



October 9, 2013

Senator Bill Sample
Representative John Charles Edwards
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

Dear Senator Sample and Representative Edwards:

By means of the enclosed Investment Summaries, ATRS is submitting two private 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.

An investment of \$50 million is to be made in UBS Agrivest Comingled Agriculture Fund, an open-end fund that targets equity investments in low-risk farmland properties across the United States. This investment is expected to provide attractive returns for ATRS while also minimizing downside exposure.

ATRS also plans to place approximately 20% (up to \$100 million) of its existing investment in Allianz Structured Alpha US Equity 250, LLC into Allianz Structured Alpha US Equity 500, LLC. The new investment has a similar strategy to the existing fund but with additional components to enhance returns.

The ATRS Board approved the investments described above at its October 7, 2013 meeting and anticipates closings in late October and November. A summary of each 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

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enclosures

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

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| Investment | UBS AgriVest Farmland Fund, Inc. |
| Managing Party | UBS AgriVest, LLC |
| ATRS Legal Interest | ATRS is a shareholder. |
| Report Date | October, 2013 |
| Expected Closing Date | October 22, 2013 |
| ATRS Commitment & Reason for Entry | The \$50 million investment in core farmland is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant, Hewitt EnnisKnupp. |
| Placement Agent | No placement agent was utilized with this management agreement assignment. |
| Key Terms | <u>Management Fee</u> : 100 bps (1%) on invested capital, .20% on cash <u>Carried Interest</u> : none |
| Justification of Investment Duration Term & Anticipated Termination Date | The strategy requires a period of time to identify, execute and then monetize a core farmland strategy. The assets may in fact be held in perpetuity or withdrawn at the end of each quarter subject to certain limitations. |
| Investment Strategy | As approved at ATRS's October 4, 2010 meeting, ATRS established an initial \$100 million allocation through a separate account to farmland as a part of ATRS's Alternatives asset class (as a side note, farmland has been re-classified as part of the Real Assets portfolio). USDA growth rates on the land values from 1880 to 2007 are 4%, current land cash yields from rent range from 3% to 6%. At the October 7, 2013 Board of Trustees meeting another \$50mm was allocated to farmland to help achieve 15% of the portfolio being invested in real assets. UBS Agrivest is seen as a complement to the original \$100mm managed by HRAM. UBS AgriVest will provide exposure to permanent crops on the West Coast which HRAM does not have. |
| Management Team | James B. McCandless; Managing Director, President, 29 years at UBS, 44 years of farm experience. J. Scott Haffner; Director, CFO, 24 years at UBS, 27 years farm |

experience.

Charlie W. Bryan, Jr.; Director (Northwest Region), 7 years at UBS, 22 years farm experience.

Cullum Jefferies; Director (Southern Region), 3 years at UBS, 17 years farm experience.

Erik C. Roget; Director (Western Region), 2 years at UBS, 30 years farm experience.

Michael P. Septer; Director (Midwest Region), 25 years at UBS, 34 years farm experience.

**Historical
Performance**

Since the first full years result in 2007, UBS AgriVest has had an average annual return of 11.2%.

**Arkansas Teacher Retirement System
Public Market Investment
Executive Summary**

Investment Allianz Structured Alpha U.S. Equity 500, LLC or the "Fund".

Managing Party Allianz Global Investors U.S. LLC

ATRS Legal Interest ATRS will be a shareholder.

Report Date October 2013

Expected Closing Date Expected closing in November 2013.

ATRS Commitment & Reason for Entry The commitment is an extension of a current ATRS investment. The up to \$100 million transfer from the existing Allianz product is intended to enhance returns by investing \$100 million in this Allianz fund that has a higher active risk level. This will help balance the active risk level of the ATRS portfolio that has been lowered through recent active manager terminations and added index fund investments.

Placement Agent No placement agent was utilized.

Key Terms Management Fee: N/A, incentive fee only

Incentive Fee: 30% of profits over the high water mark as defined in the Private Placement Memorandum.

Justification of Investment Term & Anticipated Termination Date The fund is of the "open end" variety and investors may exit on the last business day of each month subject to notification requirements. The investment will remain until liquidated, if ever.

**Investment
Strategy**

The Allianz Structured Alpha strategies use put and call options on a variety of indices to create "profit zones". If the value of the index falls within those zones at expiration, the strategy profits from the structure of the option strategy. The manager adjusts these zones as market conditions change and limits the downside of the strategy by buying out of the money put options. The strategy is a net seller of options which creates premium income.

**Management
Team**

The Allianz Structured Alpha team is led by Greg Tournant who has 17 years of industry experience. Other members include Trevor Taylor with 14 years of experience, Scott Powell with 15 years of experience, and Stephen Bond-Nelson with 20 years of experience.

**Historical
Performance**

The Fund has a since inception net return of 9% compared to the benchmark of 7.5%.