

**Regular Meeting
Board of Trustees**

April 9, 2002

The Board of Trustees of the Arkansas Teacher Retirement System convened on Tuesday, April 9, 2002, at 9:00 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
John Fortenberry
Ann Harbison
Mary Harris
Betty McGuire
Louis Midkiff
Frank White

Members of the Board Absent:

Jimmie Lou Fisher
Ray Simon
Gus Wingfield

Staff Present:

Wayne Greathouse, Interim Deputy Director
Michael Ray, Interim Deputy Director
George Snyder, Internal Auditor-CPA
Gail Blair, Manager, Data Processing
Dena Dixon, Manager, Membership & Payroll
Tammy Medlock, Administrative Assistant
Hugh Roberts, Retirement Fund Investment Supervisor
Bernice Smith, Agency Fiscal Manager
Dale Walker, Investment Specialist

Others Present:

Lloyd Black, Arkansas Retired Teachers Association
Wesley Brown, Arkansas News Bureau
Mackie Cruise, CDI Contractors
Darrell Dover, Dover Dixon Home PLLC
Tom Ferstl, Ferstl Enterprises
Lloyd Garrison, CDI Contractors
Richard Hutchinson, Arkansas Education Association
Gene Levy, Cromwell Architects/Engineers
James McGuire, Guest of Betty McGuire
Jan Meyer, Flake & Kelley Management
Don Roberts, Arkansas Retired Teachers Association
Don Smith, Thomas & Thomas

Others Present (Cont'd):

Carol Stapleton, Legislative Council
Leonard Venable, Office of the State Treasurer
Patty Weed, Thomas & Thomas
Mike Wickline, AR Democrat-Gazette

VIII. Roll Call

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

IX. Adoption of Agenda

The following items were added to the agenda:

- XI. Investment Committee Reports – Item C – Executive Director Search
- XII. Real Estate Committee Report – Item B – Thomas & Thomas Report on Holman Accounting
- XVI. New Business – Item C – Ennis Knupp Recommendations
- XVII. Executive Director Comments – List of Professional Service Contracts and Meeting Room Sound System

Mrs. Coleman made a motion to adopt the agenda as amended. The motion carried.

X. Public Comments on Agenda Items

XI. Investment Committee Report - Charles Vondran, Chair

- A. Minutes of February 19, March 13 & March 22, 2002
- B. Consultant's Contract (*approved by the Board on March 22, 2002*)
- C. Executive Director Search

Mr. Vondran reported the position announcement for the Executive Director was advertised in local and national publications. The deadline for resumes is May 17, 2002. The Investment Committee will review the resumes on May 20 and refer up to five candidates for consideration by the Board on June 12.

XII. Real Estate Committee Report – Tom Ferstl, ATRS Real Estate Manager

- A. *See Attachment G*

(1) **Hathaway Contract.** By common consent the Board authorized Mr. Greathouse to sign all documents after review and approval by Mr. Ferstl.

- (2) **Kilgore and Riley Properties.** Mr. White made a motion to authorize Mr. Greathouse to set up an account for the express purpose of renovating the Riley North facility in an amount not to exceed \$100,000. The motion carried.
- (3) **Accounting for Riley Properties.** Addressed by Patty Weed later in agenda.
- (4) **Retirement Village.** Mr. White made a motion to approve Change Order #7 for \$66,809. The motion carried.

Dr. Fair made a motion that Mr. Ferstl and Mr. Greathouse negotiate with the necessary parties to determine the status of the retirement village project and report at the next Investment Committee meeting, and for Mr. Greathouse to instruct Retirement Communities of America that the final accounting of their fees should be presented at the next Investment Committee meeting. The motion carried.

- (5) **Arkla Building Lots.** Mr. White made a motion to authorize Mr. Ferstl to negotiate the price for the leased lots north of the Arkla Building. The motion carried.
- (6) **State Building Services Proposal.** By common consent the Board referred the proposal to the Screening Committee.

Other Items:

Dallas Hilton Partnership. By common consent the Board agreed that Mr. Ferstl should serve on the Partnership Board to represent ATRS.

Victory Building Reception. Mr. White made a motion to allow the Downtown Partnership to show the Victory Building at no cost to ATRS and ATRS would make available the Victory Building for a marketing reception. The motion did not carry.

Mr. Dyer made a motion that ATRS allocate \$1,000 for two receptions in the Victory Building. The motion carried.

B. Thomas & Thomas Report On Holman Accounting – Patty Weed

Mrs. Weed distributed a working trial balance report as of February 28, 2002. They expect to have March figures from Mr. Holman within the next two weeks. Mrs. Weed indicated that all invoices have not yet been made available.

Mrs. Harris made a motion to authorize Thomas & Thomas to complete a full set of gap accrual financial statements, with which ATRS would then obtain an appropriate audit with the advice of legal counsel. The motion carried. Mr. Snyder indicated he would meet with Thomas & Thomas to determine the cost of the additional work approved by the Board.

XIII. Policies Committee Report – Dr. Paul Fair, Chair

A. Minutes of February 10 & March 13, 2002

Mr. Fortenberry noted a revision to the minutes in the meeting brochure:

Minutes of February 10, 2002; Paragraph 1 on page 65 was revised to read, "*The Executive Director may not cause or allow conditions that are inhumane, unfair or undignified.*"

B. Policy Recommendations

Dr. Fair made a motion to adopt the minutes as corrected and the Executive Director Limitations section as amended. The motion carried.

XIV. Legislative Committee Report – Winfred Clardy, Chair

Mr. Clardy stated Mr. Ray would set the next meeting date for the Committee.

XV. Teacher Retirement System Reports

A. Medical Board Summary Report – Michael Ray

Mr. Vondran made a motion to approve the Medical Board reports as presented. The motion carried.

B. Personnel Report – Michael Ray

Mr. Ray reported the agency had hired three new employees:

- Beverly Buchanan, Administrative Assistant II, Accounting
- Brittany Sampson, Reporting Specialist II (Receptionist), Administration
- Brook Whitaker, Research Project Analyst, Data Processing

Mr. Fortenberry made a motion to approve the Personnel report as presented. The motion carried.

C. Membership & Payroll

D. Arkansas Related Investments

E. Investment Summaries

F. Financial Statements

XVI. New Business

A. Discussion – 2002 Seminar

It was discussed the seminar may be held in both the ATRS building and the Peabody-Little Rock. The Oversight Committee will work with Mr. Greathouse to finalize plans.

B. Discussion – 2003 Elections & Balloting Options

C. Ennis Knupp Recommendations

Mrs. Harbison made a motion that the Board vote on each recommendation separately. The motion did not carry.

Mr. Midkiff made a motion to eliminate the bias-small value, introduce an index allocation, using Proposal #1 with the 30%; reduce the number of managers by four as recommended, and replace Scudder.

A roll call vote was ordered:

Harris.....	Yes
Coleman	No
Midkiff.....	Yes
Harbison.....	No
Vondran.....	Yes
Parsons	Yes
Dyer.....	No
Clardy.....	Yes
Fortenberry.....	Yes
Fair	Yes
McGuire	No
White.....	Yes

The motion carried.

Mr. Vondran made a motion to authorize the Investment Consultant to conduct a search to replace Scudder. The motion carried.

Mr. Vondran made a motion to authorize the Investment Consultant to conduct a search for an appropriate index fund (*Attachment H*). The motion carried.

