

ATRS BOARD POLICY 1

BOARD GOVERNANCE

A.C.A. § 24-7-301 et seq., A.C.A. § 24-7-401 et seq., and A.C.A. § 25-16-901 et seq.

I. Definitions.

As used in this policy:

(1) "Benefit participant" means the same as defined in Arkansas Code § 24-7-202;

(2) "Member" means the same as defined in Arkansas Code § 24-7-202; and

(3) "Official board duties" means:

(A) Attending regular and called meetings of the Board of Trustees of the Arkansas Teacher Retirement System ("Board");

(B) Attending committee meetings of the Board or any specially appointed committee comprised in whole or in part of trustees;

(C) Attending conferences as allowed by Board resolution;

(D) Attending legislative committee meetings when acting as the spokesperson for the Board; and

(E) Attending legislative sessions at the request of the Board or the Executive Director of the Arkansas Teacher Retirement System ("Executive Director").

II. Board of Trustees - Plan Administration

(a)(1) The authority and responsibility for the administration, management, and control of the Arkansas Teacher Retirement System ("ATRS", "the System", or "the Plan"), and for the construing and carrying out the provisions of the Plan is vested in the Board.

(2)(A) The Board is responsible for the governance of ATRS.

(B) The Board is accountable for establishing policies and for supervising the implementation of those policies in compliance with all applicable legal mandates.

(b)(1) The function of the Board is to make certain contributions that lead the System towards achieving the objectives specified in Board Policy 2 – Board Objectives.

(2) The Board shall recommend and oversee the Board and the Executive Director evaluation process.

(3) The Board shall recommend and oversee training and conference schedules for the Board.

(4)(A) The Board's specific contributions are unique to its trusteeship role and necessary for the appropriate governance and management of the System.

(B) Board decisions shall be based on facts and expert opinions.

(c) The Board should approach its task in a manner that:

(1) Emphasizes outward vision rather than an internal preoccupation;

(2) Encourages diverse viewpoints;

(3) Emphasizes strategic leadership ~~more~~ rather than administrative detail;

- (4) Provides a clear distinction of Board and staff roles;
 - (5) Focuses on the future rather than past or present; and
 - (6) Encourages proactive rather than reactive action.
- (d) The contributions of the Board include:
 - (1) Acting as the link between the System and benefit participants of the System.
 - (2) Developing policies for the System that, at the broadest levels, address:
 - (A) The governance process, including how the Board conceives, carries out, and monitors its own tasks;
 - (B) The relationship between the Board and ATRS staff, including how authority is delegated and monitored.
 - (C) The Ends Policies of the Board as set forth in Board Policy 2 – Board Objectives; and
 - (D)(i) Limitations of the System.
 - (ii) Constraints on executive authority that establish the prudence and ethics boundaries within which executive activity, decisions, and organizational matters shall be carried out by the Executive Director.
 - (3) Ensuring that the Executive Director's performance does not contravene the ends or limitations of the System.

III. Board of Trustees - Guiding Principles

- (a) The paramount purpose of the Board is to:
 - (1) Provide an adequate and equitable retirement plan for public school and education employees in Arkansas;
 - (2) Protect the membership of the System in the event that they should suffer a total and permanent disability that renders them unable to continue covered employment; and
 - (3) Provide, in-part, for the survivors and beneficiaries of deceased members of the System.
- (b)(1) The Board is responsible for the prudent investment of the System's funds.
 - (2) The two (2) paramount considerations in fund investment are safety and yield, with yield being of first importance, provided such investments comply with legally mandated safeguards.
- (c) The Board should be fully informed of the System's financial liabilities to benefit participants of the System. Information on the financial liabilities of the System should be made available to education-related organizations as well as the Arkansas General Assembly and other state officials.
- (d) To the extent that disclosure is not prohibited by law, the Board should provide the general public with information regarding the System's procedures for investing the System's funds, as well as the budgeting, control, and disbursement of those funds.
- (e) The Board will actively promote the enactment of state and federal legislation that may improve the economic welfare of ATRS members.
- (f) The Board endorses programs of counseling and information designed to assist members who are approaching retirement.

(g)(1) The Board should be knowledgeable of the most current information regarding effective, efficient governance and operation of state retirement systems that could augment prudent decisions for the benefit of members.

