimously approved the motion.

IV. Welcome to New Audit Committee At-Large Members – John McCollough and Ricky Quattlebaum.

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

VI. Approval of Board Minutes.

A. Minutes of June 3, 2013.

Ms. Morey moved for approval of the Minutes of the Board of Trustees meeting of June 3, 2013. Ms. Gram seconded the motion, and the Board unanimously approved the motion.

B. Minutes of June 13, 2013.

Ms. Nichols moved for approval of the Minutes of the Board of Trustees meeting of June 13, 2013. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

VII. Election of Board Officers.

Mr. Lester nominated Dr. Richard Abernathy Chair for the Board of Trustees.

There were no further nominations for Chair of the Board of Trustees.

Mr. Lester moved to accept Dr. Richard Abernathy as Chair for the Board of Trustees. Mr. Knight seconded the motion, and the Board unanimously approved the motion.

Mr. Knight nominated Jeff Stubblefield as Vice Chair for the Board of Trustees

There were no further nominations for Chair of the Board of Trustees.

Mr. Knight *moved to accept* Jeff Stubblefield as Vice Chair for the Board of Trustees. Mr. Black *seconded the motion*, and the Board *unanimously approved the motion*

VIII. **Appointment Process for Committee Membership for October 7, 2013, Board Meetings.**

IX. **Authority to Transact Business.**

A. **Resolution 2013-24.** This is the standard Board resolution to authorize staff to take action and limit authority of staff with the same authority and restrictions as in previous resolutions. Mitzi Ferguson has been added to the authorized list.

Ms. Nichols *moved to adopt* Resolution 2013-24, granting authority George Hopkins, Executive Director; Mitzi Ferguson, Chief Fiscal Officer; and G. Wayne Greathouse, Associate Director of Investments authority to transact investment business on behalf of the ATRS Board of Trustees. Mr. Lester *seconded the motion*, and the Board *unanimously adopted the resolution*.

X. **Recognition of Child Development, Inc., of Franklin County, Arkansas, as a Private, Educationally-Related Entity.** Act 223 of 2013 grants the ATRS Board authority through a resolution to recognize service at a private educationally-related entity to be purchased as a service by eligible ATRS members. This does not allow employees of the entity to participate in ATRS, but rather allows ATRS members working at ATRS employers to purchase prior service at these entities. Service purchases from private educationally-related entities are limited to a maximum of five years. Any service, including classified service may be purchased at these entities.

A. **Resolution 2013-25.**

Ms. Morey *moved to adopt* Resolution 2013-25, recognizing Child Development, Inc. of Franklin County, Arkansas, as a private, educationally-related entity. Ms. Gram *seconded the motion*, and the Board *unanimously adopted the resolution*.

XI. **Investment Committee Report.** Ms. Nichols, Investment Committee Chair, presented the Investment Committee report.

A. **Investment Update and Arkansas Related Update.**

1. **Woodland Heights Update.** The current occupancy rate is 71%, up from the 70% occupancy rate reported at the June 3, 2013, Board meeting. The manager is reporting increasing prospect traffic for the summer.
2. **Farmland Update.** ATRS continues to methodically work with the farmland manager to work toward the \$100 million dollar allocation to farmland. Barley is the number one crop for the year, on approximately 2,832 acres representing 22% of tillable acres in the ATRS portfolio.
3. **Southcenter Update.** Southcenter, located near the Hot Springs Mall, has a current occupancy of approximately 91%. ATRS continues to work to enhance the shopping center through its property manager, Colliers International. The latest upgrade is a landscaping and facelift to the common areas and the parking lot of approximately \$130,000. The improvements are now complete. The shopping center has approximately 19,000 square feet that is yet to be leased. The leasing activity is going well and the addition of Ross Dress for Less has enhanced the overall quality of the shopping center with Kroger, Hobby Lobby, and Ross Dress for Less acting as the anchor tenants in the shopping center.
4. **Manager Terminations, Investment Maturities, and Changes Update.** This agenda item will become a regular update to keep the Board apprised of portfolio changes that they have approved. On June 4, 2012, the Board approved termination of activist manager Knight Vinke and to liquidate the portfolio given the concentrated nature of the holdings. The liquidation proceeded as planned and ATRS received the majority of invested funds on October 4, 2012. These funds, approximately \$41 million, were redeployed to the liquidity account to cover expenses such as monthly benefit payments and capital calls on other investments. The bulk of the remaining funds, approximately \$15 million, were received on January 17, 2013, and also transferred to liquidity for benefit payments and capital calls

