

June 6, 2023

Senator Terry Rice  
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 Mid-Cap Fund II, L.P.  
Blackstone Real Estate Partners Europe VII, SCSp

Dear Senator Rice 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 allocation of up to \$30 million in KPS Special Situations Mid-Cap Fund II, L.P., a private equity turnaround fund that invests in lower middle-market companies. The investment was recommended by ATRS's private equity consultant, Franklin Park, and ATRS staff concurs.

Also approved is an investment of up to \$50 million to be made in Blackstone Real Estate Partners Europe VII, SCSp, a closed-end opportunistic fund that will invest in large scale real estate assets primarily in Europe. This investment was recommended by real assets consultant, Aon Hewitt Investment Consulting, and ATRS staff concurs.

The ATRS Board approved each of the investments described above at its June 5, 2023 meeting and anticipates closing both by the end of July. A summary of each investment including key terms and investment strategy is enclosed for review by ALC. If any additional information is needed, please feel free to contact me on my direct line at 501-682-1450 or by email at: [rodg@artts.gov](mailto:rodg@artts.gov)

Respectfully,



Rod Graves  
Interim Executive Director

RG:lw  
enclosures

**Arkansas Teacher Retirement System**  
**Private Equity Investment**  
**Executive Summary**

<b>Investment</b>	KPS Special Situations Mid-Cap Fund II, L.P. (the "Fund")
<b>Managing Party</b>	KPS Capital Partners (the "General Partner" or "KPS")
<b>ATRS Ownership</b>	ATRS will be a limited partner
<b>Report Date</b>	June 2023
<b>Expected Closing Date</b>	The General Partner is targeting capital commitments of \$1.5 billion and expects to hold a single closing in late June 2023.
<b>ATRS Commitment &amp; Reason for Entry</b>	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.
<b>Placement Agent</b>	The General Partner did not retain a placement agent for fundraising.
<b>Key Terms</b>	<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>
<b>Justification of Investment Term &amp; Anticipated Termination Date</b>	The term is twelve years (anticipated termination in 2035) 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.
<b>Investment Strategy</b>	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.
<b>Management Team</b>	KPS, based in New York, was formed in 1997 as the successor firm to Keilin & Co., a financial advisory and restructuring firm. The dedicated team for the fund consists of two senior professionals, Ryan Harrison and Pierre de Villemejeane who will be supported by ten investment professionals, three operational professionals, a business development professional and two vice presidents of finance. KPS senior partners including Michael Psaros, David Shapiro, Raquel Palmer and Jay Bernstein will provide oversight and support to the mid-cap team and will be members of the fund's investment committee.

**Historical  
Performance**

Since 2019, the General Partner has invested \$485 million in its previous mid-cap fund. As of December 2022, the fund has generated a gross IRR of 41% and a multiple of 1.8x cost. Historical returns are not indicative of future performance.

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

<b>Investment</b>	Blackstone Real Estate Partners Europe VII SCSp
<b>Managing Party</b>	Blackstone Real Estate Associates Europe VII (Lux) S.à r.l.
<b>ATRS Legal Interest</b>	ATRS is a limited partner.
<b>Report Date</b>	June 2023
<b>Expected Closing Date</b>	July 2023
<b>ATRS Commitment &amp; Reason for Entry</b>	The investment of up to \$50 million is to help achieve the 10% target allocation to Real Estate. The fund was recommended by the ATRS real assets consultant, Aon Hewitt Investment Consulting.
<b>Placement Agent</b>	No placement agent was utilized.
<b>Key Terms</b>	<u>Management Fee</u> : 150 bps (1.50%) on committed equity during investment period, then the same rate for invested equity for the fund duration. <u>Carried Interest</u> : 20% of profits after LP's receive 100% of their invested capital and a 8% IRR preferred return.
<b>Justification of Investment Term &amp; Anticipated Termination Date</b>	The fund is a "closed end" variety with a ten-year term to anticipated maturity sometime in 2033. The longer term is to facilitate the larger value and complexity of typical underlying investments.
<b>Investment Strategy</b>	Blackstone focuses on acquisitions of large European portfolios, platform investments, and single assets where distress, under-management, and/or situational complexity allow the sponsor to acquire the assets at a discount. Upon acquisition, the manager implements asset management initiatives to fix existing issues and to exit at higher values to a core buyer.
<b>Management Team</b>	Blackstone was founded in 1985 by Stephen A. Schwarzman (current Chairman and CEO) and Peter G. Peterson (retired from the Sponsor in 2008) as an alternative investment manager and advisory firm headquartered in New York City. Jon Gray is Blackstone's President and Chief Operating Officer, formerly Blackstone's Global Head of Real Estate from 2005 to 2018. Kenneth Caplan and Kathleen McCarthy, previously CIO and COO of the real estate group respectively, have assumed the role of Global Co-Heads of Real Estate. The Sponsor has grown to become one of the largest alternative investment firms.

**Historical  
Performance**

The BREP Europe Fund series has delivered mostly top quartile performance when measured against the NCREIF Townsend Opportunistic Fund Indices. Previous Funds in the series have averaged over a 15% IRR.