(2) To this end, trustees are encouraged to participate actively in regional and national retirement organization programs that offer such information and training.

IV. Board of Trustees - Code of Conduct

(a) The Board expects of itself and its members ethical and business-like conduct.

(b)(1) All trustees, as fiduciaries, shall discharge their duties solely in the best interest of ATRS members and for the exclusive purpose of providing optimum benefits.

(2)(A) Trustees should avoid any conflict of interest with respect to their fiduciary responsibility.

(B) Trustees shall not use their positions to obtain favorable treatment for themselves, family members, or close employees.

(c) Trustees who desire specific information from firms employed by ATRS should make the request through the Executive Director.

(d) Trustees shall not, directly or indirectly, solicit or accept any gift of value as defined by the Arkansas Ethics Commission.

(e) Trustees shall decline any offer and shall not have any contact with an individual or anyone associated with a firm that the Board is considering employing through a competitive procurement until after the procurement process has concluded.

(f)(1) Trustees shall not attempt to exercise individual authority over the operation of the System or ATRS staff except as provided by law, rule, or policy applicable to the System.

(2) A trustee's interaction with the ATRS staff, public, press, or other entities should recognize the inability of one (1) or more trustees to speak for the Board.

(g) All trustees shall report violations of any of these policies of conduct in writing to the Chair.

V. Board of Trustees - Development

(a) The Board is responsible for its own readiness for Board work and the performance of that work.

(b) The Board determines appropriate issues for Board work and appropriate issues to be addressed, as well as the education and data required to address those issues wisely.

(c)(1) The Board determines the need and mechanisms for Board development, which may include:

(A) Membership in the National Council on Teacher Retirement or a similar organization;

(B) Engaging or employing Board-approved consultants;

(C) Educational development seminars provided by ATRS staff for the benefit of current and new trustees; and

(D) The development of a plan that may address the Board's expected outcomes, costs, and development schedule.

(2) The Board may enlist assistance from the Executive Director in determining the need and mechanisms for Board development.

VI. Board of Trustees - Meetings

The Board shall hold regular meetings at least quarterly. Additional meetings may be called by the Chair or scheduled by action of the Board in a regular meeting. The Board shall adopt its own rules of procedure, which shall be subject to the following:

(1)(A) The Board shall elect a Chair and Vice Chair from its own membership.

(B) The election will be in the odd numbered years at the first regular meeting after the beginning of the fiscal year.

(C) The Chair and Vice Chair shall be elected for a two-year term and may be reelected for two (2) additional two-year terms.

(D) The Chair and Vice Chair shall be either an active member or retiree trustee.

(E) A trustee must have served at least one (1) full year as a member of the Board to be eligible for election to the position of Chair or Vice Chair.

(2)(A) If a vacancy of the Chair or Vice Chair occurs for any reason other than completion of a term, the Board shall fill said vacancy by election from the existing trustees for the remainder of the unexpired term at its next regular meeting.

(B) A trustee elected to fill an unexpired term of the Chair or Vice Chair shall be eligible for two (2) additional two-year terms.

(3)(A) Quorum: Eight (8) trustees shall constitute a quorum at any meeting of the Board.

(B) Each trustee shall be entitled to one (1) vote on each question before the Board, and at least eight (8) affirmative votes shall be required for a decision by the Board at any meeting.

(4) *Robert's Rules of Order* shall be followed in the conduct of all meetings except when a departure from Robert's is authorized by action of the Board.

(5)(A) The Board shall adopt an agenda at the beginning of each meeting.

(B) An item may be added to the agenda before it is adopted.

(C) The Executive Director shall prepare a tentative agenda and submit it to all trustees at least ten (10) days before a regularly scheduled meeting. The meeting agenda and materials will be submitted to trustees no later than three (3) days before the regularly scheduled meeting.

D)(i) Trustees who want one (1) or more items to be considered for the agenda should notify the Executive Director no later than seven (7) days before a regularly scheduled meeting.

(ii) Members or individuals who wish to have an item placed on the agenda at a regularly scheduled Board meeting should submit their request in writing to the Executive Director no later than twenty (20) days before the meeting.

(E)(i) Members or individuals who wish to make comments during a regularly scheduled Board meeting should indicate the intended subject matter on a form provided by the System.

