



December 18, 2018

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)
Investments: Revenue Stream of State of Arkansas Recycling Tax Credits
Aeolus Catastrophe Keystone PF Fund, LP

Dear Mr. Armstrong and Ms. Garrity:

The Arkansas Teacher Retirement System's (ATRS) 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 investments presented at this time are considered Imminent Need due to the fact that they will need to close immediately, and thus prior to the next scheduled meeting of the Arkansas Legislative Council (ALC).

Based on the recommendation of ATRS Specialty Consultant, Simmons Bank and ATRS staff, on December 17, 2018, the ATRS Board of Trustees (Board), in a called meeting, adopted Resolution 2018-40 to declare an Imminent Need exists to invest in an expected Revenue Stream of \$100 million of State of Arkansas Recycling Tax Credits. The tax credits will be paid by the State of Arkansas and will help ATRS achieve its target allocation of 15% of assets to fixed income. The Board determined that all criteria were met under Act 1211 to enter into a partial equity ownership agreement for this investment.

At the same meeting, the Board also adopted Resolution 2018-41 to declare an Imminent Need exists to make an additional commitment to Aeolus Catastrophe Keystone PF Fund, LP, an opportunistic/alternative reinsurance fund specializing in property catastrophe insurance coverage. Again, the Board determined that all criteria

Mr. Armstrong
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were met under Act 1211 to enter into a partial equity ownership agreement for this investment, and it was recommended by both Aon Hewitt Investment Consulting and 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 resolutions to the Office of State Procurement and the Arkansas Legislative Council. The total amount that ATRS intends to invest in these investments is up to \$144,500,000. For full and open disclosure, ATRS is attaching an executive summary for each investment to provide further details.

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 at 501-588-4367, or by email at: clintr@artts.gov

Respectfully,



Clint Rhoden
Executive Director

CR:lw

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

**RESOLUTION
No. 2018-40**

**Approving Purchase of Revenue Stream Generated by Big River
Steel Recycling Tax Credits
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 special investment consultant, Simmons Bank, along with the recommendation of the Investment Committee and ATRS staff regarding the purchase of the revenue stream generated by the Big River Steel recycling tax credits to be issued by the state of Arkansas; and

WHEREAS, the agreement to purchase the revenue stream would also provide for PIK interest to accumulate on the purchase price of the revenue stream during the period of time from the funding date of this investment and the certification of the tax credits by the Arkansas Department of Environmental Quality; and

WHEREAS, after certification of the tax credits by the Arkansas Department of Environmental Quality the accumulated PIK interest would be treated as a loan to Big River Steel; and

WHEREAS, the ATRS Board approves an investment of up to \$74.5 million dollars (for up to \$125 million dollars in recycling tax credits producing a revenue stream of up to \$100 million dollars) to purchase the revenue stream generated by the Big River Steel recycling tax credits to be issued by the state of Arkansas and the associated loan for accumulated PIK interest; and

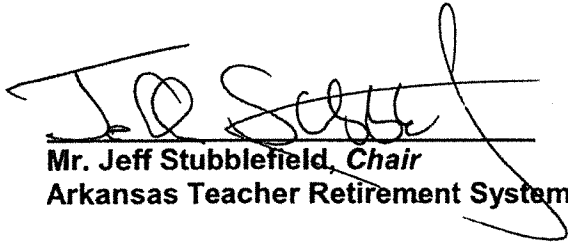
WHEREAS, the Board, after its review of the timing in which the closing of the investment to purchase the revenue stream generated by Big River Steel recycling tax credits and associated PIK interest loan may need to occur, has determined that there is an imminent need to immediately enter into the agreement prior to the next scheduled meeting of the Arkansas Legislative

Council. The Board also deems it financially appropriate to enter into the 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 **\$74.5 million dollars (\$74,500,000.00)** to purchase the revenue stream generated by Big River Steel recycling tax credits to be issued including the associated PIK interest loan and agrees to immediately move to close and subscribe the approved purchase of the revenue stream generated by Big River Steel recycling tax credits to be issued by the state of Arkansas; 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 17th day of December 2018



Mr. Jeff Stubblefield, Chair
Arkansas Teacher Retirement System

Arkansas Teacher Retirement System
Revenue Stream Generated by Big River Steel Recycling Tax Credits
Executive Summary

