

**Regular Meeting  
Board of Trustees**

**November 6, 2001**

*The Board of Trustees of the Arkansas Teacher Retirement System convened on Tuesday, November 6, 2001, at 8:30 a.m. The meeting was held in the ATRS Board Room, 1400 West Third, Little Rock, Arkansas.*

**Members of the Board Present:**

Linda Parsons, Chair  
Charles Vondran, Vice Chair  
Winfred Clardy  
Hazel Coleman  
Charles Dyer  
Dr. Paul Fair  
Jimmie Lou Fisher  
John Fortenberry  
Ann Harbison  
Betty McGuire  
Louis Midkiff  
Frank White  
Gus Wingfield

**Members of the Board Absent:**

Mary Harris  
Ray Simon

**Staff Present:**

Bill Shirron, Executive Director  
Angelo Coppola, Deputy Director  
George Snyder, Chief Fiscal Officer  
Gail Blair, Manager, Data Processing  
Dena Dixson, Manager, Membership & Payroll  
Tammy Medlock, Administrative Assistant  
Michael Ray, Manager, Benefits & Counseling  
Bernice Smith, Manager, Accounting  
Barbara Waldrop, Manager, Preretirement Education

**Others Present:**

Randy Abner, Optdata, Inc.  
Don Lewis, Optdata, Inc.  
Lloyd Black, Arkansas Retired Teachers Association  
Judith Kermans, Gabriel Roeder Smith & Company  
Lenora Kwan, Watson Wyatt  
Ed McKinney, Retiree  
J. D. McGehee, Arkansas Retired Teachers Association  
James McGuire, Guest of Betty McGuire  
Jonelle Mitchell, Arkansas Retired Teachers Association  
Etoza Mouser, Arkansas Retired Teachers Association  
Brian Murphy, Gabriel Roeder Smith & Company

**Others Present (cont'd):**

Brian Poulous, Watson Wyatt  
Don Roberts, Arkansas Retired Teachers Association  
Joe Sweat, Arkansas Retired Teachers Association  
Leonard Venable, Office of the State Treasurer

**VII. Roll Call**

The minutes were recorded by Tammy Medlock of the Teacher Retirement staff.

**VIII. Minutes of September 10-11, 2001 and October 15, 2001**

Ms. Fisher made a motion to adopt the minutes as presented. The motion carried.

**IX. Adoption of Agenda**

Mr. Shirron asked that Dr. Roberts comments be added under "Public Comments" of the agenda. Mrs. Coleman made a motion to adopt the agenda as amended. The motion carried

**X. Next Regular Meeting Date(s)**

The next regular meeting of the Board was tentatively scheduled for February 11-12, 2002.

**XI. Public Comments on Agenda Items**

**Dr. Don Roberts, Arkansas Retired Teachers Association (ARTA)**

Dr. Roberts stated ARTA has a request for the ATRS Board and Director to conduct an actuarial study on T-DROP within the next six months, preferably performed by an actuary not currently on retainer by ATRS.

Mr. Vondran made a motion that the Director arrange for an actuarial study of T-DROP to determine: 1) If the plan is cost-neutral to the system; and, 2) Whether the plan is, or is not, costing current and future retirees potential future benefits. The motion carried.

By common consent the board requested that Mr. Shirron receive Dr. Robert's concerns in writing. Mr. White suggested the actuary write the T-DROP study in layman's terms.

**XII. Actuarial Valuation – Brian Murphy, Judith Kermans, Gabriel Roeder Smith & Co.**

Ms. Kermans reviewed the valuation for retired lives, and Mr. Murphy reviewed the preliminary valuation for the active lives, for the period ending June 30, 2001. Mr. Murphy reported because the investment returns were below the assumed, the amortization period to fund accrued liabilities now exceeds 30 years. He stated even if the system earned 8% on a market value basis in the next few years, it would still not be enough to get the amortization below 30 years. He presented several alternatives to the Board for further consideration:

- Increase the contribution rate. An increase of ½% will bring the amortization period to exactly 30 years in 2001. More than ½% is likely to be needed in the future unless markets turn around.
- Perform an early experience study, reviewing matters related to the recent Watson Wyatt audit, which indicated one or more of GRS's assumptions may be too conservative.
- Delay the decision until the 2002 valuation is complete and review statutes carefully to ensure that this is permissible.