XVII. Executive Director's Comments

A. List of Professional Service Contracts

Mr. Greathouse distributed a summary of current professional service contracts, which expire June 30, 2002. Mr. Greathouse indicated the Investment Consultant is negotiating with mangers to obtain the best fees. Comments from Board members regarding contracts should be directed to Mr. Greathouse as soon as possible. He indicated all contracts would be submitted to the Department of Finance and Administration on May 13, to be considered at the Legislative Review Committee on June 5, in order to be effective July 1.

B. Sound System for Meeting Room

Mr. Greathouse reported the staff is researching to purchase a sound system for the Board meeting room.

In other business:

African-American Portfolio Manager. Mrs. Coleman requested the System seek, through the Investment Consultant, a minority manager of African-American descent. In addition, she requested that Mr. Ray research the number of African-American teachers and retired teachers in the System. Dr. Fair stated the Investment Committee could discuss the proposal and provide a recommendation to the Investment Consultant.

Trustee Vacancies. Mr. Midkiff stated he would be retiring June 30, vacating his position on the Board. He requested the Board fill his position prior to the next annual election, which is scheduled for March, 2003. Current ATRS' policy states, "*When a vacancy occurs in the office of a member or retirant trustee, the vacancy will be filled during the next annual ATRS election, utilizing approved election requirements and procedures for that position.*" ATRS law, A.C.A. 24-7-302(B)(b)(2), states, "*If a vacancy occurs in the office of member or retirant trustee, the remaining trustees shall fill the vacancy for the remainder of the unexpired term.*" In addition, A.C.A. 24-7-302(B)(c) states, "*The board shall adopt its own rules and regulations pertaining to attendance and vacancies as provided in subsection (b) of this section.*"

Mr. Dyer made a motion to authorize the Executive Director to request an Attorney General's opinion on the interpretation of the ATRS law, and to define the meaning of "unexpired term." The motion carried.

Retirement Village Deposit Refunds. Mr. Greathouse reported the system issued refunds of the \$1,000 deposits last month.

As there was no further business to consider, Mr. Vondran made a motion to adjourn. The motion carried and the meeting adjourned at 12:35 p.m.

Linda Parsons

Linda Parsons, Chairman

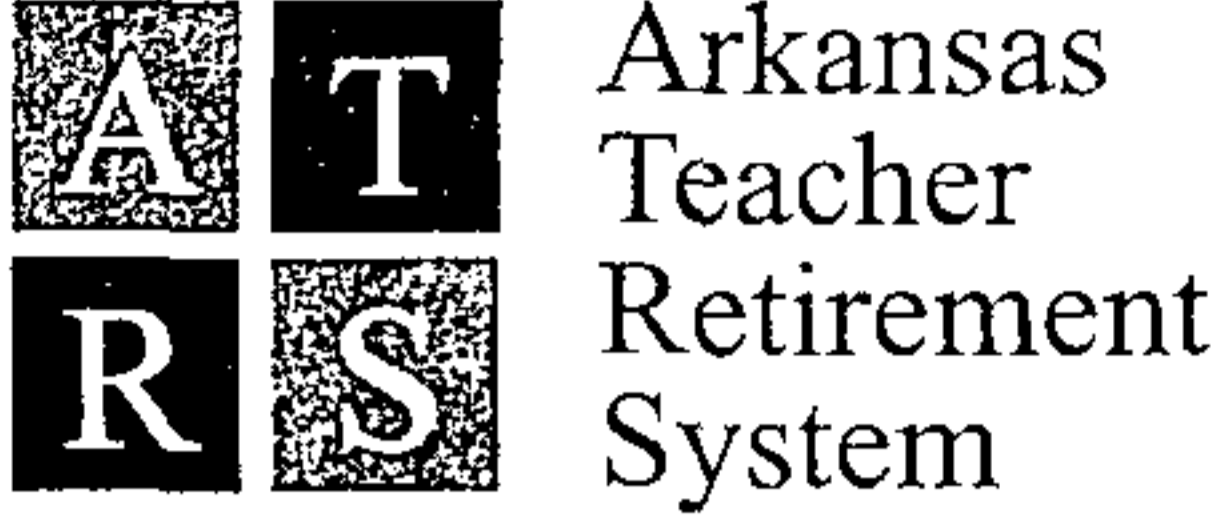
Wayne Greathouse

Wayne Greathouse, Interim Executive Director
Secretary to the Board

June 13, 2002

Date

ATTACHMENT A



1400 West Third, Little Rock, AR 72201
Phone (501) 682-1517 or (800) 666-2877
Website - <http://www.atrs.state.ar.us>
Email - info@atrs.state.ar.us

RESOLUTION

BE IT RESOLVED that effective 22 day of March, 2002, *G. Wayne Greathouse*, Interim Executive Director, and *Michael S. Ray*, Interim Deputy Executive Director, and they each are, authorized to execute, acknowledge and deliver such agreements, documents and instruments as might be necessary or appropriate in connection with the purchase, sale, pledge, transfer of other transaction of any kind whatsoever involving any investment approved by the Arkansas Teacher Retirement System Board of Trustees or approved by the Investment Committee of said Board; and

BE IT FURTHER RESOLVED that the authorizations contained in the preceding paragraph shall apply to transactions involving ATRS Recoveries, LLC, ATRS Properties, LLC, and ATRS Retirement Properties, LLC (all of which are single member limited liability companies of which the Arkansas Teacher Retirement System is the single member) as well as to transactions in the direct name of the Arkansas Teacher Retirement System; and

BE IT FURTHER RESOLVED that the execution, acknowledgement (if appropriate) and delivery of such agreement, document or instrument by any one of these two named persons shall constitute the valid, binding and enforceable act of the Arkansas Teacher Retirement System and that no third party dealing with the System need inquire further as to the authority of such person to act for and in behalf of the System.

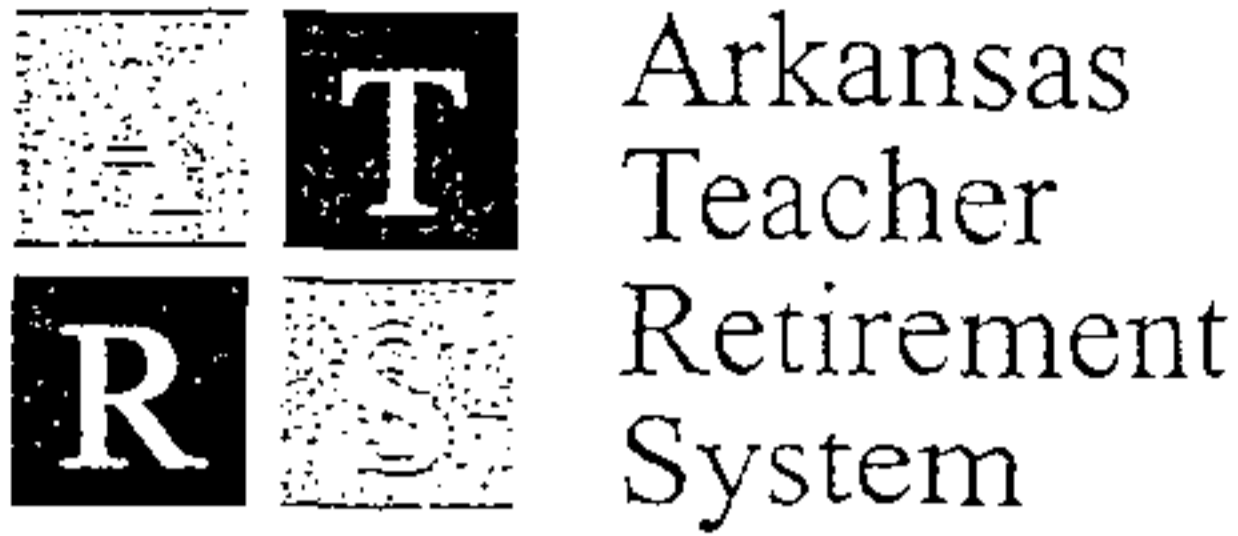
Linda Parsons, Chair
Arkansas Teacher Retirement System
Board of Trustees

