



July 31, 2014

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 Investment for Review
under ACA §19-11-1302
Investment: KKR Global Infrastructure Investors II, LP

Dear Senator Sample 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 up to \$50 million is to be made in KKR Global Infrastructure Investors II, LP, a limited partnership that will make investments in long term core infrastructure assets on a global basis. This investment will serve to further diversify ATRS's real asset portfolio.

The ATRS Board approved the investment described above at its July 28, 2014 meeting and anticipates closing in 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,

A handwritten signature in black ink, appearing to read "G. Wayne Greathouse", is written over the word "Respectfully,".

G. Wayne Greathouse
Associate Director of Investments

WG:lw
enclosures

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

Investment	KKR Global Infrastructure Investors II, LP
Managing Party	KKR Associates Infrastructure II, L.P.
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	August, 2014
Expected Closing Date	September, 2014
ATRS Commitment & Reason for Entry	The investment of up to \$50 million is to help achieve a 15% target allocation to Real Assets. The fund was recommended by the ATRS's Real Assets consultant, Hewitt EnnisKnupp.
Placement Agent	None
Key Terms	<u>Management Fee</u> : 1% of NAV plus 1% of unused commitments during the investment period and 1% of NAV for the remaining term. <u>Carried Interest</u> : 10% of profits after LP's receive an 8% IRR preferred return.
Justification of Investment Duration Term & Anticipated Termination Date	The strategy requires a period of time to identify, execute and then monetize a core infrastructure strategy. The fund is a "closed end" variety with a twelve year term starting at the final close with the possibility of three-one year extensions. The anticipated maturity is in 2026.
Investment Strategy	The investment strategy of the Fund will be to make investments in long lived (10+ year contracts) infrastructure assets that have low risk profiles and low correlation to the performance of the broader economy. There will be an emphasis on investing in assets with the potential for long-term capital appreciation and current income generation, with Fund II seeking to generate an overall gross return in the low to mid-teens.
Management Team	KKR's Infrastructure Team is currently composed of 16 investment professionals led by Raj Agrawal (Head of North American Infrastructure) and Jesús Olmos Clavijo (Head of European Infrastructure), with oversight from Marc Lipschultz (Global Head of Energy and Infrastructure). The senior team operates across six offices (New York, London, Menlo Park, Madrid, Sydney and Calgary) and has

over 50 years (at KKR) and over 80 years (in total) of aggregate investment experience.

**Historical
Performance**

KKR Global Infrastructure Strategy (Fund I) was formed in 2011 with \$1.04 billion in commitments. Fund I has invested in 11 portfolio companies across multiple sectors and geographies. To-date KKR Global Infrastructure Fund I has a net 8.7% IRR early in the fund life.