



I.3(b)

April 7, 2023

Mr. Mitch Rouse
Office of State Procurement
1500 West 7th Street, Suite 300
Little Rock, AR 72201

Ms. Marty Garrity
Bureau of Legislative Research
State Capitol, Room 315
Little Rock, AR 72201

Re: Notification of Imminent Need Under Act 1211 of 2009 (A.C.A. §19-11-1303)
Investment: Chatham Asset Private Debt and Strategic Capital Fund IV, L.P.
Prophet MSR Opportunities Fund (Class A, Onshore), L.P.
Lone Star Real Estate Fund VII, L.P.

Dear Mr. Rouse and Ms. Garrity:

As Deputy Director of Arkansas Teacher Retirement System (ATRS), my intent and plan is not to use the Imminent Need provisions of Act 1211 unless warranted. Due to fund manager changes and speed of the markets, it is occasionally needed. The investments presented at this time are considered Imminent Need due to the fact that they will likely need to close before the next scheduled meeting of the Arkansas Legislative Council (ALC). The ATRS Board of Trustees (Board) determined that all criteria were met under Act 1211 to enter into a partial equity ownership agreement for each of the investments submitted today.

On April 3, 2023, the Board, in a regular meeting, adopted Resolution 2023-13 to declare an Imminent Need exists to make an investment of up to \$50 million in Chatham Asset Private Debt and Strategic Capital Fund IV, L.P. The investment was recommended by Aon Hewitt Investment Consulting, alternative assets consultants for ATRS, and ATRS staff concurs with the recommendation.

At the same meeting, the Board authorized Resolution 2023-14 to invest up to \$40 million in Prophet MSR Opportunities Fund (Class A, Onshore), L.P. using Imminent Need. This investment was also recommended by Aon Hewitt Investment Consulting, and ATRS staff concurs as well.

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In addition, the Board authorized Resolution 2023-15 to invest up to \$50 million in Lone Star Real Estate Fund VII, L.P. with Imminent Need. Aon Hewitt Investment Consulting, real assets consultants for ATRS recommended the investment, and ATRS staff concurs.

This letter has been sent in compliance with the five-day rule in Act 1211. In accordance with Act 1211, ATRS is providing a copy of each of the aforementioned resolutions to the Office of State Procurement and to the Arkansas Legislative Council. For full and open disclosure, ATRS is attaching an executive summary for each investment to provide further details. As generally applicable to all potential investors, the closing of the investments detailed above are expected to take place before the next scheduled meeting of the Arkansas Legislative Council. However, any actual closing as between ATRS and the investment funds may occur after the Arkansas Legislative Council's next meeting or not at all depending on the final results of ATRS' ongoing due diligence and whether or not acceptable terms between the contracting parties have been reached.

ATRS is hereby requesting that the investments mentioned above be reviewed by ALC at the next scheduled meeting. If any additional information is needed, please feel free to contact me on my direct line at 501-682-1450 or by email at: rodg@artts.gov

Respectfully,



Rod Graves
Deputy Director

RG:lw

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2023-13

**Approving Investment in Chatham Asset Private Debt and
Strategic Capital Fund IV, LP
with Imminent Need**

WHEREAS, the Board of Trustees (Board) of the Arkansas Teacher Retirement System (ATRS) is authorized to invest and manage trust assets for the benefits of its plan participants; and

WHEREAS, the ATRS Board has reviewed the recommendation of its private equity consultant, Aon Hewitt Investment Consulting, Inc., along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **Chatham Asset Private Debt and Strategic Capital Fund IV, LP**, a closed-ended fund that invests in high yield bonds, leverage loans and equity, both on a long and short basis; and