Dated this 8 day of April, 2002

Subscribed and sworn to before me this _____ day of _____, 20____

SEAL

My commission expires _____



1400 West Third, Little Rock, AR 72201
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BE IT FURTHER RESOLVED that the execution, acknowledgement (if appropriate) and delivery of such agreement, document or instrument by any one of these two named persons shall constitute the valid, binding and enforceable act of the Arkansas Teacher Retirement System and that no third party dealing with the System need inquire further as to the authority of such person to act for and in behalf of the System.

Linda Parsons, Chair
Arkansas Teacher Retirement System
Board of Trustees

Dated this 8 day of April, 2002

Subscribed and sworn to before me this _____ day of _____, 20____

SEAL

My commission expires _____

ENNISKNUPP

MEMORANDUM

March 28, 2002

To: Board and Staff
Arkansas Teacher Retirement System

From: Dave Keil, CFA
David Russell, CFA

Re: MetWest Asset Management Board Contact

At the March 22nd Investment Committee Meeting, the topic of investment managers directly contacting Board members was discussed. The discussion originated from the fact that a Board member received a phone call from one of the fixed income managers reviewed at the recent Committee Meeting, Metropolitan West Asset Management. As we informed the Committee, we do not usually inform a manager that they are being considered for a search without consent from the client. Accordingly, we sought to determine how Metropolitan West Asset Management knew of the pending search at ATRS. After reviewing correspondence, we were able to verify that we did not specifically discuss ATRS with the manager.

Curious to find out how Metropolitan West Asset Management knew of the search, we contacted the manager. Interestingly, we learned that it was not Metropolitan West Asset Management that contacted the Board member, but rather one of the other entities in the institutional investment community that also uses the MetWest moniker. The two other entities that go by "MetWest" are Metropolitan West Securities - a firm specializing in securities lending, and Metropolitan West Capital Management - an investment manager unrelated to Metropolitan West Asset Management. Which of the two firms contacted ATRS directly, we are not sure. Unfortunately, however, with three firms going by MetWest, it sounds as if the same-name confusion happens often.

We thought it important to clarify that EnnisKnupp did not share ATRS information with the manager until after they were selected to present in the finals presentation and that MetWest Asset Management, the firm being interviewed for the fixed income assignment, did not actually seek to contact members of the ATRS Board. If there are any remaining questions on this issue, we would be glad to discuss them.

ENNISKNUPP**MEMORANDUM**

March 28, 2002

To: Board and Staff
Arkansas Teacher Retirement System

From: David Russell, CFA

Re: Recommendation to establish "Required Investment Manager Presentation Guidelines and Format"

One of EnnisKnupp's duties is to advise and assist ATRS in conducting and documenting their procedural prudence and due diligence. The duty to monitor and review investment managers is one of those tasks. ATRS currently has each of their investment managers make periodic presentations to the Board as part of their due diligence process.

We believe that the investment manager's presentation content should be established by the ATRS Board, not by the managers. In the absence of specific requirements, there is a natural instinct for investment managers to present what they think is important. This may not be the same information that is important and relevant to the ATRS Board. There is also a natural human tendency to accentuate the positive and omit or gloss over any negative information.

The investment manager's time in front of the ATRS Board is a scarce resource that should be carefully managed. It is imperative that the investment manager's communicate the maximum amount of information in the shortest amount of time. Manager's presentations should serve as an opportunity for the Board to review a wide range of key due diligence factors and their written materials should serve as documentation of the Board's ongoing due diligence process.

We recommend that the ATRS Board establish and adopt "Required Investment Manager Presentation Guidelines and Format" as outlined in the attached memo. Each of the elements covered in the attached memo have been carefully designed to assure that each manager's presentation covers, and documents in writing, key due diligence issues. This assures the Board that no key elements are overlooked and forces full disclosure by the managers. Not only is this process a "best industry practice" but the consistency of the reporting format also allows the Board to more easily compare and evaluate the investment managers.

ENNISKNUPP

MEMORANDUM

March 28, 2002

TO: All Investment Managers for
Arkansas Teacher Retirement System

FROM: David A. Russell, CFA

RE: Required Investment Manager Presentation Guidelines and Format

Investment manager monitoring and due diligence is an important fiduciary responsibility. One of the primary methods used to meet this responsibility is your periodic presentation to the ATRS Board. In order to make your time with the Board as productive and informative as possible, the Board has adopted the following "Required Investment Manager Presentation Guidelines and Format."

Both your oral presentation and written materials to the ATRS Board should contain complete information and affirmative statements for each of the following topics. Your presentation and written materials should be organized and presented in the same order as listed below:

1. **Organization and Product Overview.** Provide a brief overview of the current and historic ownership, management, and senior level staffing of your organization. Include your current assets under management, number of clients, and number of investment professionals you employ. Provide information regarding any change in the ownership and/or management structure of your firm in the past three years. Provide an overview of your investment mandate, your investment process, and portfolio management team.
2. **Performance.** Provide performance data relative to the agreed upon benchmark. Performance information should be shown on a calendar quarter-by-quarter basis, net of fees, with annual and cumulative (3-year, 5-year, and since inception, as applicable) summaries compared to the benchmark. Also include relevant portfolio characteristics compared to the benchmark. All data should be as of the most recent calendar quarter-end. You may provide more current up-to-date performance information as supplemental information.

3. **Client and Personnel Turnover.** Provide the number and size of all accounts that were gained or lost in the last three years. Provide the names of all investment professionals who either joined or left your firm in the last three years who were involved in the investment decision making process, research or client servicing function. In addition, please detail any other information about your staff that ATRS would consider material, such as reassignments of responsibility, prospective additions, etc.
4. **Risk Controls and Compliance.** Please describe the process you use to screen the portfolio for compliance with the client's investment policy. Review your overall portfolio constraints, risk controls and monitoring systems.
5. **Investment Guidelines.** Please provide an affirmative statement that your portfolio has been in compliance with all ATRS guidelines. If there have been any violations, disclose the violation and how it was resolved. Are there any provisions in the current ATRS investment guidelines or benchmarks that constrain or impair your investment process?
6. **Regulatory and Legal Issues.** Report on any and all SEC actions, pending or actual litigation, or any other events that ATRS would consider material.
7. **Additional Information.** Please provide any additional information or material that you feel would help ATRS to understand your firm, the investment management team, your investment philosophy, outcomes, the economy, or the market environment.

ATRS should receive 25 copies of your written presentation materials a minimum of 10 days before the meeting for distribution to the Board. Additionally, three copies of your presentation materials should be sent to EnnisKnupp.

