

AR)TRS

Arkansas Teacher Retirement System

June 5, 2018,

Senator Bill Sample
Representative Jim Dotson
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: FPA Core Plus Fund IV, L.P.
WNG Aircraft Opportunities II, L.P.
SK Capital Fund V, L.P.

Dear Senator Sample and Representative Dotson:

By means of the enclosed Investment Summaries, ATRS is submitting three 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 FPA Core Plus Fund VI, L.P., a closed-end, core fund that specializes in multifamily real estate. The investment was recommended by both ATRS's real asset consultant, Aon Hewitt Investment Consulting and ATRS staff.

The ATRS Board also authorized an investment of up to \$30 million in WNG Aircraft Opportunities II, L.P., a private equity hard asset fund focused on acquiring commercial aircraft on lease. This investment was recommended by Franklin Park, private equity consultants for ATRS and by ATRS staff.

Another private equity investment was authorized by the ATRS Board as well for up to \$30 million in SK Capital Fund V, L.P., a buyout fund that will focus on middle market specialty chemicals and specialty materials companies. This was also recommended by ATRS's private equity consultant and ATRS staff.

The ATRS Board approved each of the investments described above at its June 4, 2018, meeting and anticipates closing dates by the end of June 2018. 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

Arkansas Teacher Retirement System
Real Estate Investment
Executive Summary

Investment	FPA Core Plus Fund IV LP
Managing Party	FPA CORE PLUS IV GP, LLC
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	June, 2018
Expected Closing Date	June, 2018
ATRS Commitment & Reason for Entry	The investment of up to \$30 million in core plus 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	<u>Management Fee</u> : 7% of NOI based on the aggregate portfolio plus 0.5% of gross purchase price (\$300,000 max.) 0.25% of gross sale price (\$150,000 max.) <u>Carried Interest</u> : None
Justification of Investment Duration Term & Anticipated Termination Date	The strategy requires a period of time to identify, execute and then monetize a core plus investment strategy. The fund has a ten year term with an anticipated maturity in 2028.
Investment Strategy	The objective of FPA Core Plus Fund IV, L.P. is to make direct investments in core/core-plus multifamily apartment real estate throughout the U.S., primarily in markets where FPA has an established presence and experience. Investments will be held for an estimated seven to ten year period, and thereafter positioned for sale. The Partnership will seek to achieve a compound annual gross leveraged Internal Rate of Return ("IRR") of 10% to 12% (including property level fees but excluding the Fund Management Fee), and net IRRs of 9% to 11% on a portfolio-wide basis.
Management Team	FPA Multifamily was founded over 35 years ago by Greg Fowler. Mr. Fowler started the business investing for high net worth individuals in multifamily real estate. In the 1990's the firm expanded and adopted a model to invest and service institutional clients through joint ventures

and began to utilize the 1031 real estate tax program. FPA's team brings a diverse broad knowledge base to each transaction, giving FPA the ability to qualify and quantify complex transactions and appropriately price and mitigate risk. Senior Management has an average of 29 years of real estate experience and has worked together for well over a decade. FPA's team of real estate professionals, with their established network of relationships and local market intelligence acquired approximately 97,000 units since 1990.

**Historical
Performance**

Since inception, FPA has completed over \$10 billion in total multifamily transactions through a series of funds and individual transactions on behalf of institutional investors and investment banks. Since inception, FPA has achieved net IRR's of 29% on 338 individual apartment properties.

Arkansas Teacher Retirement System
Private Equity Investment
Executive Summary

Investment	WNG Aircraft Opportunities, L.P. (the "Fund")
Managing Party	WNG Capital, LLC (the "General Partner")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	June 2018
Expected Closing Date	The General Partner is targeting capital commitments of \$500 million. ATRS is expected to close by June 30, 2018.
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	MVision was used by the General Partner for fundraising.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 2.0% of commitments during the four-year investment period. Thereafter, management fees will equal 1.75% of actively invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive their aggregate contributions to the fund and 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	Term: Eight years (anticipated termination in 2026) plus three one-year extensions which is typical due to the time required for acquiring, improving and selling underlying assets.
Investment Strategy	The Fund is being formed to acquire commercial aircraft on lease. In particular the General Partner will target mid-life and older, narrow body aircraft approaching the end of lease terms. After acquisition, the manager seeks to enhance returns through optimizing cash flow, extending leases, transitioning aircraft to new lessees, and selling aircraft parts.
Management Team	The General Partner was founded in 2009 by Michael Gangemi and Al Nigro (principals). The principals are supported by a transaction director, three technical directors, two marketing directors, legal counsel and four junior investment professionals. The firm is based in Dallas with an office in Dublin.
Historical Performance	In its previous fund, the General Partner invested \$408 million in 56 deals. In aggregate, these investments have generated a net IRR of approximately 14% as of December 31, 2017. Historical returns are not indicative of future performance.

Arkansas Teacher Retirement System
Private Equity Investment
Executive Summary

Investment	SK Capital Partners V, L.P. (the "Fund")
Managing Party	SK Capital (the "General Partner")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	June 2018
Expected Closing Date	The General Partner is targeting capital commitments of \$1.4 Billion. ATRS is expected to close by June 30, 2018.
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	UBS was retained for fundraising.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 2.0% of commitments during the six-year investment period. Thereafter, management fees will equal 2.0% of actively invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive cumulative distributions equal to their aggregate capital contributions for realized investments, a portion of their contributions toward fund expenses, and a preferred return of 8%, the General Partner will be entitled to 20% of the Fund's profits.</p>
Justification of Investment Term & Anticipated Termination Date	Term: Ten years (anticipated termination in 2028) plus three one-year extensions which is industry standard due to the time required for acquiring, improving and selling underlying companies.
Investment Strategy	The fund is being formed to make control equity investments in sound companies with unrealized growth potential in the specialty chemicals and specialty materials sectors.
Management Team	The General Partner was founded in 2007 by Barry Siadat and Jamshid Keynejad. Today the investment team is led by the founders as well as Jack Norris and Aaron Davenport. They are supported by twelve additional investment professionals with various functional types of expertise. The firm is based in New York and Boca Raton, FL
Historical Performance	In its previous two funds, the General Partner invested \$1.06 billion in 13 deals. In aggregate, these investments have generated a gross IRR of 27.6% as of September 30, 2017. Historical returns are not indicative of future performance.