### **XIII. Actuarial Audit Conducted by Watson Wyatt Worldwide – Brian Poulous & Lenora Kwan**

Mr. Poulous reported ATRS' current actuaries are doing a good job. Watson Wyatt's audit findings include the following:

- Economic assumptions are reasonable and consistent
- The assumption for inflation is conservative (Watson Wyatt considers it high)
- Demographic assumptions are reasonable
- Asset information agrees with the information contained in the Comprehensive Annual Financial Report
- Watson Wyatt materially agrees with GRS' results, using GRS' assumptions

Mr. Poulous stated their recommendations would include:

- GRS' inflation assumption rate of 4 – 4-1/2% is a little conservative. He suggested the Board might want to consider a 3 - 4% rate, which Watson Wyatt considers reasonable.
- Make sure that terminated vested life experience matches actual.

Mr. Murphy with GRS stated he would return to the Board with information showing how changing the inflation rate will affect the plan.

### **XIV. Investment Committee Report - Charles Vondran, Chair**

Mr. Shirron distributed resumes of private sector parties interested in serving on the Real Estate Committee. Mr. Fortenberry made a motion to authorize the Investment Committee to choose members for the Real Estate Committee. The motion carried.

Mr. Shirron stated he has not received any responses to the RFP for the Real Estate Investment Manager, who will serve as chair of the Real Estate Committee. Mr. Midkiff made a motion to authorize the Investment Committee to interview candidates for this position and let the Board then confirm their selection. The motion carried. Mr. Shirron will research ATRS' taking out liability insurance for Real Estate Committee members.

Ms. Parsons appointed the chair of the Investment Committee and John Fortenberry to serve on the Screening Committee.

### **XV. Policies Committee Report – Dr. Paul Fair, Chair**



Dr. Fair made a motion that the policy changes on pages 59-60 and page 61 of the September, 2001 board brochure be adopted as presented. The motion carried.

#### **XVI. Teacher Retirement System Reports**

##### **A. Medical Board Summary Report – Michael Ray**

Mr. Midkiff made a motion to approve the Medical Board reports as presented in the September board brochure on page 66. The motion carried.

Mr. Clardy made a motion to approve the Medical Board reports as presented on pages 29-30 of the November board brochure. The motion carried.

##### **B. Personnel Report – Dr. Angelo Coppola**

Mrs. Coleman made a motion to adopt the Personal reports for September and November as presented. The motion carried.

##### **C. Membership & Payroll – Dr. Angelo Coppola**

##### **D. Arkansas Related Investments – George Snyder**

##### **E. Investment Summaries – George Snyder**

##### **F. Financial Statements – Bernice Smith**

##### **G. Retirement Village & Victory Building Updates – Dr. Angelo Coppola**

Dr. Coppola reported ATRS has received 150 deposits for the retirement village to-date. By common consent the Board requested Mr. Shirron to get definite cost figures for the village. Dr. Coppola stated a representative from Retirement Communities of America will meet with the Board at the next meeting; possibly a called Board meeting in December, 2001.

Dr. Coppola reported ATRS has procured 50% signed leases for the Victory Building, along with several letters of intent.

#### **XVII. New Business**

#### **XVIII. Executive Director's Comments**

Mr. Dyer made a motion to adopt the following items in the meeting schedule as presented on page 46 of the brochure:

- ◆ The Board will meet every two months, beginning in February, 2002.
- ◆ The Investment Consultant will report at each and every regular meeting of the Board.
- ◆ Actuaries will report each November and February.

- ◆ Portfolio managers will submit performance reports to each board member on a quarterly basis (January, March, July, & October). Equity and fixed income managers should submit (at the minimum) the two-page report format required by the Board.

The motion carried.

Mr. Fortenberry made a motion the board adopt the following schedule for portfolio managers for a period of one year:

- ◆ Portfolio managers will not be required to report to the Board at regular meetings unless notified to do so by the Investment Consultant.

The motion did not carry.

By common consent the Board agreed that the second day of regular board meetings would convene at 9:00 a.m., rather than 8:30 a.m.

#### In other business:

**NCTR Operation Uplift.** Mr. Shirron reported the ATRS Board and staff had contributed \$500 to NCTR's Operation Uplift, which will provide a Thanksgiving dinner for the NY Teacher Retirement System staff. The New York TRS office is located seven blocks from the buildings that were devastated on September 11, 2001, and the office and staff members have suffered many hardships as a result.

**New Membership System.** Mr. Snyder reported ATRS' 20-year old member system, which stores retirement information for all active and retired members, is being re-written by Optdata, Inc. He indicated the project is expected to take up to two years at a cost of \$7 million.