If you have any questions regarding these requirements please feel free to contact me at: (312) 715-1700 or d.russell@ennisknupp.com Thank you.

ENNISKNUPP**MEMORANDUM**

March 28, 2002

To: Board and Staff
Arkansas Teacher Retirement System

From: David Russell, CFA
Patrick Kelly, CFA

Re: Proposed Revisions to the Classification of Investments within the Overall Asset Allocation

The purpose of this memorandum is to address the classification of investments in the Arkansas Teacher Retirement System. There are three changes we are recommending:

- 1) The two mezzanine managers should be reclassified as alternative investments,
- 2) The alternatives asset class should be segmented to identify different strategies,
- 3) Timberland should be defined as real estate.

The exhibit on the following page details the proposed changes we recommend for the reclassification of investments.

The first proposed adjustment is to classify Blackstone Mezzanine Partners and DLJ Mezzanine investments as part of the alternatives asset class. These two managers do not construct bond portfolios designed to follow the movements of the public fixed income market, but rather make ownership investments or provide debt capital as a source of investment. Mezzanine capital is meaningfully more risky than most publicly traded debt. Although mezzanine financing is typically less risky than private equity, its shares similar characteristics to this asset class and we therefore, recommend classifying it as a mezzanine debt investment. It is without question an alternative type investment. Within the alternatives asset class, we recommend that the managers be classified into three categories: mezzanine debt, domestic private equity and foreign private equity.

Currently the target allocation to alternative investments includes real estate investments, which we feel should have its own target policy allocation that includes Timberland assets.

We feel the suggested remodeling of the asset allocation provides more clarity in the grouping of managers by investment type. Our upcoming Asset and Liability Study will assist in determining the target policy allocations to these asset class divisions going forward.

Arkansas Teacher Retirement System
Asset Class Remodel
February 28, 2002

Original Classification

	Market Value	Percent	Policy
Alliance Capital Management	\$313,752		
Munder Capital Management	271,147		
Oppenheimer Capital Management	455,788		
INVESCO Capital Management	381,574		
ICC Capital Management	373,118		
Rothschild Asset Management	230,535		
Eubel, Brady & Suttman	157,647		
Aetius Investment Management	158,471		
Trust Company of the West	92,185		
Daruma Asset Management	117,456		
Phoenix Council	90,025		
Kennedy Capital Management	275,961		
Total U.S. Equity	\$2,917,570	40.4%	40.0%
Brinson Partners	\$416,225		
Zurich Scudder	363,887		
AJB Govett	100,181		
Total Non-U.S. Equity	\$880,293	12.2%	17.5%
Regions Bank	\$600,519		
Vanderbilt Capital Advisors	258,513		
Loomis Sayles & Company	430,868		
Hyperion Capital Management	277,729		
Nicholas Applegate	308,483		
Blackstone Mezzanine Partners	25,283		
DLJ Mezzanine	25,249		
Total Fixed Income	\$1,925,544	26.7%	25.0%
DLJ Real Estate Capital I	\$29,056		
Westbrook Fund II	23,104		
Westbrook Fund III	77,305		
Westbrook Fund IV	17,967		
Olympus	42,382		
Hicks Muse Tate & Furst - III	65,906		
Hicks Muse Tate & Furst - IV	85,163		
Hicks Muse Tate & Furst - V	80,573		
Oakhill Capital Partners	36,581		
Westbrook Shp LLC	34,108		
Cypress	15,056		
Diamond State Ventures LP	1,000		
LJM2 Co-Investment LP	5,101		
DLJ Merchant III	54,182		
Hicks Muse Tate & Furst - 21st Century	11,601		
Total Domestic Private Equity	\$389,271	5.4%	
Doughty Hanson	\$61,450		
Doughty Hanson Tech I	9,908		
Doughty Hanson Euro Real Estate	11,316		
Cinven Funds	48,648		
Cinven Funds II	6,699		
Cinven Funds III	3,529		
Total Foreign Private Equity	\$141,550	2.0%	
Total Alternatives	\$720,535	10.0%	10.0%
Wachovia Timberland	\$85,000		
Wachovia Timberland II	145,269		
Total Timberland	\$230,269	3.2%	1.5%
Arkansas Related	\$514,754	7.1%	5.0%
Liquidity Account	\$27,136		
Cash	11,169		
Total Cash Equivalents	\$38,305	0.5%	1.0%
Total Fund	\$7,228,570	100.0%	100.0%

Revised Classification

	Market Value	Percent	Policy
Alliance Capital Management	\$313,752		
Munder Capital Management	271,147		
Oppenheimer Capital Management	455,788		
INVESCO Capital Management	381,574		
ICC Capital Management	373,118		
Rothschild Asset Management	230,535		
Eubel, Brady & Suttman	157,647		
Aetius Investment Management	158,471		
Trust Company of the West	92,185		
Daruma Asset Management	117,456		
Phoenix Council	90,025		
Kennedy Capital Management	275,961		
Total U.S. Equity	\$2,917,670	40.4%	40.0%
UBS Global Asset Management	\$416,225		
Zurich Scudder	363,887		
AJB Govett	100,181		
Total Non-U.S. Equity	\$880,293	12.2%	17.5%
Regions Bank	\$600,519		
Vanderbilt Capital Advisors	258,513		
Loomis Sayles & Company	430,868		
Hyperion Capital Management	277,729		
Nicholas Applegate	308,483		
Total Fixed Income	\$1,876,112	26.0%	25.0%
Blackstone Mezzanine Partners	\$25,283		
DLJ Mezzanine	25,249		
Total Mezzanine Debt	\$50,532	0.7%	
Hicks Muse Tate & Furst - III	65,906		
Hicks Muse Tate & Furst - IV	85,163		
Hicks Muse Tate & Furst - V	80,573		
Oakhill Capital Partners	36,581		
Westbrook Shp LLC	34,108		
Cypress	15,056		
Diamond State Ventures LP	1,000		
LJM2 Co-Investment LP	5,101		
DLJ Merchant III	54,182		
Hicks Muse Tate & Furst - 21st Century	11,601		
Total Domestic Private Equity	\$389,271	5.4%	
Doughty Hanson	\$61,450		
Doughty Hanson Tech I	9,908		
Doughty Hanson Euro Real Estate	11,316		
Cinven Funds	48,648		
Cinven Funds II	6,699		
Cinven Funds III	3,529		
Total Foreign Private Equity	\$141,550	2.0%	
Total Alternatives	\$581,353	8.0%	10.0%
DLJ Real Estate Capital I	\$29,056		
Westbrook Fund II	23,104		
Westbrook Fund III	77,305		
Westbrook Fund IV	17,967		
Olympus	42,382		
Wachovia Timberland	85,000		
Wachovia Timberland II	145,269		
Total Real Estate	\$420,083	5.8%	1.5%
Arkansas Related	\$514,754	7.1%	5.0%
Liquidity Account	\$27,136		
Cash	11,169		
Total Cash Equivalents	\$38,305	0.5%	1.0%
Total Fund	\$7,228,570	100.0%	100.0%

EXECUTIVE SUMMARY

In reviewing the ATRS U.S. equity portfolio, we made several important observations: ...