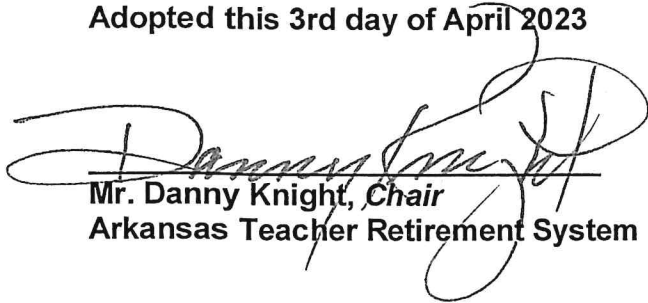
WHEREAS, the ATRS Board approves an investment of up to **\$50 million dollars (\$50,000,000.00)** in **Chatham Asset Private Debt and Strategic Capital Fund IV, LP**, and the Board, after its review of the timing in which the closing of the investment in **Chatham Asset Private Debt and Strategic Capital Fund IV, LP** may need to occur, has determined that there is an imminent need to immediately enter into the partial equity ownership agreement prior to the next scheduled meeting of the Arkansas Legislative Council. The Board also deems it financially appropriate to enter into the partial equity ownership agreement and concludes that to forego the opportunity to promptly implement its investment directives under the prudent investor rule would be inconsistent with its fiduciary duty of care to the members and annuitants.

NOW, THEREFORE, BE IT RESOLVED, that the ATRS Board approves an investment of up to **\$50 million dollars (\$50,000,000.00)** in **Chatham Asset Private Debt and Strategic Capital Fund IV, LP** and agrees to immediately move to close and subscribe the approved ATRS limited partnership interest in **Chatham Asset Private Debt and Strategic Capital Fund, LP**. The total investment amount is to be determined by the general investment consultant and

ATRS staff based upon the allocation available to ATRS and the overall investment objectives set by the Board; and

FURTHER, BE IT RESOLVED, that the ATRS staff is hereby authorized to take all necessary and proper steps to implement this investment using the Imminent Need process, if acceptable terms are reached.

Adopted this 3rd day of April 2023



Mr. Danny Knight, *Chair*
Arkansas Teacher Retirement System

**Arkansas Teacher Retirement System
Real Estate Investment
Executive Summary**

Investment	Chatham Asset Private Debt and Strategic Capital Fund IV, L.P.(PDSC)
Managing Party	Chatham Asset GP, LLC
ATRS Legal Interest	ATRS will be a Limited Partner
Report Date	April 2023
Expected Closing Date	April 2023
ATRS Commitment & Reason for Entry	The investment of up to \$50 million in PDSC is to help achieve the 5% target allocation to opportunistic alternative assets. The Fund was recommended by the ATRS alternative assets consultant, Aon Hewitt Investment Consulting.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : 1% per annum based on NAV <u>Carried Interest</u> : 20% of profits after LP's receive a 5% IRR preferred return.
Justification of Investment Duration Term & Anticipated Termination Date	PDSC is designed to provide clients with exposure to illiquid, opportunistic debt, and the fund will require a five-year period to deploy capital and harvest profits. Anticipated maturity is in 2028.
Investment Strategy	PDSC pursues an investment strategy within the high yield debt market that couples bottom up, fundamentally based credit analysis with the active management of position sizing, gross/net exposure and portfolio hedges. Individual credit investments will oftentimes have an anticipated "catalyst" or "event" associated with the position, which may facilitate the value realization.
Management Team	Evan Ratner is the Director of Research and focuses his time on reviewing the work of the research team. He is also the portfolio manager of PDSC and works with longer duration investments. Anthony Melchiorre and Kevin O'Malley provide oversight on PDSC but spend most of their time focused on portfolio construction and trading on the flagship fund.

**Historical
Performance**

Performance in the fund series has an average 21.3 % IRR since strategy inception in 2017.

