



February 5, 2019

Mr. Edward Armstrong
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: American Industrial Partners Capital Fund VII, L.P.

Dear Mr. Armstrong and Ms. Garrity:

As Executive 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 investment presented at this time is considered Imminent Need due to the fact that it will likely need to close before the next scheduled meeting of the Arkansas Legislative Council (ALC).

On February 4, 2019, the ATRS Board of Trustees (Board), in a scheduled meeting, adopted Resolution 2019-15 to declare an Imminent Need exists to commit up to \$30 million in American Industrial Partners Capital Fund VII, L.P. The Board determined that all criteria were met under Act 1211 to enter into a partial equity ownership agreement for this investment. The investment was recommended by Franklin Park, ATRS's private equity consultant as well as ATRS staff.

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 the aforementioned resolution to the Office of State Procurement and to the Arkansas Legislative Council. For full and open disclosure, ATRS is attaching an Executive Summary for the investment to provide further details.

Mr. Armstrong
Ms. Garrity
February 5, 2019
Page Two

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 501-682-1820 or by email at: clintr@artts.gov

Respectfully,

A handwritten signature in black ink, appearing to read 'Clint Rhoden', with a stylized flourish at the end.

Clint Rhoden
Executive Director

CR:lw

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

RESOLUTION
No. 2019-15

**Approving Investment in American Industrial Partners
Capital 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, Franklin Park Associates, LLC, along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **American Industrial Partners Capital Fund VII, L.P.**, a private equity buyout, turnaround and distressed debt fund that will target middle market underperforming companies in the industrial sector; and

WHEREAS, the ATRS Board approves an investment of up to **\$30 million dollars (\$30,000,000.00)** in **American Industrial Partners Capital Fund VII, L.P.**, and the Board, after its review of the timing in which the closing of the investment in **American Industrial Partners Capital 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 **\$30 million dollars (\$30,000,000.00)** in **American Industrial Partners Capital Fund VII, L.P.** and agrees to immediately move to close and subscribe the approved ATRS limited partnership interest in **American Industrial Partners Capital Fund VII, L.P.** 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; 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 4th day of February 2019

A handwritten signature in black ink, appearing to read "Jeff Stubblefield", written over a horizontal line.

Mr. Jeff Stubblefield, *Chair*
Arkansas Teacher Retirement System

Arkansas Teacher Retirement System
Private Equity Investment
Executive Summary

Investment	American Industrial Partners VII, L.P. (the "Fund")
Managing Party	American Industrial Partners (the "General Partner")
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	February 2019
Expected Closing Date	The General Partner is targeting capital commitments of \$3.0 billion. ATRS is expected to close in March 2019.
ATRS Commitment & Reason for Entry	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.
Placement Agent	The offering was sourced directly from the General Partner.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 2.0% of capital commitments during the six-year investment period, and 2.0% of net invested capital after the investment period.</p> <p><u>Carried Interest</u>: After the limited partners receive a return of their contributed capital and costs on realized investments plus an 8% preferred return, the General Partner will be entitled to 20% of the Fund's profits.</p>
Justification of Investment Term & Anticipated Termination Date	The term is ten years (anticipated termination in 2029) plus a one-year extension which is common for private equity funds due to the time required for buying, improving and selling underlying companies.
Investment Strategy	The Fund is being formed to make control investments in middle market industrial companies and will target underperforming companies with sales greater than \$200 million. The Fund may invest through buyout, turnaround, corporate carve-out, public-to-private, structured financings, bankruptcy acquisitions and debt-for-control transactions.
Management Team	Based in New York, the General Partner was founded in 1989. Today, the firm is led by Kim Marvin, John Becker and Dino Cusumano, and twelve other principals. The principals are supported by 17 investment and operating professionals as well as support staff.
Historical Performance	The current team has generated attractive returns with an average gross IRR of 30% for its previous three funds. Historical returns are not indicative of future performance.