



June 1, 2015

Senator Bill Sample  
Representative David L. Branscum  
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: Long Wharf Real Estate Partners Fund V, L.P.  
Torchlight Debt Opportunity Fund V, L.P.  
Westbrook Real Estate Fund X, L.P.  
AllianzGI Structured Alpha Global Equity 500 Fund  
Castlelake IV, L.P.

Dear Senator Sample and Representative Branscum:

By means of the enclosed Investment Summaries, ATRS is submitting five 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 up to \$30 million is to be made in Long Wharf Real Estate Partners Fund V, L.P., a value added real estate fund focused on acquiring a diversified portfolio of assets at significant discounts to values. The investment was recommended by both ATRS's real assets investment consultant, Aon Hewitt Investment Consulting and ATRS staff.

Also planned is an investment of up to \$25 million in Torchlight Debt Opportunity Fund V, L.P., an opportunistic real estate fund that will primarily invest in high yield debt instruments in both the public and private markets. Again, this investment was recommended by both ATRS's real assets investment consultant, Aon Hewitt Investment Consulting and ATRS staff.

Another real estate investment for up to \$25 million will be made in Westbrook Real Estate Fund X, L.P., a value added fund focused on distressed debt in the real estate space. As with the two previous items, this investment was also recommended by both Aon Hewitt Investment Consulting and ATRS staff.

ATRS also plans to modify the deployment of approximately \$550 million of the approximately \$650 million currently invested in the Allianz Structured Alpha Fund investments to the AllianzGI Structured Alpha Global Equity 500 Fund. This modification will help balance the domestic and global asset classes of the ATRS portfolio and was recommended by both Aon Hewitt Investment Consulting and ATRS staff.

Senator Sample  
Representative Branscum  
June 1, 2015  
Page Two

ATRS is also planning to make a private equity investment of up to \$25 million in Castlake IV, L.P., a fund that invests in debt and distressed assets. This investment was recommended by both ATRS's private equity consultant, Franklin Park Associates and ATRS staff.

The ATRS Board approved each of the investments described above at its June 1, 2015, meeting and anticipates closing dates from the end of June to late July of this year. 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 these investments.

Respectfully,

A handwritten signature in dark ink, appearing to read "George Hopkins", written over a horizontal line.

George Hopkins  
Executive Director

GH:lw  
enclosures

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

<b>Investment</b>	Long Wharf Real Estate Partners V, L.P.
<b>Managing Party</b>	Long Wharf Real Estate Partners, LLC
<b>ATRS Legal Interest</b>	ATRS will be a limited partner.
<b>Report Date</b>	June, 2015
<b>Expected Closing Date</b>	June 30, 2015
<b>ATRS Commitment &amp; Reason for Entry</b>	The up to \$30 million investment is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant, Aon Hewitt Investment Consulting. The reason for entry is that Long Wharf has made a strategic shift to focus more on less efficient middle markets with smaller deal sizes that often require less than \$20 million of fund equity as evidenced in Fund IV. This investment theme is highly complementary to the larger real estate funds ATRS holds in its portfolios.
<b>Placement Agent</b>	No placement agent was utilized.
<b>Key Terms</b>	<u>Management Fee</u> : 1.50% 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 a 9% IRR preferred return.
<b>Justification of Investment Duration Term &amp; Anticipated Termination Date</b>	The strategy requires a period of time to germinate, mature and harvest the value added real estate equity investments. The fund is a closed end variety with an eight year term to anticipated maturity sometime in 2024. Two, one year extensions are available if market conditions warrant.
<b>Investment Strategy</b>	Long Wharf Real Estate Partners V ("Fund V" or "The Fund") is a closed-end, value added fund focused on domestic real estate investing. The strategy will be to pursue a diversified portfolio of properties with a focus on acquiring assets at significant discounts to peak values with positive fundamental trends that offer the opportunity to increase returns through the execution of a value added strategy. The Fund will target a 12-15% net IRR.
<b>Management Team</b>	The investment team is led by Michael Elizondo, who has 30 years of real estate industry experience of which 19 years have been affiliated

with the firm or its predecessor organization. The team is comprised of 19 investment professionals of which 7 are considered senior members. Although there were key departures post great financial crisis (GFC), it is important to note that the staff has been relatively stable over the past several years with only two notable departures, one of which was health related. The firm is a certified MWBE (Minority and Women Business) Manager as it is majority Hispanic owned through Michael Elizondo.

**Historical  
Performance**

Long Wharf's previous four funds have averaged a 9.4% net IRR. If approved, this will be ATRS's second investment in the Long Wharf series of funds; the first ATRS Long Wharf investment in Fund III has a projected IRR of 9% at maturity by the manager despite its two year pre-financial crisis inception date.

