



June 4, 2020

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: Torchlight Debt Fund VII, L.P.
CBRE Strategic Partners U.S. Value 9, L.P.
Macquarie Infrastructure Partners V, L.P.
LLR Equity Partners VI, L.P.
Franklin Park Venture Capital Fund XIII, L.P.

Dear Senator Bledsoe and Representative Wardlaw:

By means of the enclosed Investment Summaries, ATRS is submitting five 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 allocation of up to \$50 million in Torchlight Debt Fund VII, L.P., an opportunistic real estate fund that specializes in high yield investments in both the public and private markets. The investment was recommended by ATRS's real assets consultant, Aon Hewitt Investment Consulting and ATRS staff.

Also approved is an investment of up to \$50 million to be made in CBRE Strategic Partners U.S. Value 9, L.P., a value added real estate fund that will invest in institutional quality multifamily, office, and retail properties in the U.S. This investment was recommended by real assets consultant, Aon Hewitt Investment Consulting and ATRS staff as well.

The ATRS Board also authorized an investment of up to \$50 million in Macquarie Infrastructure Partners V, L.P., a core infrastructure fund focused primarily on North American infrastructure assets. Aon Hewitt Investment Consulting and ATRS staff also recommended this investment.

An investment of up to \$30 million in LLR Equity Partners VI, L.P. was authorized by the ATRS Board as well. This fund will primarily make growth equity investments in small and middle market companies in the technology and healthcare sectors. Both Franklin Park, private equity consultants for ATRS, and ATRS staff recommended this investment.

Senator Bledsoe
Representative Wardlaw
Page Two

The Board also approved an additional allocation of up to \$30 million in Franklin Park Venture Capital Fund XIII, L.P., a fund of funds that invests in venture capital private equity funds. This investment was also recommended by Franklin Park and ATRS staff.

The ATRS Board approved each of the investments described above at its June 1, 2020 meeting and anticipates closing dates from late June through September. 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

CR:lw
enclosures

Arkansas Teacher Retirement System Real Assets Investment Executive Summary

Investment	Torchlight Debt Fund VII L.P.
Managing Party	Torchlight Debt VII GP, LP
ATRS Legal Interest	ATRS is a limited partner.
Report Date	June 2020
Expected Closing Date	July 2020
ATRS Commitment & Reason for Entry	The up to \$50 million investment is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant Aon Hewitt Investment Consulting.
Placement Agent	No placement agent was utilized.
Key Terms	<p><u>Management Fee</u>: The fund charges a management fee of 1.25 % of committed capital during the investment period and 1.25% on invested capital thereafter.</p> <p><u>Carried Interest</u>: 20% of profits after ATRS receives an 8% IRR.</p>
Justification of Investment Term & Anticipated Termination Date	The fund is a closed-end fund and requires a period of time to execute its opportunistic strategy. Anticipated termination is in 2030.
Investment Strategy	Fund VII will have the ability originate high yield loans and acquire high risk/return pieces of CMBS securitizations. Debt is expected to be collateralized by traditional property types plus hotels and student housing. Fund is expected to be comprised ultimately of a large number of positions, ranging from 75 to 125 in number and anywhere from \$5 to \$75 million in size.
Management Team	Loan workout and special servicing business founded in 1995 by Dan Heflin, backed by Jones Lang Wootton Realty Advisors. Established debt investment management alongside special servicing. In 2002, ING Group bought 70%, and folded it into its ING Clarion Capital division as it grew its US real estate financing businesses. The ING Clarion Debt Opportunity Fund series was launched in 2003 with Fund I (now raising Fund VII as Torchlight Investors), focused on non-investment grade CMBS and subordinate debt. Post GFC, ING Group retrenched and sold off many businesses, including the sponsorship of this fund series and its special servicing starting in 2010. Over time the business was sold entirely back to Dan Heflin and employees.

**Historical
Performance**

Torchlight's Debt Opportunity Fund Series are averaging a 10.9% IRR. ATRS has invested in 5 previous Torchlight funds.

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

Investment CBRE Strategic Partners U.S. Value Fund 9, L.P.

Managing Party CBRE Strategic Partners U.S. Value 9 GP, LLC

ATRS Legal Interest ATRS will be a limited partner.

Report Date June 2020

Expected Closing Date July 2020

ATRS Commitment & Reason for Entry The investment of up to \$50 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, Aon Hewitt Investment Consulting.

Placement Agent No placement agent was utilized.

Key Terms Management Fee: 1.25% per annum on invested capital.

Carried Interest: 20% of profits after LP's receive an 8% IRR preferred return.

Justification of Investment Duration Term & Anticipated Termination Date The strategy requires a period of time to identify, execute and then monetize a value-added investment. The fund has an eight-year term with an anticipated maturity in 2029.

Investment Strategy CBRE Strategic Partners U.S. Value 9 is a continuation of the Strategic Partners value-add fund series that will look to acquire, reposition, and re-lease high-quality real estate in select U.S. markets for sale into the Core marketplace. The Fund maintains an emphasis on cycle-aware investing including risk mitigation, capital preservation, and value-creation through property-level execution. The Fund is targeting net returns of 11-13% with a stabilized net income return of 5% - 7%.

Management Team The team is led by Vance Maddocks who joined CBRE in 1984. Mr. Maddocks is the founder of Strategic Partners U.S., the firm's enhanced return platform.

