



I.03(b)

October 3, 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: EnCap Energy Transition Fund II, L.P.

Dear Senator Rice and Representative Wardlaw:

By means of the enclosed Investment Summary, ATRS is submitting an investment 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 EnCap Energy Transition Fund II, L.P., a value add/opportunistic fund that will focus on transitional energy investments that can be sold to core infrastructure buyers. Since its inception, EnCap has managed approximately \$39 billion of capital commitments across 22 institutional funds that have all focused on energy-related opportunities. EnCap's strategy originally focused on investments in the oil and gas production space and 17 of the EnCap funds, totaling approximately \$28.8 billion of capital commitments, are focused on this sector. As a result of having undergone a thorough analysis of industry market conditions and trends associated with energy transition opportunities, EnCap recognized several market dynamics driving a significant expansion of economic investment opportunities and initiated the energy transition series of funds. The investment was recommended by ATRS's real assets consultant, Aon Hewitt Investment Consulting Inc., and ATRS staff concurs.

The ATRS Board authorized the investment described above at its regular quarterly meeting on September 25, 2023 and anticipates closing by the end of November. A summary of the 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 501-621-8853 or by email at: markw@artrs.gov

Respectfully,

Mark White
Executive Director

MW:lw
enclosures

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

Investment	EnCap Energy Transition Fund II, L.P.
Managing Party	EnCap Energy Transition Fund II GP, L.P.
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	October 2023
Expected Closing Date	November 2023
ATRS Commitment & Reason for Entry	The investment of up to \$50 million is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant, AonHewit Investment Consulting.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : 1.5% based on committed capital during the investment period, and 1.50% on invested commitments thereafter. <u>Carried Interest</u> : 20% of profits after LP's receive 100% of their invested capital and an 8% IRR preferred return.
Justification of Investment Duration Term & Anticipated Termination Date	The strategy requires a period of time to develop and sell assets to a core infrastructure fund. The fund has a ten year term with an anticipated maturity sometime in 2034.
Investment Strategy	The Fund will focus on developing energy transition infrastructure in North America primarily targeted at the power sector. Since its inception, EnCap has managed approximately \$39 billion of capital commitments across 22 institutional funds that have all focused on energy-related opportunities. EnCap's strategy originally focused on investments in the oil and gas production space and 17 of the EnCap funds, totaling approximately \$28.8 billion of capital commitments, are focused on this sector. As a result of having undergone a thorough analysis of industry market conditions and trends associated with energy transition opportunities, EnCap recognized several market dynamics driving a significant expansion of economic investment opportunities and initiated the energy transition series of funds. EETF II pursues a private equity style of investment, providing venture and growth capital to management teams that will identify early to mid-stage Greenfield development projects and Brownfield re-development opportunities.

**Management
Team**

EnCap is a private equity firm founded in 1988 by David Miller, Gary Peterson, Marty Phillips and Bob Zorich. The Energy Transition Team will be led by Jim Hughes, Tim Reborn, Shawn Cumberland and Kellie Metcalf.

**Historical
Performance**

The net IRR of the first fund is currently 26%. ATRS previously invested in EnCap oil and gas funds VIII through XI with an average 11.4% net IRR.