



July 23, 2018,

Senator Bill Sample
Representative Jim Dotson
Arkansas Legislative Council
State Capitol, Room 315
Little Rock, AR 72201

RE: Reporting of Arkansas Teacher Retirement System (ATRS) Investment:
Debt Purchase Agreement with Global Infrastructure Partners Related to Highland Pellets, LLC

Dear Senator Sample and Representative Dotson:

By means of the enclosed Investment Summary, ATRS is reporting one investment to the Arkansas Legislative Council (ALC).

The ATRS Board recently approved an investment that will have no investment cost to ATRS unless a guaranty is called for ATRS to purchase an assignment of a secured promissory note of up to \$150 million dollars plus accrued and PIK interest (that will be already reduced by a \$20 million dollar third party payment) for a debt purchase agreement related to Highland Pellets, LLC, a wood pellet manufacturing facility located in the Pine Bluff Industrial Complex adjacent to White Hall, Arkansas. In return for this guaranty ATRS will receive a \$15 million dollar premium for the guaranty/agreement to purchase. In addition a previous ATRS note with Highland will be paid down by \$15 million dollars and Highland Pellet equity owners, that includes ATRS with 31% of equity will obtain \$18 million dollars for plant improvements and debt service reserve. The transaction is essentially to purchase a promissory note if certain contingencies occur in the future. The investment was recommended by the ATRS consultant, Simmons Bank and ATRS staff.

The ATRS Board approved the investment described above at its July 20, 2018, called meeting. Although previous investments of this type were placed on ALC agenda for notice and not review to prevent an issue, this investment was approved with Imminent Need since the closing was scheduled for late afternoon on the date the ATRS Board approved the investment. A summary of this investment including key terms and investment strategy is enclosed as information for ALC. We will be happy to provide any other information you request regarding this investment.

Respectfully,

George Hopkins
Executive Director

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

RESOLUTION
No. 2018-32

**Approving a Promissory Note Purchase Agreement/Guaranty
with Global Infrastructure Partners for Highland Pellets, LLC
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 Board has reviewed the recommendation of its specialty consultant, Simmons Bank, along with the recommendation of the Investment Committee and ATRS staff regarding a potential promissory note purchase agreement/guaranty with **Global Infrastructure Partners for Highland Pellets, LLC**, a wood pellet manufacturing facility located in the Pine Bluff Industrial Complex Adjacent to White Hall, Arkansas; and


WHEREAS, the ATRS Board approves an investment of up to **\$150 million dollars (\$150,000,000.00)** plus any accrued or PIK interest for a promissory note purchase agreement/guaranty with **Global Infrastructure Partners for Highland Pellets, LLC**, with recallable distributions of all distributions of this investment and the Board, after its review of the timing in which the closing of the promissory note purchase agreement/guaranty with **Global Infrastructure Partners for Highland Pellets, LLC**, may need to occur, has determined that there is an imminent need to immediately enter into the promissory note purchase agreement/guaranty prior to the next scheduled meeting of the Arkansas Legislative Council. The Board also deems it financially appropriate to enter into the promissory note purchase agreement/guaranty 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 **\$150 million dollars (\$150,000,000.00)** plus any accrued or PIK interest for a promissory note purchase agreement/guaranty with **Global Infrastructure Partners for Highland Pellets, LLC**, with recallable distributions of all distributions of this investment and agree to immediately move to close and subscribe the approved ATRS promissory note purchase agreement/guaranty with **Global Infrastructure Partners for Highland Pellets, LLC**. The total investment amount is to be determined by ATRS staff based

upon the allocation available to ATRS and the overall investment objectives set by the Board.

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

Adopted this 20th day of July, 2018.


Mr. Jeff Stubblefield, Chair
Arkansas Teacher Retirement System

Arkansas Teacher Retirement System
Debt Investment
Executive Summary

Investment	Debt Purchase Agreement with Global Infrastructure Partners (GIP) Related to Highland Pellets, LLC
Managing Party	Highland Pellets, LLC
ATRS Legal Interest	ATRS is currently a partial equity owner in Highland, LLC and a lender to Highland, LLC
Report Date	July 2018
Expected Closing Date	July 2018
ATRS Commitment & Reason for Entry	ATRS is making a contingent backup commitment to purchase an existing promissory note/guaranty between GIP and Highland Pellets for \$150 million plus any accrued or PIK interest. ATRS will receive a \$15 million premium for the guaranty/agreement to purchase. In addition a previous ATRS note with Highland will be paid down \$15 million.
Placement Agent	There is no placement agent involved with the Fund.
Key Terms	ATRS will receive a \$15 million purchase agreement fee for agreeing to commit to the promissory note/guaranty. In addition a previous ATRS note with Highland will be paid down \$15 million. If the note is not refinanced in 12 months, ATRS will receive an additional 5% equity in the plant.
Justification of Investment Term & Anticipated Termination Date	The contingent commitment will continue until the existing debt is refinanced or matures in 2022.

**Management
Team**

The management team is led by Tom Reilley. Mr. Reilley and team have been involved with numerous projects in various sectors of similar size and scope.

**Historical
Performance**

The management team has extensive experience in developing and managing similar projects. The management team has and continues to attract strong partners that have used their resources to vet and improve the plant.