On November 15, 2012, the Board approved termination of global manager UBS. Based on the recommendation of Hewitt EnnisKnupp, BlackRock Institutional Trust was used as a transition manager to move approximately \$500 million in the fund to the BlackRock ACWI IMI Index. The transition was completed in December 2012.

On February 4, 2013, the Board approved termination of global manager Wellington Opportunistic. State Street Global Markets was used to transition approximately \$400 million to the SSgA ACWI IMI Index. The transition was completed in March 2013.

On June 3, 2013, the Board approved termination of domestic money manager ICC Capital. BlackRock Institutional Trust was used to transition approximately \$425 million to the BlackRock US Index based on the recommendation of Hewitt EnnisKnupp. The transition began on June 10, 2013, with the majority completed by June 17, 2013.

On September 20, 2000, ATRS loaned BG Excelsior Limited Partnership \$28,000,000 to purchase the ground lease on what was to become the Little Rock Peabody Hotel. The loan term was 7.5% amortized over a 25 year period with the balance due in 2009. In 2009, ATRS agreed to modify the loan with monthly payments and a balloon payment due in 15 years. In February 2013, BHG Excelsior sold the property to a Marriott operator and the note balance of \$23,725,871.86 was paid in full on February 28, 2013.

Lincoln Vale, another activist manager, had funds reallocated due to the winding down of the fund by the manager. This global investment was funded with \$15 million in 2008. The distributions to ATRS began in July 2012, and concluded in December 2012. The amount of approximately \$16 million was transferred to liquidity for benefit payments and capital calls.

Westbrook Real Estate Fund II became fully matured and completed its wind down phase in March 2013. The fund began in 1997 with a \$75 million commitment and since inception produced an IRR of approximately 13%.

On October 29, 2012, the Board approved the transition of the Pershing Square investment to Pershing Square Holdings and Pershing Square International based on recommendation from Hewitt EnnisKnupp. This structural change was designed to help performance by reducing the fund's liquidity requirements. In exchange for lower liquidity, ATRS received certain fee breaks without changes to the investment strategy. At the time of conversion in December 2012, ATRS had approximately \$175 million in Pershing Square L.P. These funds were divided based on certain restrictions in Pershing Square Holdings with this fund receiving the approximate amount of \$95 million and the remaining \$80 million going to Pershing Square International.

On June 3, 2013, the Board agreed to reassignment of the timberland management contract. The reassignment replaces RMK with BTG Pactual as the parent company. All other terms such as management team and fees remain the same. This change was presented to the Arkansas

Legislative Council at their June 21, 2013 meeting for review. The necessary documents have been signed and are in process.

ATRS Staff and Hewitt EnnisKnupp were recently notified that the account managed by T Rowe Price changed the name of the strategy associated with the account. The strategy has changed names from the Global Equity Strategy to the Global Focused Growth Equity Strategy. The change is intended to more properly align the name with the stated investment objectives. Hewitt EnnisKnupp has confirmed this is a strategy name change only and does not change any other terms.

Stephens Investment Management Group has managed a small cap portfolio for ATRS using investment guidelines first established in 2006 and last revised in 2010. The manager has proposed a revision to the existing guidelines to better reflect current market environments and more closely align this portfolio's allowable investments with the Russell 2000 Growth Index, the benchmark for this strategy. The current guidelines state the manager will normally invest at least 80% of the portfolio in small-cap companies defined as those with market capitalization, a figure used to determine a company's size, of \$2.5 billion or less at time of purchase. The proposed revision would change how a company's market capitalization is defined to companies with market capitalization less than the largest company in the Russell 2000 Growth Index. Since this is an adjustment to the guidelines for this manager versus a reassignment of duties, this is a change implemented by ATRS staff in consultation with the investment consultant after notice to the ATRS Board Chair.

