



March 8, 2012,

Senator Mary Anne Salmon
Representative Tommy Lee Baker
Arkansas Legislative Council
State Capitol, Room 315
Little Rock, AR 72201

RE: Arkansas Teacher Retirement System (ATRS) Submission of Investment for
Review under ACA §19-11-1302

Dear Senator Salmon and Representative Baker:

By means of the enclosed Investment Summary, ATRS is submitting a private partnership 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.

An investment of \$35 million is planned in NGP Natural Resources X, L.P., a limited partnership that will invest primarily in oil and gas production companies in the U.S. and Canada. The fund manager has a successful track record and was recommended by ATRS's private equity consultants.

The ATRS Board approved the investment described above at its February 6, 2012 meeting and anticipates a closing date for the investment in late April 2012. A summary of the 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 the investment.

Respectfully,

George Hopkins
Executive Director

GH:lw
enclosures

George Hopkins, Executive Director – 501-682-1820 – Email: georgeh@artrs.gov

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

Investment	NGP Natural Resources X, L.P. (the "Fund")
Managing Party	G.F.W. Energy X, L.P. (the "General Partner")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	March 2012
Expected Closing Date	The General Partner is targeting capital commitments of \$4 billion. ATRS is expected to close by April 30, 2012.
ATRS Commitment & Reason for Entry	The \$35 million investment is to help achieve the 10% target allocation to private equity. The fund was recommended by the ATRS private equity consultant.
Placement Agent	No placement agent was used for fundraising.
Key Terms	<p><u>Management Fee:</u> The General Partner has proposed an annual management fee of 1.5% per annum of commitments during the five-year commitment period. Thereafter, management fees will equal 1.5% of net invested capital. Management fees will be offset by 100% of transaction fee income.</p> <p><u>Carried Interest:</u> Distributions will be allocated 80% to the limited partners and 20% to the General Partner after capital contributions relating to deals that have been realized or written down as well as management fees and expenses have been returned to investors, in addition to an 8% preferred return.</p>
Justification of Investment Term & Anticipated Termination Date	The term is ten years (anticipated termination in 2022) plus three 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 oil and gas production companies in the U.S. and Canada. The General Partner will generally seek to acquire, consolidate and enhance mature, producing assets in partnership with management teams. The General Partner will also pursue midstream and services businesses. Up to 10% of commitments may be invested in water resources & services and food and agriculture sectors.
Management Team	The General Partner is an affiliate of NGP Energy Capital Management ("NGP Energy"). Founded in 1988, NGP Energy manages a family of energy sector-focused private equity funds with over \$9 billion in assets under management. The firm has offices in Dallas, Houston, Santa Fe, London, Washington and Stamford. NGP Energy's investment activities include upstream oil and gas, energy mezzanine, midstream energy and energy technology strategies. In 2006, NGP

Energy sold a 40% non-voting stake in the firm to Barclay's Capital, a U.K based investment bank.

The General Partner is led by 15 senior investment professionals, headed by CEO Ken Hersh and Managing Partners David Alban and Billy Quinn. These principals are supported by 6 mid-level and 15 junior investment professionals, an economist and 34 accounting, operations and administrative professionals.

**Historical
Performance**

Since 1988, the General Partner has invested \$5.2 billion in 157 deals. In aggregate, these investments have generated a gross IRR of 32.1% and a multiple of 2.2x cost as of June 30, 2011. Historical returns are not indicative of future performance.