I. **Call to Order/Roll Call.** Vice Chair, Ms. Coleman, called the Board of Trustees meeting to order at 10:11 a.m. Roll call was taken and Dr. Richard Abernathy, Charles Dyer, Candace Franks and Janelle Riddle were absent.

II. **Motion to Excuse Absences.**

Ms. Morey moved to excuse Dr. Richard Abernathy, Charles Dyer, Candace Franks, and Janelle Riddle from the July 22, 2010, Board of
Trustees meeting. Mr. Lester seconded the motion, and the Board unanimously approved the motion.

III. Welcome to Newly Elected Board Members, Lloyd Black, Charles Dyer, and Donna Morey. Mr. Hopkins extended a welcome to the new Board members in attendance.

IV. Adoption of Agenda.

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

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

VI. Approval of Board of Trustees Minutes of June 7, 2010. Mr. Hopkins brought to the Board’s attention a letter from former Board member, Dr. Paul Fair. Dr. Fair requested that the Minutes from the June 7, 2010, Board of Trustees meeting be changed to reflect that he voted against the decision regarding the Frank Anthony appeal. After discussion, the Board decided to keep the Minutes as is but attach Dr. Fair’s letter for reference.

Ms. Leming moved for adoption of the Minutes of the Board of Trustees meeting of June 7, 2010, with Dr. Fair’s letter attached. Mr. Stubblefield seconded the motion, and the Board unanimously approved the motion.

VII. Fiduciary Insurance. Mr. Birch of BankcorpSouth Insurance presented to the Board information about various fiduciary insurance plans. ATRS Trustees serve without compensation and, as Trustees, face potential personal liability in the event a claim is made. If no liability is found, a Trustee could still face significant personal legal expenses. A fiduciary insurance plan would protect Trustees’ assets individually from allegations made against the Board.

After discussion, the Board decided to take under advisement the topic of fiduciary insurance, and revisit at the next Board meeting in October 2010.

Ms. Nichols moved to postpone the topic of fiduciary insurance until the next Board of Trustees meeting. Mr. Stubblefield seconded the motion, and the Board unanimously approved the motion.

VIII. Investment Committee Report. Ms. Leming gave an update on the Investment Committee meeting.
A. **Victory Building Update.** The Victory Building has been under consideration to sell since the 4th quarter of 2009, when ATRS received an unsolicited offer despite a downturn in the real estate market. The ATRS Board of Trustees approved a $26 million sale price for the Victory Building and entered a listing agreement with Rector Phillips Morse (RPM) on November 4, 2009. Since then, the real estate markets have improved and occupancy has grown, generating approximately $200,000 per month for ATRS. In addition, the pending property tax issue complicates the sale through difficulties in obtaining a free and clear title for a buyer and may necessitate escrowing an estimate of the potentially payable property taxes. Such an escrow would accrue interest at a negligible return to ATRS over what could be a long period of time, depending on the court’s decision. However, since ATRS has not paid property taxes on the Victory Building, it has produced a 10% net return. In light of these recent developments, the Investment Committee recommended to the Board to hold this investment and exit the listing agreement when it expires November 4, 2010.

Ms. Leming moved to approve Ennis Knupp’s recommendation to exit the Victory Building leasing agreement with Rector Phillips Morse (RPM) on November 4, 2010. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

B. **Private Equity Investment Consultant Update – Franklin Park.**

1. **Private Equity Portfolio Performance Update for the Quarter Ended March 31, 2010.** For the quarter ended March 31, 2010, ATRS had committed capital of approximately $2.2 billion in 29 investments since 1996, with a net IRR of 8.1% overall. The legacy portfolio (1996-2000) is currently liquidating, the CSFB portfolio (2005-2006) is building value and more apparent returns will be available in the next five years, and the post-2006 portfolio is still in its developing stages but is trending at 5% returns since inception. Relative long-term performance exceeded the public markets, the Wilshire 5000 markets, and the private equity markets. The portfolio pacing remained consistent and is in line with the pacing strategy set for 2010.