- There is a distinct value and small cap bias in the program. This can lead to extended periods of underperformance if this style falls out of favor. The value-bias has driven most of the component's out/under performance over the past five years.
- The bias is largely driven by the large number of value-oriented stock managers utilized and the allocations between these managers:

Value Managers*Large-Cap*

- Oppenheimer
- Invesco
- ICC Capital

Mid-Cap

- Eubel, Brady & Suttman
- Rothschild

Small-Cap

- Daruma
- Kennedy
- Phoenix Investment Counsel

Growth Managers*Large-Cap*

- Alliance
- Munder (core/growth)

*Mid-Cap**Small-Cap*

- Aeltus
- TCW

- There are redundancies among the individual styles of managers (i.e. 3 large value managers)
- The ATRS does not use any passive indexing in the U.S. equity component. This is unusual for a plan of this size.

Recommendations

- We recommend that you allocate between 30% and 40% to an index fund benchmarked to the Wilshire 5000 Index.
- We further recommend that you fund this allocation by terminating four U.S. equity managers:
 - **Munder Capital** - Their style plot is close to "core" and would be a prime candidate for replacement by an index fund. Their performance is sub-standard and it has had significant organizational and ownership challenges.
 - **Invesco** - Their mandate is large cap value, which somewhat duplicates the mandate of Oppenheimer and ICC, but with a much poorer track record.
 - **Phoenix** - There are three managers with small-cap value mandates and Phoenix has the least compelling performance.
 - **Rothschild** - There are two managers with mid-cap value mandates. Rothschild has the worst track record.

EXECUTIVE SUMMARY

- Additional measures that can be taken to reduce the value bias are:
 - Allocate a portion of the passive investment to a Russell 1000 Growth Fund
 - Increase the amount of passive management
 - Add a complimentary growth manager

Benefits of Indexing

- A significant degree of the value and small cap bias would be eliminated.
- Active risk would be reduced by 39% for a 30% allocation to an index fund (from 5.4% to 3.3%) or by 57% for a 40% allocation (5.4% to 2.3%) to an index fund. This will reduce the likelihood of severe underperformance versus the policy benchmark, creating negative attention and possibly financial consequences to the ATRS.
- The saving in direct fees would be approximately \$2.5 million for a 30% allocation or \$3.4 million for a 40% allocation to an index fund. These savings could be estimated as much as 50% higher if you added in the hidden costs of reduced trading costs and future manager turnover.

Next Steps

A transition of this magnitude (approximately \$1.0 billion) can be completed in an efficient manner in a 4-week time frame. A detailed discussion of this transition is beyond the scope of this report, but we would like to discuss it further should our recommendations be accepted. It will also be necessary to conduct a passive index fund provider search.

STRUCTURAL ISSUES

Impact on the Total Fund

It is important to note that since U.S. equities are the largest asset class, the portfolio bias also strongly influences the total plan returns. While in 2000 and 2001 the value bias was a positive contributor, during 1997 (full year equity return data is not available), 1998 and 1999 growth was in favor and the value bias caused substantial underperformance:

U.S. Equity Returns:

	Total Equity	Russell 3000 Index	Difference
1997 (6 months)	9.3%	11.9%	-2.6%
1998	19.2%	24.1%	-4.9%
1999	9.8%	20.9%	-1.1%
2000	-0.9%	-7.5%	8.4%
2001	-5.3%	-11.5%	6.2%

Total Fund Returns:

	Total Fund	Benchmark	Difference
1997 (6 months)	5.3%	6.3%	-1.0%
1998	13.5%	18.4%	-4.9%
1999	17.7%	18.0%	-0.3%
2000	-1.7%	-4.9%	3.2%
2001	-3.5%	-6.1%	2.6%

Recommendation

ATRS should work to eliminate the current value and small cap bias in the portfolio before another style and size rotation occurs. A systematic style and size bias is a structural issue that is under the direct control of the ATRS Board.

Maintaining the current value and small cap bias creates several risks:

- It will continue to periodically result in multi-year periods of substantial over- and under-performance. The under-performance cycle creates the potential for criticism. Additionally if ATRS's budget is subject to "adjustment" based on "objective performance criteria" by the Arkansas legislature, a three-year period like 1997-1999 could possibly have a significant adverse impact on the operating budget.
- The bias dominates investment manager's collective contributions to portfolio returns.
- It is a risk for which you are not compensated by higher long-run returns.

We will discuss alternatives to alleviate this bias later in the report. Alternatives to alleviate the style bias include:

- Add a growth index fund.
- Increase passive.
- Add complimentary active growth stock manager.

STRUCTURAL ISSUES

Recommendations

- We recommend that you allocate between 30% and 40% to an index fund benchmarked to the Wilshire 5000 Index.
- We further recommend that you fund this allocation by terminating four U.S. equity managers:
 - **Munder Capital** - Their style plot is close to "core" and would be a prime candidate for replacement by an index fund. Their performance is sub-standard and it has had significant organizational and ownership challenges.
 - **Invesco** - Their mandate is large cap value, which duplicates the mandate of Oppenheimer, but with a much poorer track record.
 - **Phoenix** - There are three managers with small-cap value mandates and Phoenix has the least compelling performance.
 - **Rothschild** - There are two managers with redundant mid-cap value mandates. Rothschild has the worst track record.

We provide a more in depth analysis on the individual managers in the last section of this report.

The termination of these four managers will generate approximately \$990 million dollars. This would represent approximately 33% of the U.S. equity portfolio. If a 30% target for an index fund is established the additional funds would be transferred to a growth mandate. If a 40% target for an index fund were established, additional funds would be raised by reducing the allocations of the remaining "value" managers. We highlight the impact these changes will have later on in this section.

Benefits

- A significant degree of the value and small cap bias would be eliminated (but not all).
- Active risk would be reduced by 39% for a 30% allocation to an index fund (from 5.4% to 3.3%) or by 57% for a 40% allocation (5.4% to 2.3%) to an index funds. This will reduce the likeliness of severe underperformance versus the policy benchmark, creating negative attention and possibly financial consequences to the ATRS.
- The saving in direct fees would be approximately \$2.5 million for a 30% allocation or by \$3.4 million for a 40% allocation to an index fund. These savings could be estimated as much as 50% higher if you added in the hidden costs of reduced trading costs and future manager turnover.

A transition of this magnitude (approximately \$1.0 billion) can be completed in an efficient manner in a 4-week time frame. A detailed discussion of this transition is beyond the scope of this report, but we would like to discuss it further should our recommendations be accepted. It will also be necessary to conduct a passive equity investment provider in the circumstance an allocation to passive is made.

A series of exhibits follow that illustrate each of these benefits.

STRUCTURAL ISSUES

U.S. Equity Manager Structure

Managers	Current Structure	Proposed Alternative 1 30% Passive	Proposed Alternative 2 40% Passive
Aeltus	5.6%	5.6%	5.6%
Alliance	11.4	11.4	11.4
Daruma	4.0	4.0	3.3
EBS	5.0	5.0	3.4
ICC	12.5	12.5	9.9
Invesco	12.7	—	—
Kennedy	9.1	9.1	6.8
Munder	9.4	—	—
Oppenheimer	16.1	16.1	13.4
Phoenix	3.1	—	—
Rothschild	7.5	—	—
TCW	3.8	3.8	3.8
Wilshire 5000 Fund	—	30.0	30.0
Russell 1000 Growth Fund	—	2.6 ¹	12.5
Total Equity	100%	100%	100%

The table above highlights our two proposed structures.

In Alternative 1, the assets of terminated managers are transferred to a Wilshire 5000 Index Fund up to 30%. For purposes of style impact, we use a Russell 1000 Growth Index Fund for the assets of the terminated managers in excess of 30%. Therefore in our example, the total actual allocation is 32.6%.

