



March 26, 2014

Senator Bill Sample
Representative John Charles Edwards
Arkansas Legislative Council
State Capitol, Room 315
Little Rock, AR 72201

RE: Arkansas Teacher Retirement System (ATRS) Submission of Investments for
Review under ACA §19-11-1302
Investments: Grantham, Mayo, Van Otterloo & Co., LLC

Dear Senator Sample and Representative Edwards:

By means of the enclosed Investment Summary, ATRS is submitting one investment for review by the Arkansas Legislative Council (ALC) as required under ACA §19-11-1302 et seq., otherwise referred to as Act 1211 of 2009.

ATRS plans to invest up to \$350 million in Grantham, Mayo, Van Otterloo & Co., L.L.C., an open end fund, in an effort to add more active management in the global equity asset allocation of the portfolio. This investment was recommended by Hewitt EnnisKnupp, general investment consultants to ATRS.

The ATRS Board approved this investment described above at its February 17, 2014 meeting and anticipates the closing date in the next two to three months. A summary of the investment including key terms and investment strategy is enclosed for review by ALC. We will be happy to provide any other information you request regarding these investments.

Respectfully,

George Hopkins
Executive Director

GH:lw
enclosures

**Arkansas Teacher Retirement System
Public Market Investment
Executive Summary**

Investment	Grantham, Mayo, Van Otterloo & Co. L.L.C. (GMO), Global All Country Equity Allocation or the "Fund".
Managing Party	Grantham, Mayo, Van Otterloo & Co, L.L.C. (GMO)
ATRS Legal Interest	ATRS will be a shareholder
Report Date	February 2014
Expected Closing Date	Expected Closing in April 2014
ATRS Commitment & Reason for Entry	The initial funding of up to \$350 million is intended to add more active management in the global equity asset allocation. The goal of active management is to beat, net of fees, passive index strategies through superior investment strategies to help ATRS better meet its overall investment assumptions. An adequate level of active risk is a required component of the prudent investor rule. The fund was recommended by the ATRS general investment consultant.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fees</u> 55 bps
Justification of Investment Term & Anticipated Termination Date	The fund is of the "open end" variety and investors may exit subject to notification requirements. The investment will remain until liquidated, if ever, but actual fund amounts will vary over time with funds in excess of the initial allocation added at times and at other times funds would be withdrawn taking the funding level lower based on market returns, liquidity needs, and Hewitt EnnisKnupp recommended rebalancing from time to time.
Investment Strategy	GMO uses an active approach in an attempt to add value on two different levels: asset allocation and stock selection which are ideally not correlated. GMO's asset allocation philosophy is contrarian and is based on the spread between current prices versus its assessment of fair value. This strategy aims to achieve a return exceeding the MSCI All Country World Index by 2.5% to 3.5% (net of fees), over a complete market cycle with lower than market volatility.
Management Team	The team is led by Jeremy Grantham who has 44 years of industry experience. Other members include Ben Inker with 20 years of experience and Sam Wilderman with 17 years of experience.
Historical Performance	The strategy has a since inception return of 9.5% compared to the benchmark of 7%.