Historical Performance Performances of the eight preceding funds average a net IRR of 9.6%.

Arkansas Teacher Retirement System Private Equity Investment Executive Summary

Investment	LLR Equity Partners VI, L.P. (the "Fund")
Managing Party	LLR Partners (the "General Partner")
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	June 2020
Expected Closing Date	The General Partner is targeting capital commitments of \$1.4 billion. ATRS is expected to close in July 2020.
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	ATRS's commitment 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 five-year investment period. Thereafter, management fees will equal 1.75% of net invested capital.</p> <p><u>Carried Interest</u>: The general Partner will be entitled to receive 20% of the fund's profits after the limited partners have received full return of capital contributions plus an 8% preferred return.</p>
Justification of Investment Term & Anticipated Termination Date	The term is ten years (anticipated termination in 2030) plus two one-year extensions 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 invest in control and non-control transactions in U.S. small and middle market growth companies. The General Partner will target companies with values under \$100 million in the technology and healthcare sectors.
Management Team	Based in Philadelphia, LLR was founded in 1999 by Ira Lubert, Seth Lehr and Howard Ross. Today the general partner is led today by Messrs. Lehr and Ross as well as Mitchell Hollin, Scott Perricelli, David Reuter, Davie Stienes, Jack Slye, Sasank Aleti, and Michael Levenberg. The principals have an average of eighteen years with the general partner.
Historical Performance	In its previous five funds, the General Partner has invested approximately \$2.9 billion in 102 deals generating an aggregate gross return on investment of 2.1x cost and gross IRR of 25.6%. Historical returns are not indicative of future performance.

Arkansas Teacher Retirement System Real Assets Investment Executive Summary

Investment	Macquarie Infrastructure Partners V, L.P.
Managing Party	Macquarie Infrastructure Partners V, GP LLC
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	June 2020
Expected Closing Date	July 2020
ATRS Commitment & Reason for Entry	The up to \$50 million investment is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS's Real Assets Consultant, Aon Hewitt Investment Consulting.
Placement Agent	None
Key Terms	<p><u>Management Fee</u>: 0.375% on un-invested capital during the Investment Period, 1.25% on invested capital.</p> <p><u>Carried Interest</u>: 20% of profits after LP's receive an 8% IRR preferred return.</p>
Justification of Investment Duration Term & Anticipated Termination Date	The strategy requires a period of time to identify, execute and then monetize a core infrastructure strategy. The fund is a "closed end" variety with a ten year term starting at the final close with the possibility of two-one year extensions. An additional two-one year extensions may follow however they must be approved by the advisory committee or a majority interest of the limited partners. The anticipated maturity is in 2032.
Investment Strategy	The Fund will seek to acquire equity positions of control or significant influence primarily in operating infrastructure businesses where the investment team can implement value-creation initiatives, drive strategic, commercial, and / or financial decisions of the target companies. The Fund will mainly focus on making brownfield core and core+ investments in companies located predominantly in the United States, however the Fund will also have the ability to invest in other countries in the Americas, mainly Mexico and Brazil, up to the greater of 20% of the aggregate commitments or \$250 million.
Management Team	Macquarie (MIRA) is one of the most experienced infrastructure managers having invested in over 200 infrastructure assets across 30 countries.

Over 120 of such infrastructure assets are currently under MIRA's management. MIRA has built dedicated regional teams that are further divided by infrastructure sub-sectors, providing deep sector knowledge and expertise. Macquarie Infrastructure Partners (MIP) is very well resourced with over 95 professionals for North America, over 52 of which are investment professionals. Led by Karl Kuchel, Chief Executive Officer, senior investment professionals at MIP have over 20 years of average experience in the infrastructure industry and 10 years of average tenure at the Firm.

**Historical
Performance**

Previous funds to date have returned an average 9% net IRR and 1.7x return of capital over the last seventeen years.

Arkansas Teacher Retirement System Private Equity Investment Executive Summary

Investment	Franklin Park Venture Capital Fund XIII, L.P. (the "Fund")
Managing Party	Franklin Park Series GP, LLC (the "General Partner" or "Franklin Park")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	June 2020
Expected Closing Date	Closing is expected by the end of July 2020.
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	There is no placement agent involved with the Fund.
Key Terms	<u>Management Fee</u> : None <u>Carried Interest</u> : None
Justification of Investment Term & Anticipated Termination Date	The term is the later of (i) the liquidation of the last fund investment or (ii) 15 years (anticipated termination in 2035). Term is standard for a private equity fund of funds due to the fact that terms for underlying funds are at least ten years and all underlying funds must be liquidated in order to terminate the fund of funds.
Investment Strategy	The Fund was formed to build a well-diversified portfolio of top-tier venture capital funds.
Management Team	Franklin Park, based near Philadelphia, PA, was founded in 2003 by six professionals that formerly worked together at a global private equity consultant and asset manager. The team is led by Bradley Atkins, Michael Bacine, James McGovern, Karl Hartmann, Katherine Carlson, Narayan Chowdhury, Laure Brasch, Kristine O'Connor, Neil Mowery, Raymond Jackson and John Mahoney (the "Senior Team"). The Senior Team is supported by seven associates, seven analysts and an office manager.
Historical Performance	Since inception, Franklin Park has committed or advised on commitments in excess of \$15.5 billion to over 360 private equity funds and co-investments.