In Alternative 2, additional assets are placed in the Russell 1000 Growth Index Fund from the value managers to further alleviate the small cap value bias. As was in the case in Alternative 1, we kept the excess assets from the terminated managers in the Russell 1000 Growth Fund to bring the actual allocation to passive up to 42.5%.

¹ Used for placeholder for new manager or can be implemented as actual investment, increasing total passive to 32.6%.

ENNIS, KNUPP & ASSOCIATES

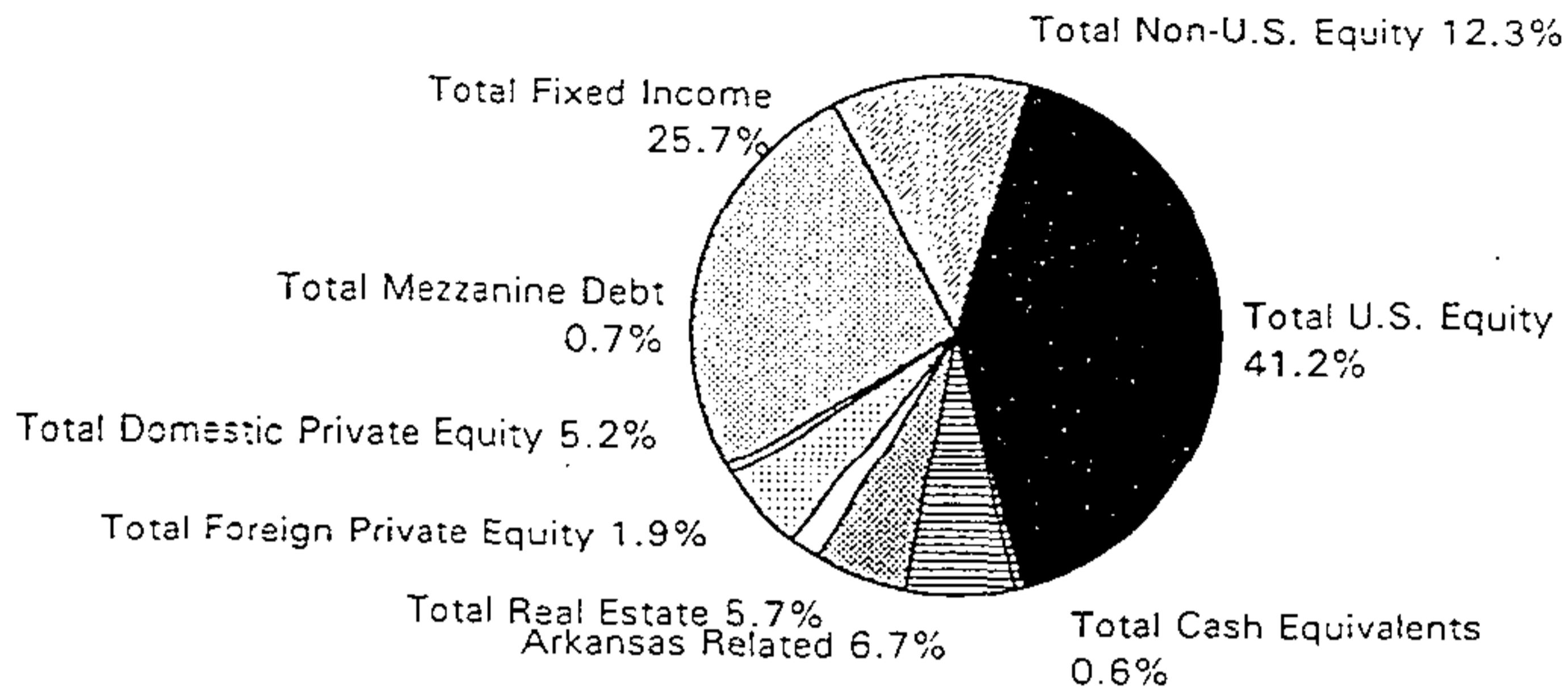
ARKANSAS TEACHER RETIREMENT SYSTEM
PRELIMINARY UPDATE
December 2001

ARKANSAS TEACHER RETIREMENT SYSTEM

PRELIMINARY UPDATE

HIGHLIGHTS

ASSET ALLOCATION AS OF 12/31/01



RETURN SUMMARY ENDING 12/31/01

	1 Month	1 Year Ending 12/31/01	3 Years Ending 12/31/01	Since Inception	Inception Date
Total Fund	1.4%	-3.8%	4.1%	9.7%	2/29/96
Performance Benchmark*	0.8	-6.4	1.9	9.2	
Total U.S. Equity	2.9	-5.3	4.0	8.9	6/30/97
Russell 3000 Index	1.4	-11.5	-0.3	7.4	
Total Non-U.S. Equity	1.7	-17.3	-1.3	-1.5	6/30/97
MSCI AC World Ex-U.S. Free Index	1.3	-19.7	-3.9	-1.9	
Total Fixed Income	-0.3	3.9	5.9	6.5	2/29/96
LB Aggregate Bond Index	-0.6	8.4	6.3	7.2	

*The descriptions of all benchmarks can be found in the appendix at the end of this report.

ARKANSAS TEACHER RETIREMENT SYSTEM

PRELIMINARY UPDATE

PERFORMANCE SUMMARY

RETURN SUMMARY
ENDING 12/31/01

	1 Month	1 Year Ending 12/31/01	3 Years Ending 12/31/01	Since Inception	Inception Date
Alliance Capital Management	0.4%	-22.9%	-6.5%	14.5%	6/30/91
S&P 500 Index	0.9	-11.9	-1.0	13.7	
Munder Capital Management	1.4	-14.2	-2.4	10.9	6/30/91
S&P 500 Index	0.9	-11.9	-1.0	13.7	
Oppenheimer Capital Management	0.5	-4.5	5.8	14.4	6/30/91
Russell 1000 Value Index	2.4	-5.5	2.7	14.5	
Invesco Capital Management	0.6	-3.0	-0.4	12.9	9/30/94
Russell 1000 Value Index	2.4	-5.6	2.7	15.3	
ICC Capital Management	4.0	-2.9	10.5	15.8	3/31/96
Russell 1000 Index	1.1	-12.5	-0.8	11.9	
Rothschild Asset Management	5.1	3.0	-	6.9	12/31/99
Russell Mid Cap Value Index	4.2	2.3	-	10.4	
Eubel Brady & Suttman	4.8	13.0	-	22.1	12/31/99
Russell Mid Cap Value Index	4.2	2.3	-	10.4	
Aetius Investment Management	4.6	-9.2	-	6.5	1/31/99
Russell 2000 Growth Index	6.2	-9.2	-	-1.2	
Trust Company of The West	5.3	-33.7	-	-6.2	1/31/99
Russell 2000 Growth Index	6.2	-9.2	-	-1.2	
Daruma Asset Management	7.7	15.9	-	15.4	7/31/00
Russell 2000 Value Index	6.1	14.0	-	19.1	
Phoenix Council	6.0	-12.0	-	-7.9	8/31/00
Russell 2000 Value Index	6.1	14.0	-	15.5	
Kennedy Capital Management	6.0	30.0	22.4	13.6	12/31/93
Russell 2000 Value Index	6.1	14.0	11.3	12.4	