In July of 2012, ATRS was notified that Credit Suisse would sell its Customized Fund Investment Group (CFIG) which manages the Series 2005 and 2006 fund of funds with the bank. ATRS committed \$650 million to this partnership back in 2004 and 2005. Approximately \$628 million has been committed by CFIG to underlying private equity funds and no new investments will be made. The current value of both Series of funds is approximately \$494 million with \$128 million in remaining unfunded commitments. In the event that CFIG is sold by Credit Suisse, ATRS would have to consent to the sale due to the change in ownership of the general partner. If the Board chose not to consent to the sale, ATRS would be free to seek another manager for the fund of funds. Credit Suisse owns an interest of slightly less than 1% in the fund of funds and the Board may want to consider buying that interest in the event that a new firm is hired to manage the fund of funds. The Board may need to take action in the near future should ATRS staff receive notification of a pending sale and if initial negotiations are successful.

B. General Investment Consultant Update – Hewitt EnnisKnupp.

1. **Fiscal Year End of June 30, 2013, Overview and Outlook for Second Half of 2013.** The federal market was affected by speculation that the government would end the stimulus, but portfolio gains offset later losses. The fund met its benchmark of 13.5% for the fiscal year ending June 30, 2013. Asset classes outperformed their benchmarks across the board.

C. Real Estate Investment Consultant Update – Hewitt EnnisKnupp.

1. **Review of the Real Estate Allocation of the New Real Assets Portfolio for the Quarter Ended March 31, 2013.** Through the first quarter NCREIF's NPI registered 2.6% and NFI-ODCE (net) returned 2.4%, an increase over the fourth quarter results. ATRS' real estate portfolio is currently at 9% and is progressing towards its target real estate allocation. Broad economic growth rebounded following fears over sequestration issues. Residential housing, job growth, and equity markets are significant drivers. Sector fundamentals continue to firm and occupancy gains and rental rate growth is broadening regionally. New supply is well constrained in most markets and property types, with the exception of apartments.
2. **Informational Presentation on Infrastructure Investing.** Infrastructure is basic physical and organizational structures, services, and facilities necessary for an economy to function. Examples include transportation, energy, and utilities, social infrastructures like education and healthcare facilities, and communication networks. Infrastructure investments have long-term, predictable cash flows and can be backed by the government. However, the liquidity is poor for closed-end funds and there are political and regulatory risks. HEK recommended infrastructure investing due to the diversification relative to stocks, bonds, and other ATRS investments, steady and significant income stream over time, total returns that are competitive to U.S. equities and other return driven asset classes, and the investments acting as a potential hedge against inflation. HEK proposed that ATRS have a 2% allocation from the total fund to infrastructure investments and commit approximately \$110 million per year for four years to reach and maintain the target allocation.
3. **Recommendation to Commit up to \$50 Million to Macquarie Infrastructure Partners III Fund and to use Imminent Need.** Macquarie Infrastructure Partners III fund, if approved, would be the first infrastructure investment by ATRS. It is one of the oldest and largest global infrastructure investors and manages over 110 infrastructure assets globally. The fund is targeting a return of 12% gross IRR. HEK and ATRS staff recommended up to a \$50 million commitment. There is an early

investor quality fee offered as incentive, so imminent need is necessary to meet the early investor deadline.

a. **Resolution 2013-26.**

Ms. Nichols moved to adopt Resolution 2013-26, approving the recommendation to commit up to \$50 million to Macquarie Infrastructure Partners III Fund and to use imminent need. Mr. Knight seconded the motion, and the Board unanimously adopted the resolution.

4. **Recommendation to Commit up to \$30 Million to Cerberus Institutional Real Estate Partners III (CIREP III).** Cerberus Institutional Real Estate Partners III (CIREP) is a closed-end, U.S. and European, opportunistic real estate fund. The investment strategy identifies opportunities from Cerberus relationships with domestic and international financial institutions, corporations, insurance companies, and other owners of real estate, with focus on U.S. and European investments. The fund is targeting a return of 17-20% gross IRR. HEK and ATRS staff recommended up to a \$30 million commitment.

a. **Resolution 2013-27.**

Ms. Nichols moved to adopt Resolution 2013-27, approving the recommendation to commit up to \$30 million Cerberus Institutional Real Estate Partners III (CIREP III). Mr. Cauldwell seconded the motion, and the Board unanimously adopted the resolution.

