



September 12, 2019

Senator Cecile Bledsoe
Representative Jeff Wardlaw
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: KPS Special Situations Fund V, L.P.
KPS Special Situations Mid-Cap Fund, L.P

Dear Senator Bledsoe and Representative Wardlaw:

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 KPS Special Situations Fund V, L.P., a private equity turnaround fund that will invest in large manufacturing companies with solvable operating and financial difficulties. The investment was recommended by ATRS's private equity consultant, Franklin Park and ATRS staff.

The ATRS Board also authorized an investment of up to \$30 million to be made in KPS Special Situations Mid-Cap Fund, L.P., a similar private equity turnaround fund. This fund however, will invest in middle market rather than large manufacturing companies. This investment was recommended by both Franklin Park and ATRS staff as well.

The ATRS Board approved each of the investments described above at its September 11, 2019 meeting and anticipates closing dates in early October. 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,

Clint Rhoden
Executive Director

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Arkansas Teacher Retirement System
Private Equity Investment
Executive Summary

Investment	KPS Special Situations Fund V, L.P. (the "Fund")
Managing Party	KPS Capital Partners (the "General Partner" or "KPS")
ATRS Ownership	ATRS will be a limited partner
Report Date	September 2019
Expected Closing Date	The General Partner is targeting capital commitments of \$5.0 billion and is expecting to hold a single closing in early October 2019.
ATRS Commitment & Reason for Entry	The investment of up to \$30 million is to help achieve the 12% target allocation to private equity. The fund was recommended by the ATRS private equity consultant.
Placement Agent	The General Partner did not retain a placement agent for fundraising
Key Terms	<p><u>Management Fee</u>: The General Partner will charge an annual management fee of 1.25% per annum of commitments during the investment period; thereafter, 1.25% per annum on net invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive their aggregate capital on realized investments, write downs, fees, expenses and an 8% preferred return, the General Partner will be entitled to 30% of the Fund's profits.</p>
Justification of Investment Term & Anticipated Termination Date	The term is twelve years (anticipated termination in 2031) plus two one-year extensions which is not unusual for private equity funds due to the time required for buying, improving and selling underlying companies.
Investment Strategy	The Fund will make operational turnaround investments in large manufacturing companies in the US and Europe. The General Partner will focus on bankruptcy and out-of-court restructurings, and acquisitions of underperforming, non-core assets from large companies.
Management Team	KPS, based in New York, was formed in 1997 as the successor firm to Keilin & Co., a financial advisory and restructuring firm. Currently, the General Partner is led by six principals, Michael Psaros, David Shapiro, Raquel Palmer, Jay Bernstein, Ryan Baker and Kyle Mumford who are supported by 15 investment professionals and 13 operational professionals as well as accounting and legal staff.
Historical Performance	Since 1999, the General Partner has invested \$4.0 billion in 36 portfolio companies. In aggregate, these investments have generated a gross IRR of 35% and a multiple of 2.3x cost as of March 31, 2019. Historical returns are not indicative of future performance.

Arkansas Teacher Retirement System
Private Equity Investment
Executive Summary

Investment	KPS Special Situations Mid-Cap Fund, L.P. (the "Fund")
Managing Party	KPS Capital Partners (the "General Partner" or "KPS")
ATRS Ownership	ATRS will be a limited partner
Report Date	September 2019
Expected Closing Date	The General Partner is targeting capital commitments of \$750 million and expects to hold a single closing in early October 2019.
ATRS Commitment & Reason for Entry	The investment of up to \$30 million is to help achieve the 12% target allocation to private equity. The fund was recommended by the ATRS private equity consultant.
Placement Agent	The General Partner did not retain a placement agent for fundraising
Key Terms	<p><u>Management Fee</u>: The General Partner will charge an annual management fee of 1.25% per annum of commitments during the investment period; thereafter, 1.25% per annum on net invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive their aggregate capital on realized investments, write downs, fees, expenses and an 8% preferred return, the General Partner will be entitled to 30% of the Fund's profits.</p>
Justification of Investment Term & Anticipated Termination Date	The term is twelve years (anticipated termination in 2031) plus two one-year extensions which is not unusual for private equity funds due to the time required for buying, improving and selling underlying companies.
Investment Strategy	The Fund will primarily make operational turnaround investments in lower mid-market manufacturing companies in the US and Europe. The General Partner will focus on underperforming, distressed or non-core assets or businesses.
Management Team	KPS, based in New York, was formed in 1997 as the successor firm to Keilin & Co., a financial advisory and restructuring firm. Currently, the General Partner is led by six principals, Michael Psaros, David Shapiro, Raquel Palmer, Jay Bernstein, Ryan Baker and Kyle Mumford. The dedicated team for the Fund will consist of two senior professionals, Ryan Harrison and Pierre de Villemejeane who will be supported by two investment professionals, an operational professional and a business development professional.

**Historical
Performance**

Since 1999, the General Partner has invested \$4.0 billion in 36 portfolio companies. In aggregate, these investments have generated a gross IRR of 35% and a multiple of 2.3x cost as of March 31, 2019. Historical returns are not indicative of future performance.