The portfolio had a 1.6% increase in value for the quarter ended March 31, 2010. Since the end of the quarter, there was a gain of approximately $23 million. The first half of 2010 saw improved conditions for new investments.
C. **General Investment Consultant Update – Ennis Knupp.** Ennis Knupp’s President & CEO, Mr. Stephen Cummings, spoke to the Board about the Ennis Knupp merger with Hewitt.

1. **Portfolio Performance Update for the Month Ended May 31, 2010, preliminary.**

2. **Portfolio Performance Update for the Month Ended June 30, 2010, preliminary.** The total fund performed at 13.6% since June 30, 2009, beating the benchmark of 13.0%. In general, relative performance was favorable for all asset classes year to date. Relative performance for the month ended June 30, 2010, and for the second quarter was poor. The total fund lost 5.4% in value due to unfavorable performances in May 2010 and June 2010. Fixed income underperformed during the second quarter due to the European credit crisis but is performing relatively well for the year.

3. **Proposed Kennedy Capital Guideline Change.** Kennedy Capital is concerned about the type of stocks it is allowed to purchase. The Russell 2000 Value Index resets stock indices every year. Based upon changes in the stocks included in the index and under the current guidelines, Kennedy Capital could be prohibited from purchasing a stock that it felt had great potential value because the guidelines restrict purchasing outside of the Russell 2000 Value Index. The proposed change would allow Kennedy Capital to purchase stocks that are not in the Russell 2000 Value Index but are similar to stocks that are within the index. Ennis Knupp and ATRS staff recommended accepting the proposed Kennedy Capital guideline change.

   Ms. Leming *moved to approve* the proposed Kennedy Capital guideline change. Dr. Kimbrell *seconded the motion*, and the Board *unanimously approved the motion*.

4. **Proposed ICC Capital Guideline Change.** In 2008, Andy Ritchie of ICC requested a temporary cash holding allowance increase from 5% to 25%. The Board approved the request but did not officially change the guidelines. This guideline proposal would officially change from maximum 5% cash up to a maximum of 25% cash.

   Ms. Leming *moved to approve* the proposed ICC Capital guideline change. Ms. Nichols *seconded the motion*, and the Board *unanimously approved the motion*. 
5. **State Street Update.** Ennis Knupp has some concerns about State Street and would like to bring them to the Board’s attention. State Street is involved in two lawsuits concerning foreign exchange rates and a lawsuit concerning securities lending. There have been some senior executives that retired recently, as well as the departure of eight individuals from the securities lending team. On a standalone basis, Ennis Knupp would not be concerned with these issues, but taken in aggregate felt it needed to be reported. Ennis Knupp does not believe an immediate change by State Street clients is warranted at this time.

A. **Emerging Strategy Update.** The emerging manager strategy program was designed approximately two years ago to set aside a portion of the portfolio to fund emerging managers. The way the program was intended to operate was when Ennis Knupp was doing a search for a manager, if there was a firm they felt particularly strong about because they had some special skill, special talent, or very interesting strategy, but didn’t meet the criteria of the overall search, meaning that Ennis Knupp wouldn’t be comfortable giving them a full allocation amount, a decision was made to fund this program that would allow for smaller allocations to these emerging managers, assuming they met the list of criteria for this program.

To date, the ATRS Board funded two investments though the emerging manager program: Lincoln Vale and the New Boston Real Estate Fund. Lincoln Vale has had relatively poor performance due to rising equity markets, but has performed well in the second quarter. From a research perspective, the research group still feels quite strong about these two firms, their strategy, and their people, so have not made any recommendations to make a change.

In the research process for finding managers, Ennis Knupp does not discriminate on the size or newness of a firm. They look more at fundamental factors. If they find a really compelling firm they like, they would not let size prevent them from bringing the firm before the Board, even though from a traditional fiduciary standard, most consultants would normally go with firms that are larger or have very long track records. Ennis Knupp really looks for the most skillful managers and tries to minimize the number of roadblocks that would prevent ATRS from investing in those types of managers.