**Resolution Made Retroactive.** Mr. Wingfield made a motion to make the resolution adopted in September for payment of board members' personal expenses be made retroactive to July 1, 2001. The motion carried.

**Withholding on Death Benefits.** With reference to page 34 in the brochure (letter written by John Peace), Mr. Shirron stated he would bring an insurance company in to talk to the board about a group life insurance policy. The Board will discuss the feasibility of ATRS holding such a policy, which will prevent beneficiaries from having to pay taxes on death benefits.

**ATRS Budget Review.** By common consent, the Board requested Mr. Shirron present ATRS' budget at the next regular meeting (February, 2002).

**Legislative Committee.** Ms. Parsons stated Legislative Committee members will be appointed at the next regular meeting (February, 2002).

*As there was no further business to consider, Mrs. Coleman a motion to adjourn. The motion carried and the meeting adjourned at 12: 15 p.m.*

*Linda Parsons*

Linda Parsons, Chair

*Bill A Shirron*

Bill Shirron, Secretary to the Board

2-11-02

Date

## Arkansas Teacher Retirement System

## Non-Traditional Investments

As of September 30, 2001

Investment	Commitment (a)	Contributions		Remaining Commitment (d)=(a-b)	Distributed (e)	Currently Invested (f)=(b-c)
		Draws (b)	% (c)=(b-a)			
Alternative Investments						
21st Century	\$ 25,000,000	\$ 9,212,954	36.9%	\$ 15,787,046	\$ -	\$ 9,212,954
Cinven	61,100,000	51,748,432	84.7%	9,351,568	825,240	50,923,192
Cypress	50,000,000	10,192,198	20.4%	39,807,802	-	10,192,198
DLJ Merchant Banking	200,000,000	61,191,626	30.6%	138,808,374	27,736,065	33,455,561
Doughty Hanson III	100,000,000	61,459,997	61.5%	38,540,003	1,017,150	60,442,847
HMTF III	75,000,000	72,454,260	96.6%	2,545,740	27,375,970	45,078,290
HMTF IV	100,000,000	89,209,147	89.2%	10,790,853	43,274,165	45,934,982
HMTF V	200,000,000	133,635,660	66.8%	66,364,340	19,285,889	114,349,771
Oak Hill	50,000,000	33,083,080	66.2%	16,916,920	2,784,747	30,298,333
Diamond State	2,000,000	1,000,000	50.0%	1,000,000	-	1,000,000
LJM2	30,000,000	7,400,112	24.7%	22,599,888	6,044,997	1,355,115
Doughty Hanson Tech	50,000,000	7,783,776	15.6%	42,216,224	1,552,435	6,231,341
DLJ Real Estate	100,000,000	24,194,110	24.2%	75,805,890	3,200,090	20,994,020
Doughty Hanson Real Estate	50,000,000	15,873,727	31.7%	34,126,273	269,426	15,604,301
Olympus	100,000,000	57,138,348	57.1%	42,861,652	14,398,033	42,740,315
Westbrook II	75,000,000	75,000,000	100.0%	-	80,212,413	(5,212,413)
Westbrook III	100,000,000	100,000,000	100.0%	-	30,311,835	69,688,165
Westbrook IV	120,100,000	17,966,960	15.0%	102,133,040	1,020,523	16,946,437
Westbrook Co-invest	40,000,000	40,000,000	100.0%	-	5,207,415	34,792,585
Total Alternative Investments	<u>1,528,200,000</u>	<u>868,544,387</u>	<u>56.8%</u>	<u>659,655,613</u>	<u>264,516,393</u>	<u>604,027,993</u>
Mezzanine						
Blackstone	100,000,000	54,816,893	54.8%	45,183,107	2,047,030	52,769,863
DLJ	80,000,000	30,308,467	37.9%	49,691,533	6,591,223	23,717,244
Total Mezzanine	<u>180,000,000</u>	<u>85,125,360</u>	<u>47.3%</u>	<u>94,874,640</u>	<u>8,638,253</u>	<u>76,487,107</u>
Timber - Wachovia	<u>185,000,000</u>	<u>185,000,000</u>	<u>100.0%</u>	<u>-</u>	<u>-</u>	<u>185,000,000</u>
Total Non-traditional	<u>\$ 1,893,200,000</u>	<u>\$ 1,138,669,747</u>	<u>60.1%</u>	<u>\$ 754,530,253</u>	<u>\$ 273,154,646</u>	<u>\$ 865,515,100</u>

## Notes:

Amounts shown in negative under 'Currently Invested' translate to distributions in excess of total investment in the fund.