



August 12, 2013

Senator Paul Bookout  
Representative John Charles Edwards  
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 Bookout and Representative Edwards:

By means of the enclosed Investment Summary, ATRS is submitting a private 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 \$30 million is to be made in Cerberus Institutional Real Estate Partners III, L.P., a limited partnership that will focus on U.S. and European distressed real estate investments both from a debt and equity perspective. The investments may include companies in non-real estate related business lines that have significant underlying real estate exposure.

The ATRS Board approved the investment described above at its July 26, 2013 meeting and anticipates closing in late September. 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 this investment.

Respectfully,



George Hopkins  
Executive Director

GH:lw  
enclosures

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

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|---|--|
| <b>Investment</b>   | Cerberus Institutional Real Estate Partners III, L.P (CIREP III)   |
| <b>Managing Party</b>   | Cerberus Real Estate GP III, L.L.C.  |
| <b>ATRS Legal Interest</b>  | ATRS will be a limited partner.  |
| <b>Report Date</b>  | August, 2013   |
| <b>Expected Closing Date</b>  | September, 2013  |
| <b>ATRS Commitment &amp; Reason for Entry</b>                                       | The \$30 million investment in opportunistic real estate is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant, Hewitt EnnisKnupp.  |
| <b>Placement Agent</b>  | Greenhill & Company was retained to assist with marketing and fundraising. ATRS did not pay a placement fee.   |
| <b>Key Terms</b>  | <u>Management Fee</u> : 150 bps (1.50%) on committed and invested capital.<br><br><u>Carried Interest</u> : 20% of profits after LP's receive a 9% IRR preferred return.   |
| <b>Justification of Investment Duration Term &amp; Anticipated Termination Date</b> | The strategy requires a period of time to identify, execute and then monetize a value added strategy. The fund has a ten year term with an anticipated maturity in 2023.   |
| <b>Investment Strategy</b>  | The investment strategy will be to identify opportunities from Cerberus' relationships with domestic and international financial institutions, corporations, insurance companies, and other owners of real estate. The focus will be on U.S. and European investments that are distressed in nature and may or may not include the partnering with a local operator. Investments may include companies in non-real estate related business lines that have significant underlying real estate exposure. The Fund will primarily focus on US and European real estate investments. US investments will primarily be in distressed capital structures of either debt or equity and the Fund eventually expects to see similar opportunities in the primary European markets of the UK and Germany. |
| <b>Management Team</b>  | Stephen Feinberg, Chief Executive Officer and Senior Managing Director of Cerberus Capital Management. Mr. Feinberg co-founded   |

Cerberus Capital Management in November 1992. He also founded or co-founded the other Cerberus affiliates and Cerberus Funds. Prior to founding Cerberus Capital Management and its affiliates, Mr. Feinberg managed separate pools of capital for Gruntal & Co. and certain other accounts from 1985 to 1992. Mr. Feinberg began his career at Drexel Burnham Lambert, where he was actively involved in trading large pools of firm capital. Mr. Feinberg is a graduate of Princeton University.

Ronald Kravit, Head of Real Estate Investing, Managing Member of Cerberus Real Estate Capital Management, LLC and Senior Managing Director of Cerberus Capital Management.

Thomas Wagner, Chief Operating Officer of Cerberus Real Estate and Managing Director of Cerberus Capital Management.

**Historical  
Performance**

Performance in the two preceding funds averaged a net 13% return.