



September 27, 2017,

Senator Bill Sample  
Representative David L. Branscum  
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: U.S. Real Estate Credit Fund III, L.P. (Calmwater Asset Management, LLC)  
Clearlake Capital V, L.P.

Dear Senator Sample and Representative Branscum:

By means of the enclosed Investment Summaries, ATRS is submitting two investments 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.

The ATRS Board recently approved an investment of up to \$30 million in U.S Real Estate Credit Fund III, L.P., a closed end, value added real estate fund managed by Calmwater Asset Management, LLC that will invest in commercial real estate mortgages. The investment was recommended by both ATRS's real asset consultant, Aon Hewitt Investment Consulting and ATRS staff.

Also approved is an investment of up to \$30 million in Clearlake Capital V, L.P., a fund that will seek to make opportunistic debt and equity investments in middle markets companies in North America. This investment was recommended by both ATRS's private equity consultant, Franklin Park and ATRS staff.

The ATRS Board approved each of the investments described above at its September 25, 2017, meeting and anticipates closing dates in the next thirty to sixty days. A summary of each 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  
Real Estate Investment  
Executive Summary**

<b>Investment</b>	U.S. Real Estate Credit Fund III, LP
<b>Managing Party</b>	Calmwater Asset Management, LLC.
<b>ATRS Legal Interest</b>	ATRS will be a limited partner.
<b>Report Date</b>	September, 2017
<b>Expected Closing Date</b>	November, 2017
<b>ATRS Commitment &amp; Reason for Entry</b>	The investment of up to \$30 million in value added real estate is to help achieve the 15% target allocation to real assets. The fund was recommended by the ATRS real assets consultant, AonHewitt Investment Consulting.
<b>Placement Agent</b>	No placement agent was utilized.
<b>Key Terms</b>	<p><u>Management Fee</u>: 50 bps on commitments plus 100 bps on invested during commitment period; thereafter 150 bps on invested after commitment period</p> <p><u>Carried Interest</u>: 17.5% of profits after LP's receive an 7% IRR preferred return.</p>
<b>Justification of Investment Duration Term &amp; Anticipated Termination Date</b>	The strategy requires a period of time to identify, execute and then Monetize a value added investment. The fund has a six year term with an anticipated maturity in 2024.
<b>Investment Strategy</b>	U.S. Real Estate Credit Fund III, LP. is focused primarily on making senior secured loans on transitional commercial real estate properties located in primary and secondary markets of the U.S. in the less efficient mid-market lending space. Transitional lending is the capital used during the value add period of renovation, re-tenanting or repositioning period for a commercial property. Upon completion of the value add process the owners typically refinance with longer term lower cost mortgages as the properties are fully occupied and present less risk to the new lender. The Fund is targeting net returns of 12-14%. The General Partner is U.S. Real Estate Credit Fund III GP, LLC & the Manager is Calmwater Asset Management, LLC.
<b>Management Team</b>	Calmwater Asset Management, LLC was launched in 2015 and is the institutional investment arm of Karlin Asset Management ("KAM"), a

family office founded in 2005 to manage the wealth of former spinal surgeon and inventor Gary Michelson. The firm had assets under management in excess of \$1.6 billion as of March 31, 2017 across the Firm's investment platforms which include real estate, public equity, and energy investments.

KAM has a history investing in real estate beginning with the launch of Karlin Real Estate in 2008 which was focused on investing in distressed U.S. commercial real estate and was later expanded to include the European markets. Karlin Real Estate invested over \$1 billion across these strategies between 2008 and 2014. Then, in 2010, KAM launched Karlin Real Estate Lending in order to capture equity-like returns on smaller senior secured senior bridge loans in the U.S.. The Lending platform has committed over \$1 billion to 90 commercial real estate loans between 2010 and 2016, funded solely by the Karlin family office.

**Historical  
Performance**

Performances of the three preceding funds average a net IRR of 10.9% without the use of leverage. The use of leverage should allow for the target of 12-14% in Fund III.

Arkansas Teacher Retirement System  
Private Equity Investment  
Executive Summary

<b>Investment</b>	Clearlake Capital V, L.P. (the "Fund")
<b>Managing Party</b>	Clearlake Capital Group (the "General Partner" or "Clearlake")
<b>ATRS Legal Interest</b>	ATRS will be a limited partner
<b>Report Date</b>	September 2017
<b>Expected Closing Date</b>	The General Partner is targeting capital commitments of \$2.5 billion for the Fund. ATRS is expected to close in October 2017.
<b>ATRS Commitment &amp; Reason for Entry</b>	The investment of up to \$30 million is to help achieve the 10% target allocation to private equity. The fund was recommended by the ATRS private equity consultant.
<b>Placement Agent</b>	No placement agent was used to source the investment.
<b>Key Terms</b>	<p><u>Management Fee</u>: The General Partner will be paid a management fee of 1.75% of total commitments during the five year investment period. Thereafter, the fee will equal 1.75% of net invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive their aggregate capital contributions, write-downs, and an 8% preferred return, the General Partner will be entitled to 20% of the Fund's profits.</p>
<b>Justification of Investment Term &amp; Anticipated Termination Date</b>	<p><u>Term</u>: Ten years (anticipated termination in 2027) plus a one-year extension which is industry standard due to the time required for acquiring, developing and selling underlying assets.</p>
<b>Investment Strategy</b>	The Fund is being formed to make debt and equity investments in middle market companies undergoing significant change or that are in underserved industries. Investment opportunities may involve bankruptcies, restructurings or turnarounds
<b>Management Team</b>	The General Partner was formed in 2007 and is led today by Jose Feliciano, Behdad Eghbali, Preshant Mehrota and Colin Leonard ("Partners"). The Partners are supported by nineteen additional investment professionals as well as administrative staff.
<b>Historical Performance</b>	The General Partner has invested more than \$2.9 billion in forty-seven deals that have generated an aggregate gross return on investment of 1.8x and IRR of approximately 29% as of March 31, 2017. Historical returns are not indicative of future performance.