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2023-14

**Approving Investment in Prophet Mortgage Servicing
Opportunities Fund – Class A
with Imminent Need**

WHEREAS, the Board of Trustees (Board) of the Arkansas Teacher Retirement System (ATRS) is authorized to invest and manage trust assets for the benefits of its plan participants; and

WHEREAS, the ATRS Board has reviewed the recommendation of its private equity consultant, Aon Hewitt Investment Consulting, Inc., along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **Prophet Mortgage Servicing Opportunities Fund – Class A**, a closed-ended fund that invests in mortgage servicing rights; and

WHEREAS, the ATRS Board approves an investment of up to **\$40 million dollars (\$40,000,000.00)** in **Prophet Mortgage Servicing Opportunities Fund – Class A**, and the Board, after its review of the timing in which the closing of the investment in **Prophet Mortgage Servicing Opportunities Fund – Class A** may need to occur, has determined that there is an imminent need to immediately enter into the partial equity ownership agreement prior to the next scheduled meeting of the Arkansas Legislative Council. The Board also deems it financially appropriate to enter into the partial equity ownership agreement and concludes that to forego the opportunity to promptly implement its investment directives under the prudent investor rule would be inconsistent with its fiduciary duty of care to the members and annuitants.

NOW, THEREFORE, BE IT RESOLVED, that the ATRS Board approves an investment of up to **\$40 million dollars (\$40,000,000.00)** in **Prophet Mortgage Servicing Opportunities Fund – Class A** and agrees to immediately move to close and subscribe the approved ATRS limited partnership interest in **Prophet Mortgage Servicing Opportunities Fund – Class A**. The total investment amount is to be determined by the general investment consultant and ATRS staff based upon the allocation available to ATRS and the overall investment objectives set by the Board; and

FURTHER, BE IT RESOLVED, that the ATRS staff is hereby authorized to take all necessary and proper steps to implement this investment using the Imminent Need process, if acceptable terms are reached.

Adopted this 3rd day of April 2023


Mr. Danny Knight, *Chair*
Arkansas Teacher Retirement System

**Arkansas Teacher Retirement System
Real Estate Investment
Executive Summary**

Investment	Prophet Mortgage Servicing Opportunities (Onshore) LP – Class A (Prophet)
Managing Party	Prophet Asset Management LLC
ATRS Legal Interest	ATRS will be a Limited Partner
Report Date	April 2023
Expected Closing Date	April 2023
ATRS Commitment & Reason for Entry	The investment of up to \$40 million in Prophet is to help achieve the 5% target allocation to opportunistic alternative assets. The Fund was recommended by the ATRS alternative assets consultant, Aon Hewitt Investment Consulting.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : 1.25% per annum based on NAV <u>Carried Interest</u> : 20% of profits after LP's receive an 8% IRR preferred return.
Justification of Investment Duration Term & Anticipated Termination Date	Prophet is designed to provide clients with exposure to mortgage servicing revenue which requires a five-year period to deploy capital and harvest profits. Anticipated maturity is in 2028.
Investment Strategy	Prophet pursues an investment strategy within the mortgage servicing market. Purchasing mortgage servicing offers a hedge against rising interest rates along with bond-type cash flows.
Management Team	Prophet Capital Management was founded in 1995 by Bobby Epstein who previously traded mortgage derivatives and founded MBS services firm, Arbour Financial Corporation. Prophet was initially formed as a friend's-and-family venture to invest in certain alternative fixed income and mortgage markets. In 2008, Prophet was reorganized as Prophet Capital Asset Management LP, preserving the same goals but with a focus on institutional investors.

**Historical
Performance**

Performance in the fund series averages 21.3 % IRR since strategy inception in 2017.