5. **ATRS Lindsey Property Management Apartment Partnership: Potential Buyout by Lindsey.** Lindsey proposed a buyout of ATRS' interest in the Lindsey Partnerships, an apartment joint venture between Lindsey and ATRS that started in 2001. The partnership buyout would result in a 7.1% IRR since inception. The partnership terms were for 30 years and the buyout proposal would allow ATRS an early exit. HEK and ATRS staff believe that the apartment sector has reached peak value, so an early exit would be preferable.

a. **Resolution 2013-28.**

Ms. Nichols moved to adopt Resolution 2013-28, approving the divestiture by ATRS Properties, LLC of the assets comprising Broken Arrow Golf Development, Limited Partnership, Moore Golf Development, Limited Partnership and The Greens at Owasso,

Limited Partnership. Ms. Morey seconded the motion, and the Board unanimously adopted the resolution.

6. **Halderman Change in Entity to Become Securities and Exchanges Commission Approved and to use Imminent Need.** ATRS' farmland manager, Halderman Farm Service, Inc. (HFMS), recently became a securities and exchanges commission registered investment advisor and formed a new entity, Halderman Real Asset Management (HRAM). As a result, the original investment management agreement requires assignment from HFMS, Inc. to HRAM, LLC. HEK and ATRS staff view the new registration as a positive development.

- a. **Resolution 2013-29.**

Ms. Nichols moved to adopt Resolution 2013-29, approving the assignment of the farmland management agreement from HFMS, Inc. to HRAM, LLC and to use imminent need. Ms. Gram seconded the motion, and the Board unanimously adopted the resolution.

D. Private Equity Consultant Update – Franklin Park.

1. **Private Equity Portfolio Review for the Quarter ended March 31, 2013, Overview of Private Equity through Fiscal Year End June 30, 2013, and Forecast for Rest of the Year.** The net IRR for the aggregate portfolio since inception was 9.1%, with a committed capital of approximately \$2.9 billion. The percent change in portfolio value for the quarter was 1.7%.
2. **Recommendation to Commit up to \$25 Million to Vista Foundation II and to use Imminent Need.** Vista Foundation II has an attractive strategy, significant investment and industry related experience, and has produced solid returns as of late. Franklin Park and ATRS staff recommended a commitment of up to \$25 million, but no less than \$15 million, as ATRS may not receive the full allocation sought after due to Vista being a highly sought after fund.

- a. **Resolution 2013-30.**

Ms. Nichols moved to adopt Resolution 2013-30, approving the recommendation to commit up to \$25 million Vista Foundation II and to use imminent need. Ms. Morey seconded the motion, and the Board unanimously adopted the resolution.

XII. **Operations Committee Report.** Mr. Bobby Lester, Operations Committee Chair, presented the Operations Committee report.

A. **Open Forum for Potential Rule or Law Changes by Committee Members and Board Members in Attendance.** No items were discussed.

B. **Statistical Information Concerning July 1st Retirements.**

C. **Proposed Rules Due to Changes in Authority from 2013 Session.**

1. **Resolution 2013-31.**

Mr. Lester moved to adopt Resolution 2013-31, approving all new and amended rules and regulations subject to the Administrative Procedure Act. Mr. Black seconded the motion, and the Board unanimously adopted the resolution.