RETURN SUMMARY
ENDING 12/31/01

	1 Month	1 Year Ending 12/31/01	3 Years Ending 12/31/01	Since Inception	Inception Date
Brinson Partners	1.0%	-14.6%	-1.1%	6.9%	6/30/93
MSCI World Ex-U.S. Index	0.6	-21.4	-4.5	4.5	
Zurich Scudder	1.7	-23.3	-3.1	6.6	6/30/93
MSCI EAFE Index	0.6	-21.4	-5.1	4.3	
AIB Govett	4.6	-5.9	1.0	-4.2	6/30/94
Performance Benchmark	1.3	-19.7	-2.7	-6.1	

RETURN SUMMARY
ENDING 12/31/01

	1 Month	1 Year Ending 12/31/01	3 Years Ending 12/31/01	Since Inception	Inception Date
Regions Capital Management	-0.6%	8.1%	6.0%	6.4%	2/29/96
Intermediate Gov't/Credit	-0.6	9.0	6.4	6.8	
Vanderbilt Capital Advisors	-0.7	6.0	3.8	5.2	6/30/97
LB Aggregate Bond Index	-0.6	8.4	6.3	7.6	
Loomis Sayles & Company	-1.2	6.5	5.2	6.4	6/30/97
LB Aggregate Bond Index	-0.6	8.4	6.3	7.6	
Hyperion Capital Management	-0.4	8.3	6.2	6.4	3/31/97
Mortgage Index	-0.4	8.2	7.0	7.9	
Nicholas Applegate	2.0	-11.3	10.4	12.9	11/30/98
Performance Benchmark	1.2	-5.3	7.7	9.5	

ARKANSAS TEACHER RETIREMENT SYSTEM

PRELIMINARY UPDATE

ASSET ALLOCATION

ASSET ALLOCATION AS OF 12/31/01

(\$ in thousands)

	U.S. Equity	Foreign Equity	Fixed Income	Real Estate	Alternatives	Cash	Total	Percent of Total	Policy
Alliance Capital Management	\$345,753	--	--	--	--	\$345	\$345,099	4.7%	
Munder Capital Management	281,857	--	--	--	--	2,560	284,417	3.9	
Oppenheimer Capital Management	477,238	--	--	--	--	10,737	488,025	6.6	
Invesco Capital Management	373,631	--	--	--	--	11,953	385,584	5.2	
ICC Capital Management	377,525	--	--	--	--	1,897	379,422	5.1	
Rothschild Asset Management	222,800	--	--	--	--	4,315	227,115	3.1	
Eubel Brady & Suttman	151,557	--	--	--	--	609	152,166	2.1	
Aeltus Investment Management	165,294	--	--	--	--	4,587	169,881	2.3	
Trust Company of The West	113,402	--	--	--	--	3,338	116,741	1.6	
Daruma Asset Management	113,972	--	--	--	--	6,533	120,605	1.6	
Phoenix Council	91,863	--	--	--	--	928	92,811	1.3	
Kennedy Capital Management	263,155	--	--	--	--	7,158	270,313	3.7	
Total U.S. Equity	2,983,117					55,062	3,038,179	41.2	40.0%
Brinson Partners	--	\$424,917	--	--	--	\$2,178	\$427,095	5.8%	
Zurich Scudder	--	359,333	--	--	--	18,113	377,451	5.1	
AIB Govett	--	95,628	--	--	--	3,049	98,677	1.3	
Total Non-U.S. Equity		879,878				23,345	903,223	12.3	17.5%
Regions Capital Management	--	--	\$536,789	--	--	\$11,975	\$548,764	8.1%	
Vanderbilt Capital Advisors	--	--	260,985	--	--	--	260,985	3.5	
Loomis Sayles & Company	--	--	425,122	--	--	10,053	435,175	5.9	
Hyperion Capital Management	--	--	273,020	--	--	5,572	278,592	3.8	
Nicholas Applegate	--	--	315,754	--	--	6,135	321,889	4.4	
Total Fixed Income			1,862,680			33,735	1,896,415	25.7	25.0%
Blackstone Mezzanine Partners	--	--	--	--	\$23,225	--	\$23,225	0.3%	
DLJ Mezzanine	--	--	--	--	25,249	--	25,249	0.3	
Total Mezzanine Debt					48,474		48,474	0.7	
Hicks Muse Tate & Furst - Fund III	--	--	--	--	\$64,603	--	\$64,603	0.9%	
Hicks Muse Tate & Furst - Fund IV	--	--	--	--	84,664	--	84,664	1.1	
Hicks Muse Tate & Furst - Fund V	--	--	--	--	80,573	--	80,573	1.1	
Oakhill Capital Partners	--	--	--	--	36,531	--	36,531	0.5	
Westbrook Shp LLC	--	--	--	--	34,108	--	34,108	0.5	
Cypress	--	--	--	--	15,056	--	15,056	0.2	
Diamond State Ventures Lp	--	--	--	--	1,000	--	1,000	0.0	
LJM2 Co-Investment L.P.	--	--	--	--	5,101	--	5,101	0.1	
DLJ Merchant III	--	--	--	--	52,241	--	52,241	0.7	
Hicks Muse Tate & Furst - Century Fund	--	--	--	--	9,213	--	9,213	0.1	
Total Domestic Private Equity					383,140		383,140	5.2	
Doughty Hanson	--	--	--	--	\$61,450	--	\$61,450	0.8%	
Doughty Hanson Tech I	--	--	--	--	7,843	--	7,843	0.1	
Doughty Hanson Euro Real Estate	--	--	--	--	9,411	--	9,411	0.1	
Cinven Funds	--	--	--	--	59,973	--	59,973	0.8	
Total Foreign Private Equity					138,677		138,677	1.9	
DLJ Real Estate Capital II	--	--	--	\$29,056	--	--	\$29,056	0.4%	
Westbrook Fund II	--	--	--	24,941	--	--	24,941	0.3	
Westbrook Fund III	--	--	--	78,634	--	--	78,634	1.1	
Westbrook Fund IV	--	--	--	17,967	--	--	17,967	0.2	
Olympus	--	--	--	42,382	--	--	42,382	0.6	
Wachovia Timberland	--	--	--	145,269	--	--	145,269	2.0	
Wachovia Timberland II	--	--	--	85,000	--	--	85,000	1.2	
Total Real Estate				423,249			423,249	5.7	
Arkansas Related				\$495,381			\$495,381	6.7%	5.0%
Liquidity Account	--	--	--	--	--	\$30,635	\$30,635	0.4%	
Cash	--	--	--	--	--	10,503	10,503	0.1	
Total Cash Equivalents						41,138	41,138	0.6	1.0%
Total Fund	\$2,983,117	\$879,878	\$1,862,680	\$918,630	\$570,291	\$153,280	\$7,367,876	100.0%	88.5%
Percent of Total	40.5%	11.9%	25.3%	12.5%	7.7%	2.1%	100.0%		