From the standpoint of the staff, the policy that the Board adopted suggests that the staff should be very active in trying to find emerging managers. This is against Arkansas state law in that ATRS should reply upon the recommendation of investment consultants. The ATRS staff has not been actively trying to find emerging managers due to this fact.
Some people thought that the emerging manager program has a loosened, lighter, and easier review process when in fact it is a heightened process because if a potential manager doesn't have the size and long track record you have to look at them closer, and it would be even harder for that firm to be approved than if they weren't being approved under the emerging manager process. To the extent ATRS has an emerging manager program, the selection process is still vetted through the investment consultant.

The more managers ATRS has, more strain is placed on staff and consultant's time. When a manager can receive only a very small allocation, it's very difficult to have a meaningful impact on the bottom line. Issues must be weighed very carefully. Although Ennis Knupp felt Lincoln Vale was an exceptional firm and thought it might be worthwhile to increase the allocation in the future, it still presents a lot of challenges. Ennis Knupp has spent considerable time on the emerging managers, and under no circumstances are the criteria minimized.

D. Real Estate Consultant Update – Ennis Knupp.

1. Real Estate Portfolio Performance Update for the Quarter Ended March 31, 2010. Ms. Christopher presented the real estate portfolio performance update for the quarter ended March 31, 2010. ATRS’ fund slightly outpaced its NCREIF benchmark over the trailing 10-year period and mid-term performance was influenced by the impact of new investments and deteriorating market conditions. The net IRR for the quarter ended March 31, 2010, was 3.6%

The returns for open-end funds for the quarter ended March 31, 2010, were positive. Approximately 73% of the fund is core related investments and that helps drive the fund’s performance. ATRS committed an additional $100 million to core funds during the first quarter of 2010, split evenly between JPMorgan and UBS. In December 2009, ATRS approved a $40 million commitment to Landmark Partners VI, which closed during the second quarter of 2010.

The returns for closed end funds for the quarter ended March 31, 2010 were neutral to positive. Most of the funds in this asset class are early in their investment periods and are impacted by the J-curve effect, making performance not yet relevant. These funds are still looking for transactions to deploy capital in a low transaction market.
Current pacing projections call for one $40 million value-added commitment and one $35 million opportunistic commitment for 2010.

2. **Doughty Hanson and Company European Real Estate Fund Extension Request.** Doughty Hanson is a legacy real estate fund that is in the process of winding down, but circumstances in the European real estate market call for more strategic sales rather than the property being given to the limited partners, one being ATRS. Without the extension, Doughty Hanson would deliver the real estate to the limited partners as tenants in common. Doughty Hanson has requested an extension of three years for the fund and has agreed that no additional fees will be charged during this extension. Ennis Knupp and ATRS staff recommended extending the Doughty Hanson fund’s term for an additional three years.

Ms. Leming moved to approve the Doughty Hanson and Company European Real Estate fund extension request. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

3. **Credit Suisse DLJ RECP II Amendment.** The management team of DLJ RECP platform has proposed spinning out to form a new employee owned firm that will continue to manage the existing RECP funds as well as future RECP funds. Ennis Knupp recommended approving the amendment to RECP II’s Limited Partnership Agreements to allow for the management spin out to move forward.

Ms. Leming moved to approve of the amendment to Credit Suisse DLJ RECP II, allowing the Real Estate Capital Partners to form a new firm. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

E. **Other Business.**

1. **Recommendation to Allow Staff to Sign Contract Amendment due to the Ennis Knupp/Hewitt Merger.**

   Ms. Leming moved to approve the recommendation to allow ATRS staff to sign the Ennis Knupp contract amendment due to the merger with Hewitt.

IX. **Other Business.**
A. Discussion of RMK Timberland Tour for Board Members. Mr. Hopkins discussed possible dates in late October for a tour of RMK Timberland property.

X. Adjourn.

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

Meeting adjourned at 11:13 a.m.