Investment	Revenue Stream Generated by Big River Steel L.L.C. Recycling Tax Credits (the "Investment") and associated PIK interest loan
Managing Party	Act 1046 of 2017 (Act 1046) puts the Arkansas Teacher Retirement System (ATRS) in possession and control of the recycling tax credits on behalf of Big River Steel (BRS).
ATRS Legal Interest	ATRS is a partial equity and debt owner in BRS and will maintain possession and control of the recycling tax credits.
Report Date	December 2018
Expected Closing Date	ATRS is expected to close by the end of 2018.
ATRS Commitment & Reason for Entry	The investment of up to \$74.5 million (for up to \$125 million dollars in recycling tax credits) was approved through ATRS Board Resolution 2018-40 at the December 17, 2018 called meeting. The investment is to help achieve the 15% target allocation to fixed income of the ATRS investment portfolio. The fund was recommended by the ATRS specialty consultant.
Placement Agent	No placement agent was used.
Key Terms	<u>Management Fee</u> : There is no management fee associated with this investment. <u>Carried Interest</u> : There is no carried interest associated with this investment.
Justification of Investment Term & Anticipated Termination Date	The term of the investment is expected to be 14 years.
Investment Strategy	The Investment is being made to purchase a revenue stream of approximately \$100 million dollars generated by recycling tax credits paid over 12 years and an associated PIK interest loan of 7.75% of the purchase price that will accumulate for approximately 2 years then be due from BRS within 5 years after tax credit certification.
Management Team	Act 1046 of 2017 (Act 1046) puts the Arkansas Teacher Retirement System (ATRS) in possession and control of the recycling tax credits on behalf of Big River Steel (BRS).

**Historical
Performance**

Act 1046 requires the state of Arkansas to purchase the recycling tax credits for 80% of face value. The expected rate of return is approximately 5.1% for the revenue stream. The expected blended rate of return for the revenue stream and associated PIK interest loan is 6%.

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

RESOLUTION
No. 2018-41

**Approving Investment in Aeolus Property Catastrophe Keystone
PF Fund, LP 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 general investment consultant, Aon Hewitt Investment Consulting, Inc, along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **Aeolus Property Catastrophe Keystone PF Fund, LP**, a fund which utilizes actuarial projections to create highly customized portfolios consisting of reinsurance or retrocession contracts focused on property catastrophe coverage; and

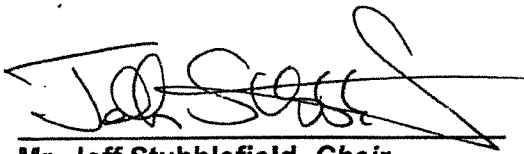
WHEREAS, the ATRS Board approves an additional investment of up to **\$70 million dollars (\$70,000,000.00)** in **Aeolus Property Catastrophe Keystone PF Fund, LP**, with callable distributions to any tranche of **Aeolus Property Catastrophe Keystone PF Fund, LP**, and the Board, after its review of the timing in which the closing of the investment in **Aeolus Property Catastrophe Keystone PF Fund, LP**, 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 additional investment of up to **\$70 million dollars (\$70,000,000.00)** in **Aeolus Property Catastrophe Keystone PF Fund, LP** with callable distributions to any tranche of **Aeolus Property Catastrophe Keystone PF Fund, LP**, and agrees to immediately move to close and subscribe the approved ATRS limited

partnership interest in **Aeolus Property Catastrophe Keystone PF Fund, LP**. 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 17th day of December 2018

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
Alternative Investment
Executive Summary

Investment	Aeolus Property Catastrophe Keystone PF, L.P. (the "Fund")
Managing Party	Aeolus Capital Management (the "General Partner" or "Aeolus")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	December 2018
Expected Closing Date	ATRS is expected to close by the end of December 2018.
ATRS Commitment & Reason for Entry	The additional investment of up to \$70 million is to help achieve the 5% target allocation to alternative investments. The fund was recommended by the ATRS general investment consultant.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : The General Partner has proposed an annual management fee of 2.0% of commitments plus a 15% performance fee.
Justification of Investment Term & Anticipated Termination Date	The Fund has no termination date and invested funds will be automatically renewed unless the investor makes a redemption request 60 days' notice prior to renewal season.
Investment Strategy	The Fund will focus on customized reinsurance and retrocession contracts in various parts of the world in the catastrophic property insurance market. Investment and underwriting risk will be managed by using actuarial statistics for events and by the firm's policy not to employ leverage.
Management Team	Aeolus Reinsurance was founded in 2006 by Peter Appel and David Ecklund and was transformed into a managed capital platform in 2011 that was renamed Aeolus Capital Management. The firm which is based in Bermuda is led by Peter Appel, David Ecklund, Christopher Grasso, Andrew Bernstein and Robert Tuchman as well as three other partners.
Historical Performance	Prior funds managed by the General Partner have generated net average returns of 9.6% for the previous 5 year period. Historical returns are not indicative of future performance.