(ii) Members and individuals will be allowed a maximum of five (5) minutes to address the Board unless the time limit is extended by a majority vote of the Board.

(6)(A) The Board shall keep an official record of the proceedings of each meeting of the Board, the final draft of which must be approved by the Board and signed by the Chair and the Executive Director.

(B) The Board minutes are to contain only the action of the Board, information required by case law, and the vote thereon.

(7)(A) All meetings of the Board shall comply with the Freedom of Information Act, Arkansas Code § 25-19-101 et seq.

(B) All meetings of the Board shall be open public meetings and recorded in a manner that allows for the capture of sound. Representatives of the Little Rock news media shall be notified of each meeting of the Board.

(C) The agenda of the Board shall include only those items that, according to the law, rules, and policy applicable to the System, are within the Board's authority to consider or decide.

(D) Deliberations during the meetings of the Board must be timely, fair, orderly, thorough, efficient, limited in time, and germane to the issue being considered.

VII. Duties of the Chair and Vice Chair

(a)(1) The duty of the Chair is to ensure the integrity of the Board's process and to represent the Board to outside parties.

(2) The Chair is responsible for ensuring that the Board operates consistent with the law, rules, and policies applicable to the System.

(3) The authority of the Chair consists only in making decisions on behalf of the Board that fall within and are consistent with the law, rules, and policy applicable to the System.

(4) The Chair is empowered to chair Board meetings with all the commonly accepted power of that position.

(5) The Chair may:

(A) Convene meetings of the Board, or committees thereof, as prescribed by law;

(B) Certify actions taken by the Board;

(C) Serve as the official spokesperson for the Board;

(D) Appoint trustees to committees; and

(E) Perform other duties specifically requested by the Board that are deemed necessary and appropriate for the Board to fulfill its duties and responsibilities under law.

(b) The duties of the Vice Chair are to act as temporary chair in the absence of the Chair.

VIII. Reimbursement of Expenses

(a) At the first regularly scheduled meeting of each calendar year, the Board may authorize the reimbursement of expenses for a trustee who performs official Board duties.

(b)(1) A trustee may be reimbursed for personal expenses, not otherwise reimbursed, incurred in the performance of their ATRS related duties.

(2) Reimbursement for a trustee's personal expenses that are not otherwise reimbursed may cover:

(A) Any losses in salary or compensation that would result from the trustee's attendance at Board or committee meetings, and will be paid to the trustee's employer; and

(B) The costs of communication with other trustees or ATRS staff via telephone, postage, etc.

IX. Procurement

(a)(1) ATRS shall comply with Arkansas Procurement Law, Arkansas Code § 19-11-201 et seq., Arkansas Code § 24-2-618, and all other laws concerning state agency purchases and contracts that are applicable to the System.

(2)(A) The Executive Director shall seek Board approval of a new contract before it is executed if the new contract procures the services of:

(i) The Board's investment counsel per Arkansas Code § 24-7-303(e);

(ii) An investment manager;

(iii) An investment fund;

(iv) External legal counsel;

(v) A securities monitoring law firm; or

(vi) The Board's appointed actuary per Arkansas Code § 24-7-303(d).

(B) For all other new contracts and contract renewals executed in the normal course of operations, the Executive Director shall report all executed new contracts and contract renewals to the Board bi-annually.

(b)(1) Consistent with the Prudent Investor Rule and pursuant to Arkansas Code § 24-2-618, ATRS has a statutory goal to recruit and hire emerging managers and emerging investment funds.

(2)(A) For purposes of this policy, "emerging managers" and "emerging investment funds" means a managing group or fund that is predominately owned by black or African American, Hispanic American, American Indian or Native American, Asian, or Pacific Islander.

(B) Each investment consultant retained by ATRS to recommend investment managers or investment funds shall submit an annual report to ATRS consistent with the requirements in Arkansas Code § 24-2-618.

X. Board of Trustees - Self-Evaluation

(a)(1) The Board may periodically evaluate its own compliance with the law, rules, or policies applicable to the System.

(2) The Board may enlist the assistance of the Executive Director in determining the appropriate evaluation matrix.

(b) The effective date for the start of any evaluation of the Board and the frequency of the evaluations will be determined by the Board.

XI. Board of Trustees - Committee Principles and Procedures

(a) The Board may establish committees to help carry out its responsibilities.