2. **Rule 6-2 Reciprocity.**

3. **Rule 6-12 College Plan.**

4. **Rule 7-1 Calculation of Final Average Salary.**

5. **Rule 7-3 Employee (Member) Contributions.**

6. **Rule 7-4 Reporting Employee and Employer Contributions.**

7. **Rule 8-2 Refund of Member Contributions.**

8. **Rule 8-20 Contract Buyouts/Court Ordered Payments.**

9. **Rule 9-2 Age and Service (Voluntary) Retirement.**

10. **Rule 9-4 Disability.**

11. **Rule 9-8 Error Corrections and Collection of Overpayments.**

12. **Rule 10-2 Employment of an ATRS Retiree by a Participating Employer.**

13. **Rule 10-3 T-DROP.**

14. **Rule 11-1 Survivor Benefits.**

15. **Rule 11-2 Lump-Sum Death Benefit.**
16. **Rule 11-5 Lost Payees.**
17. **Rule 12-1 Protection of Qualified Trust Under IRS Code.**
18. **Rule 13-1 Administrative Adjudication: Staff Determinations and Appeals.**
19. **Rule 15-1 Benefit Restoration Plan and Trust.**
20. **Rule 16-1 Cash and Savings Help Program for Members.**
21. **Rule 17-1 Manifest Injustice.**

XIII. **Staff Reports.**

- A. **Medical Committee Reports.** Mr. Ray presented the Medical Committee reports for June 2013 and July 2013. In June 2013, there were 26 applicants, 21 were approved, and five needed more information. In July 2013, there were 25 applicants, 22 were approved, and three needed more information.

Mr. Knight *moved to approve* the June 2013 and July 2013 Medical Committee reports. Ms. Nichols *seconded the motion*, and the Board *unanimously approved the motion*.

- XIV. **Board Discussion/Action – Pending Board Vacancy Position #2.** Donna Morey, Member Position #2, provided the ATRS Board Chairman with a letter of resignation from the ATRS Board, effective August 1, 2013. The Board has the option of leaving the position unfilled, appointing a replacement until the next election or calling a special election to fill the position. This item is on the Board agenda to allow the Board to determine what process, if any, it intends to use in regard to this upcoming vacancy.

Mr. Lester *moved to approve* an appointment to fill a pending Board vacancy to fill Position #2, with applications due by September 13, 2013. Mr. Knight *seconded the motion*, and the Board *unanimously approved the motion*.

- XV. **Applications for Pending Board Vacancy Position #7.** Mr. Hopkins presented the applications for pending Board vacancy for Position #7. The Board has the authority to fill vacant Board positions by appointment for member Trustees. A vacancy will exist after July 31, 2013.

- XVI. **Executive Session to Discuss Filling Pending Vacancy on Board Position #7.** Chair, Dr. Abernathy, called the Executive Session of the Board of Trustees to order at 11:24 a.m.

Chair, Dr. Abernathy, reconvened the Board of Trustees meeting at 11:36 a.m.

- XVII. **Potential Appointment of Trustee to Fill Unexpired Term for Member Position #7 due to Pending Vacancy.**

Mr. Lester *moved to appoint* Kelly Davis to the pending vacant Non-Certified Trustee Position #7 position. Mr. Knight *seconded the motion*, and the Board *unanimously approved the appointment*.

- XVIII. **Other Business.**

- A. **Recognition of Janelle Riddle's Service to the Board.**

1. **Resolution 2013-32.**

Mr. Stubblefield *moved to adopt* Resolution 2013-32, commending Janelle Riddle for her service to the ATRS Board of Trustees. Ms. Gram *seconded the motion*, and the Board *unanimously adopted the resolution*.

- B. **Recognition of David Caldwell's Service to the Board.**

1. **Resolution 2013-33.**

Mr. Stubblefield *moved to adopt* Resolution 2013-33, commending David Caldwell for his service to the ATRS Board of Trustees. Mr. Black *seconded the motion*, and the Board *unanimously adopted the resolution*.

- C. **Recognition of Donna Morey's Service to the Board.**

1. **Resolution 2013-34.**

Ms. Nichols *moved to adopt* Resolution 2013-34, commending Donna Morey for her service to the ATRS Board of Trustees. Ms. Gram *seconded the motion*, and the Board *unanimously adopted the resolution*.

- XIX. **Adjourn.**

Mr. Lester *moved to adjourn* the Board of Trustees Meeting. Mr. Black *seconded the motion*, and the Board *unanimously approved the motion*.

Meeting adjourned at 11:42 a.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Amy Glavin,
Recorder

Date Approved