ARKANSAS TEACHER RETIREMENT SYSTEM

PRELIMINARY UPDATE

APPENDIX

DESCRIPTION OF BENCHMARKS

Total Fund - The Performance Benchmark for the Total Fund represents the performance of the asset class benchmarks as a weighted average of the Target Policy Allocations set forth by the investment committee. Currently as of October 1, 2001, the benchmark consists of 40% of the Russell 3000 Stock Index, 17.5% of the MSCI All-Country World Ex-U.S. Stock Index, 25% of the Lehman Brothers Aggregate Bond Index, 10% of the Alternative Policy made up of the Russell 3000 + a 2% premium per year, 1.5% of the NCREIF Southeast Timberland Index, 5% of the EnnisKnupp Real Estate Index and 1% of the EnnisKnupp STIF Index. The EnnisKnupp Real Estate Index is used in place of the NCREIF Index for periods since December 31, 2001, due to availability of returns. Returns since August 1, 1998 through September 30, 2001, consist of 40% of the Russell 3000 Stock Index, 17% of the MSCI All-Country World Ex-U.S. Stock Index, 28% of the Lehman Brothers Aggregate Bond Index, 7.5% of the Alternative Policy benchmark of the Russell 3000 + a 2% annual premium, 1.5% of the NCREIF Southeast Timberland Index, 5% of the EnnisKnupp Real Estate Index and 1% of the EnnisKnupp STIF Index. Returns prior to July 31, 1998, consist of the actual allocations to the seven different asset classes included in the Arkansas Teacher Retirement System over time. The benchmarks used for each asset class are noted below.

U.S. Equity - The Russell 3000 Stock Index.

Non-U.S. Equity - The MSCI All-Country World Ex-U.S. Index.

Fixed Income - The Lehman Brothers Aggregate Bond Index.

Arkansas Related - The EnnisKnupp Real Estate Index.

Alternatives - The Russell 3000 Stock Index plus 2.0% per year.

Timberland - The Southeast Timberland NCREIF Index.

Cash Equivalents - The EnnisKnupp Short Term Investment Fund (STIF).

AIB Govett International Benchmark - Since January 1, 2001, the benchmark consists of the MSCI All-Country World Ex-U.S. Stock Index. Prior to December 31, 2000, the benchmark consists of the MSCI Emerging Markets Index.

Nicholas Applegate Performance Benchmark - The performance benchmark for the Nicholas Applegate portfolio currently consists of 90% of the CSFB Convertible Securities Index and 10% of the Salomon High Yield Index.

EnnisKnupp Real Estate Index - A capitalization-weighted average of 27 open- and closed-end real estate funds representing approximately \$20 billion in assets.

EnnisKnupp Short-Term Investment Fund (STIF) Index - An average of the returns of six major banks' commingled short-term investment funds.

ARKANSAS TEACHER RETIREMENT SYSTEM

PRELIMINARY UPDATE

APPENDIX

DESCRIPTION OF BENCHMARKS

Lehman Brothers Aggregate Bond Index - A market-value weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Securities Indices. The Index also includes credit card-, auto- and home equity loan-backed securities, and is the broadest available measure of the aggregate U.S. fixed income market.

Lehman Brothers Intermediate Government/Credit Bond Index - A market-value weighted index consisting of the Lehman Intermediate Government and Intermediate Corporate Index.

Lehman Brothers Mortgage Index - A market value-weighted index consisting of the mortgage pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

MSCI All-Country World Ex-U.S. Index - A capitalization-weighted index of stocks representing 47 developed and emerging country markets, excluding the U.S. market.

MSCI Europe, Australasia, Far East (EAFE) Non-U.S. Stock Index - A capitalization-weighted index of stocks representing 22 developed and emerging country markets in Europe, Australia, Asia and the Far East.

MSCI World Ex-U.S. Stock Index - A capitalization-weighted index of stocks representing 21 developed stock markets in Europe, Asia and Canada.

Russell 3000 Index - An index that measures the performance of the 3000 stocks that make up the Russell 1000 and Russell 2000 Indices.

Russell 1000 Index - An index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

Russell 1000 Value Index - An index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

Russell 2000 Index - An index that measures the performance of the smallest 2000 companies contained in the Russell 3000 Index.

Russell 2000 Growth Index - An index that measures the performance of those Russell 2000 companies with greater price-to-book ratios and greater I/B/E/S growth forecasts.

Russell 2000 Value Index - An index that measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

Russell Mid Cap Value Index - An index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

S&P 500 Stock Index - A capitalization-weighted stock index consisting of the 500 largest publicly traded U.S. stocks.

Wilshire 5000 Stock Index - A capitalization-weighted stock index representing all U.S. common stocks traded regularly on the organized exchanges. The Index is the broadest measure of the aggregate U.S. stock market.

April 9, 2002

REPORT- Real Estate Investment Manager

- (1) Received a request from Jim Hathaway to sign a contract with Crafton, Tull, and Associates, an engineering firm for a fee "to be determined".

I did not do so, due to the open-ended nature of the contract. It appears that on 12/12/01 Bill Shiron signed a contract with J. Hathaway for \$25,000 for consulting services in regard to the Highfill property. It also appears that on 12/13/02 the ATRS Board agreed to approve for the Highfill Land Team, which he takes to mean engineering.

I need some guidance, do you want me signing contracts with no specified amounts and do you assume that you have budgeted a total of \$50,000 toward the Highfill Land Team ????. These all happened before my time!!!!

- (2) Management Contract signed with Kilgore on Riley Properties.... all has 30 day cancellation clause. Kilgore has taken over management and now requests that we set up a "construction account" to cover needed renovation costs associated with the Riley North facility. I suggest that \$100,000 be placed in a joint ATRS/Kilgore construction account so that the renovation process might go forward at that location, and that outstanding invoices against that facility be paid for the past labor and materials.
- (3) Both myself and our law firm are in serious need of an accurate accounting report on the Riley Properties from when they were first acquired by ATRS to the present. The necessity of properly answering the Holman lawsuit has made this accounting report a serious as well as the need to be able to ascertain who has not been paid for past labor materials.
- (4) I have asked Darrel Dover to advise all contracted parties involved in the Chenal Retirement Village to formally understand that we are closing that project and that they have been so advised. Have shown the property to a prospective purchaser, do not know how serious they are, but have also gotten our offer to sell out there on the internet.

We have new aerial photos of both the Chenal Project and of the Victory Bldg. These can be made available to prospects over the internet. (see attached)
- (5) Do we want to make offer to purchase "leased Lots" immediately North of the Ark-La building....owner made an offer to sell which I ignored due to the high amount, should I counter-offer ????
- (6) State Building Service has asked that we consider a loan to the State, on a property that they wish to purchase to consolidate their position around the Capitol. I am requesting that you give me the authority to deal directly with Mr. Laman in the future, as I firmly believe that an Amicable working relationship with that agency is to the benefit of ATRS.

MEMORANDUM

ENNISKNUPP

April 10, 2002

To: Board and Staff
Arkansas Teacher Retirement System
From: Steve Cummings, CFA
David Russell, CFA
Re: Recommendation Clarification

At the suggestion of staff, we wish to clarify our recommendation regarding the use of passive investment strategies (index funds) for the ATRS. In our report on U.S. Equity, we discussed at length the advantages of index funds as a core component of the investment program. During our presentation to the Board we recommended that at least 30% of the ATRS domestic stock assets be allocated to an index strategy.

In all aspects of this analysis and discussion, we are referring to traditional indexation (as opposed to enhanced indexation). The traditional indexation we are recommending involves the use of products that strive to match the performance of a given index. Enhanced indexation is a style of investing that is more like active management than passive management and one that we are not currently recommending the trustees consider. If there is interest on the Board to learn more about enhanced index strategies, we would be happy to prepare a report on that topic.