(b) A committee established by the Board:

(1) Shall assist the Board by preparing policy alternatives and implications as necessary for deliberation by the Board;

(2) Shall adopt an agenda at the beginning of each meeting;

(3) Shall report to the Board following a meeting of the committee;

(4) Shall not act on behalf of the Board unless given the authority to do so by the Board; and

(5) Shall not exercise authority over ATRS staff. However, a committee may request assistance from ATRS staff that will enable the committee to perform its duties.

(c)(1) ATRS staff shall notify all trustees of the time and place of each committee meeting and shall provide all trustees with the agenda of each committee as soon as reasonably possible.

(2)(A) A Trustee may attend a committee meeting

(B) Only committee members shall vote on committee matters.

(d) A quorum of each committee and the number of affirmative votes needed for a motion to carry shall be a majority of the designated size of the committee.

(e) Committees shall elect their own Chair and Vice Chair unless otherwise provided by the law, rules, and policies applicable to the System.

(f)(1) The Executive Director shall serve as the Secretary of the Board unless the Executive Director delegates another member of the ATRS staff to serve as Secretary of the Board.

(2) The Executive Director may delegate all or a part of the functions of the Secretary of the Board to another member of the ATRS staff.

(g) Appointments to committees shall be made before the next regular meeting after the Board elects the Chair of the Board.

(h) The minutes of each committee meeting shall be prepared and, at the committee's next scheduled meeting, shall be presented to the appropriate committee for review and approval.

(i)(A) All committees are subject to the same public disclosure and ethics laws, rules, and policies that are applicable to the System and the Board.

(B) All committee are subject to public disclosure and ethics laws, rules, and policies that are applicable to them by virtue of their position as a trustee or committee member.

XII. Investment Committee Charter

(a)(1) There is established an Investment Committee that shall be composed of eight (8) members.

(2) The Board Chair shall appoint five (5) members from the Board to serve on the Investment Committee, and the Board Chair shall serve as an ex officio voting member.

(3) The remaining two (2) members of the Investment Committee shall be the State Treasurer and the State Bank Commissioner upon their respective acceptance of their appointment as State Treasurer or State Bank Commissioner.

(b) The Investment Committee shall meet on call by the Chair of the Investment Committee or the Executive Director, but not less than on a quarterly basis.

(c) The purposes of the Investment Committee shall be:

(1) To consider proposals for the adoption, amendment, and repeal of investment policies and procedures and to make recommendations to the Board concerning the same;

(2) To consider asset allocations and make recommendations to the Board concerning the adoption of asset allocations;

(3) To consider all investment proposals and make recommendations to the Board concerning the approval or rejection of an investment proposal unless the investment proposal is assigned to another committee; and

(4) To monitor all phases of the investment program and to recommend any changes that may need to be made to the full Board.

(d) Unless related to a stated purpose of the Investment Committee, all matters that are a stated purpose of the Operations Committee or Audit Committee shall not be within the purview of the Investment Committee.

(e) ATRS staff shall furnish the Investment Committee agenda to the Board in advance of the Investment Committee meeting.

XIII. Operations Committee Charter

(a)(1) There is established an Operations Committee that shall be composed of up to eight (8) members.

(2) The Board Chair shall appoint five (5) members from the Board to serve on the Operations Committee, and the Board Chair shall serve as an ex officio voting member.

(3) The remaining two (2) members shall be the State Auditor and the Secretary of Education upon their respective acceptance of their appointments as State Auditor or Secretary of Education.

(b) The Operations Committee shall meet on call by the Chair of the Operations Committee or the Executive Director.

(c) The purposes of the Operations Committee shall be:

(1) To suggest and consider proposals for the adoption amendment, and repeal of the laws, rules, and policies applicable to the System and to make recommendations to the Board concerning the same;

(2) To suggest and consider legislative proposals to and to make recommendations to the Board concerning the same; and

(3) To make recommendations to the Board for initiating, supporting, or opposing legislation.

(d) Unless related to a stated purpose of the Operations Committee, all matters that are a stated purpose of the Investment Committee or Audit Committee shall not be within the purview of the Operations Committee.

(e) ATRS staff shall furnish the Operations Committee agenda to the Board in advance of the Investment Committee meeting.

XIV. Audit Committee Charter

(a)(1) There is established an Audit Committee that shall be composed of five (5) members.