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2023-15

**Approving Investment in Lone Star Real Estate
Fund VII, L.P.
with Imminent Need**

WHEREAS, the Board of Trustees (Board) of the Arkansas Teacher Retirement System (ATRS) is authorized to invest and manage trust assets for the benefits of its plan participants; and

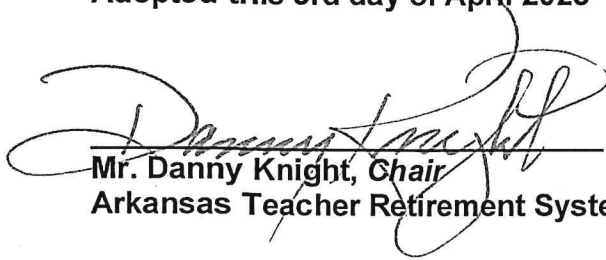
WHEREAS, the ATRS Board has reviewed the recommendation of its private equity consultant, Aon Hewitt Investment Consulting, Inc., along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **Lone Star Real Estate Fund VII, L.P.**, a closed-end opportunistic fund which pursues a strategy of investing in distressed real estate debt and equity; and

WHEREAS, the ATRS Board approves an investment of up to **\$50 million dollars (\$50,000,000.00)** in **Lone Star Real Estate Fund VII, L.P.**, and the Board, after its review of the timing in which the closing of the investment in **Lone Star Real Estate Fund VII, L.P.** may need to occur, has determined that there is an imminent need to immediately enter into the partial equity ownership agreement prior to the next scheduled meeting of the Arkansas Legislative Council. The Board also deems it financially appropriate to enter into the partial equity ownership agreement and concludes that to forego the opportunity to promptly implement its investment directives under the prudent investor rule would be inconsistent with its fiduciary duty of care to the members and annuitants.

NOW, THEREFORE, BE IT RESOLVED, that the ATRS Board approves an investment of up to **\$50 million dollars (\$50,000,000.00)** in **Lone Star Real Estate Fund VII, L.P.** and agrees to immediately move to close and subscribe the approved ATRS limited partnership interest in **Lone Star Real Estate Fund VII, L.P.** The total investment amount is to be determined by the real assets consultant and ATRS staff based upon the allocation available to ATRS and the overall investment objectives set by the Board; and

FURTHER, BE IT RESOLVED, that the ATRS staff is hereby authorized to take all necessary and proper steps to implement this investment using the Imminent Need process, if acceptable terms are reached.

Adopted this 3rd day of April 2023


Mr. Danny Knight, *Chair*
Arkansas Teacher Retirement System

**Arkansas Teacher Retirement System
Real Estate Investment
Executive Summary**

Investment	Lone Star Real Estate Fund VII, L.P.
Managing Party	Lone Star Partners VII, L.P.
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	April 2023
Expected Closing Date	April 2023
ATRS Commitment & Reason for Entry	The investment of up to \$50 million is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant, Aon Hewitt Investment Consulting.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : 1.45% based on committed capital during the investment period and .60% on invested commitments thereafter. <u>Carried Interest</u> : 20% of profits after LP's receive 100% of their invested capital and an 8% IRR preferred return.
Justification of Investment Duration Term & Anticipated Termination Date	The strategy requires a period of time to germinate, mature and harvest the distressed and opportunistic commercial real estate debt and equity investments. The fund has an anticipated maturity sometime in 2032.
Investment Strategy	Lone Star Real Estate Fund VII, L.P. will be a closed end, global, opportunistic fund. The Fund will invest in distressed and opportunistic commercial real estate debt and equity assets with a target net IRR to investors of 25%. The global allocation levels are expected to be: Europe 70-80%, Americas 10-20%, Japan 10-20%.
Management Team	The firm's roots were as a 1993 joint venture between a third-party investment group and the FDIC called Brazos Partners. Through this joint venture, "bad bank" loans impaired as a result of the U.S. savings and loan crisis of the early 1990s were acquired by private investment capital and resolved by Brazos. John Grayken was the founder of Brazos Advisors which was subsequently renamed Hudson Advisors. The follow-on funds were called Lone Star funds. Hudson Advisors currently has approximately 1,100 employees in 11 offices worldwide.

**Historical
Performance**

The net IRR across the six previous Lone Star Funds series is 16.2%.