



November 8, 2011

Senator Mary Anne Salmon
Representative Tommy Lee Baker
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

Dear Senator Salmon and Representative Baker:

By means of the enclosed Investment Summary, ATRS is submitting a private partnership Real Estate 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.

An investment of \$50 million is to be made in Blackstone Real Estate Partners VII.TE.3 LP, a limited partnership that will then invest in real estate assets primarily in the United States and Canada. Blackstone typically participates in large, complicated deals that tend to reduce competition for potential investments.

The ATRS Board approved the investment described above at its October 24th, 2011 meeting and anticipates a closing date for the investments in December, 2011. 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,

G. Wayne Greathouse
Associate Director/Investments

GWG:kd
enclosures.

George Hopkins, Executive Director – 501-682-1820 – Email: georgeh@artts.gov

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

Investment	Blackstone Real Estate Partners Fund VII.TE. 3 L.P.(BREP)
Managing Party	Blackstone Real Estate Associates VII L.L.C.,
ATRS Legal Interest	ATRS is a limited partner.
Report Date	November, 2011
Expected Closing Date	December, 2011
ATRS Commitment & Reason for Entry	The \$50 million investment is to help achieve the 10% target allocation to Real Estate. The fund was recommended by the ATRS Real Estate consultant.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : The fund charges a management fee of 1.50% of invested capital. <u>Carried Interest</u> : 20% of profits.
Justification of Investment Term & Anticipated Termination Date	The fund is a "closed end" variety with a ten year term to anticipated maturity sometime in 2021. The longer term is to facilitate the larger value and complexity of typical underlying investments.
Investment Strategy	This is a high risk/high return strategy. The properties will require a high degree of enhancement. This strategy may also involve investments in development, raw land, and niche property sectors.
Management Team	Blackstone's senior team has an average experience level of 20 years and has worked together at the firm for an average of 14 years. Jonathan Gray, who is Co-Head of Real Estate, and regarded as the leader of the BREP Funds has been with Blackstone his entire 19 year career and has led BREP's acquisition of over \$100 billion in real estate assets. In addition, John Schreiber, one of the co-founders of BREA in 1992, has nearly 40 years of experience to draw upon and is integrally involved in the investment process.
Historical Performance	The BREP Funds have delivered mostly top quartile performance when measured against the NCREIF Townsend Opportunistic Fund Indices. Even the two most recent Funds, 2006 and 2007 vintages, have delivered positive performance to date when many others of the same vintages are currently showing significant negative performance.