(2) The Board Chair shall appoint three (3) members of Board to serve as members of the Audit Committee.

(3)(A) The Board shall approve two (2) people who are from the public and have extensive auditing experience to serve as at-large members of the Audit Committee.

(B) The at-large members must be independent and have no affiliation with ATRS.

(C)(i) At-large members may serve two (2) four-year terms.

(ii) If the initial term of an at-large member is for less than four (4) years, then the at-large member may serve two (2) more four-year terms.

(iii) An at-large member's four-year term shall begin on the first of the month immediately following the Board's approval and appointment of the at-large member.

(b)(1) The Audit Committee shall meet as needed on the call of the Chair or the Audit Committee or the ATRS Internal Auditor.

(2) ATRS staff shall furnish the Audit Committee agenda along with appropriate briefing material to the Audit Committee and the Board in advance of the Audit Committee meeting.

(3) The Audit Committee may invite members of management, auditors, employees, or others to attend Audit Committee meetings and provide pertinent information as necessary.

(c)(1) The Audit Committee shall assist the Board in fulfilling the oversight responsibilities of the Board relating to financial reporting processes, the system of internal controls, the internal audit process, and the System's compliance with the law, rules, and policies, including ethical policies, applicable to the System.

(2) The purposes of the Audit Committee shall be:

(A) With regard to financial statements, to review with management and auditors the results of audits which have significant findings and recommendations, together with management's responses to findings and follow up on corrective actions;

(B) With regard to internal controls, to:

(i) Review the risk assessment to consider the effectiveness of the System's internal controls; and

(ii) Review with management and auditors any significant findings and recommendations on internal controls over financial reporting, together with management's responses;

(C) With regard to internal audits, to

(i) Review with management and the ATRS Internal Auditor the charter, activities, staffing, and organizational structure of the internal audit function;

(ii) Review and approve the audit plan and all major changes to the plan; and

(iii) Review reports prepared by Internal Audit and follow up on any findings and recommendations;

(D) With regard to compliance, to review the findings of any examinations by regulatory agencies and any auditor observations;

(E) With regard to reporting, to regularly report to the Board on the Audit Committee's activities and issues that arise with respect to the quality or integrity of the System's financial statement, compliance with legal or regulatory requirements, and the performance of the internal audit function;

(F) To perform other activities related to Audit Committee Charter or the audit functions as requested by the Board;

(G) To resolve any disagreements between management and the ATRS Internal Auditor regarding financial reporting;

(H) To review and assess the adequacy of the Audit Committee Charter and make recommendations to the Board concerning the same;

(I)(a) To approve administrative decisions regarding the appointment and removal of the ATRS Internal Auditor.

(b) The approval of the appointment or termination of the ATRS Internal Auditor by the Audit Committee shall not be final until confirmed by the Board; and

(J)(i) To perform an annual employee evaluation of the ATRS Internal Auditor.

(ii) The Audit Committee shall:

(a) Meet in executive session, with or without the ATRS Internal Auditor, for the purpose of conducting, reviewing, and discussing an evaluation of the ATRS Internal Auditor;

(b) Gather information as it deems necessary, including without limitation input from the Executive Director or other persons with direct knowledge of the Internal Auditor's performance, for the purpose of conducting a fair and thorough evaluation of the ATRS Internal Auditor;

(c)(1) Upon the completion of the evaluation of the ATRS Internal Auditor, report the completion of the evaluation to the Board.

(2) If by motion and second, a Trustee requests information concerning the specific results of the evaluation of the ATRS Internal Auditor and the majority of the Board votes in favor of such motion, the Board may meet in executive session to hear the Audit Committee's findings and recommendation on the evaluation of the ATRS Internal Auditor.

(4)(A) The Audit Committee is authorized to conduct or authorize investigations into any matters within its scope of responsibility and to seek any information that it may require from ATRS staff, all of whom are directed to cooperate with the Audit Committee's request.

(B) In the event the Audit Committee has difficulty obtaining the necessary information from ATRS staff, the Audit Committee may seek assistance from the Executive Director or the Board as the circumstances dictate.

(d)(1) The Audit Committee may periodically evaluate itself and report the results to the Board.

(2) The effective date for the start of any evaluation process and the frequency of evaluations shall be determined by the Audit Committee.

HISTORY

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