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

<b>Investment</b>	Torchlight Debt Opportunity Fund V, LLC (DOF V).
<b>Managing Party</b>	Torchlight Debt Opportunity Fund V GP
<b>ATRS Legal Interest</b>	ATRS is a limited partner.
<b>Report Date</b>	June 2015
<b>Expected Closing Date</b>	June 30, 2015
<b>ATRS Commitment &amp; Reason for Entry</b>	The up to \$25 million investment is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant, Aon Hewitt Investment Consulting.
<b>Placement Agent</b>	No placement agent was utilized.
<b>Key Terms</b>	<p><u>Management Fee</u>: The fund charges a management fee of 1.50% of committed capital during the investment period and 1.5% on invested capital thereafter.</p> <p><u>Carried Interest</u>: 20% of profits after ATRS receives a 9% IRR.</p>
<b>Justification of Investment Term &amp; Anticipated Termination Date</b>	The fund is a closed-end fund and requires a period of time to execute its opportunistic strategy. Anticipated termination is in eight years.
<b>Investment Strategy</b>	Fund V has the ability to invest across the entire spectrum of debt and other interests relating to commercial real estate, including: collateralized mortgage backed securities (CMBS), interests in individual loans secured by commercial real estate, mezzanine loans and participating mortgages. Torchlight may also originate or acquire loans in the private market.
<b>Management Team</b>	Torchlight employs 27 investment professionals across five main groups: investments, distressed debt workouts, operations and finance, marketing and client service, and underwriting and asset management. Five senior team members make up the investment committee with an average firm tenure of 12 years and over 20 years of real estate investment experience.
<b>Historical Performance</b>	Torchlight's Debt Opportunity Fund Series are averaging a 10.73% IRR. Fund III, now 89.6% realized, is performing well and is anticipated to reach its full return target, currently delivering a net IRR of 12.9% and a net equity multiple of 1.4X, a top quartile performer for the 2008 peer group. Fund IV is still very early in its lifecycle, only 5.1% realized, and thus the performance for the Fund is not yet meaningful.

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

<b>Investment</b>	Westbrook Real Estate Fund X, LP
<b>Managing Party</b>	The Westbrook Group, LLC, a Delaware limited liability company
<b>ATRS Legal Interest</b>	ATRS will be a limited partner.
<b>Report Date</b>	June, 2015
<b>Expected Closing Date</b>	June 30, 2015
<b>ATRS Commitment &amp; Reason for Entry</b>	The up to \$25 million investment is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Asset consultant, Aon Hewitt Investment Consulting. ATRS has invested in 4 previous Westbrook funds which had positive outcomes.
<b>Placement Agent</b>	None
<b>Key Terms</b>	<u>Management Fee</u> : The fund charges a management fee of 1.425% of capital commitments during the investment period; 1.425% thereafter (ATRS has received a 7.5 basis point fee reduction for being in the 1 <sup>st</sup> close), with a portion of the management fee deferred until the preferred return is met. <u>Carried Interest</u> : 20% of profits after LP's receive 100% of their invested capital and a 6% 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 an opportunistic strategy. The fund is a closed-end variety with an eight year term. The investment term may be extended for 1 year by a majority vote of the LP's. The anticipated maturity is in 2023.
<b>Investment Strategy</b>	Westbrook Real Estate Fund X (the "Fund" or "Fund X") will be a closed-end, opportunistic fund that will employ an investment strategy focused on distressed debt, gateway cities, low leverage, minimal development activity, and complex transactions. Westbrook's vertical integration and use of affiliated operators is a unique aspect of the Fund. The Fund will target a 12% net IRR.
<b>Management Team</b>	The senior investment team consists of twenty-three investment professionals and contains comprehensive representation of the various functions within the platform. Paul Kazilionis and Sush Torgalkar are responsible for the portfolio management function.

**Historical  
Performance**

Overall, Westbrook has generated solid, above average performance across most of its fund offerings. The previous 5 funds are averaging a 14.6% net IRR.

Arkansas Teacher Retirement System  
Public Market Investment  
Executive Summary

**Investment** AllianzGI Structured Alpha Global Equity 500, LLC or the "Fund".

**Managing Party** Allianz Global Investors U.S. LLC

**ATRS Legal Interest** ATRS will be a shareholder.

**Report Date** June 2015

**Expected Closing Date** Expected closing in July 2015.

**ATRS Commitment & Reason for Entry** The commitment is an extension of a current ATRS investment. The up to \$550 million transfer from the existing domestic Allianz products is intended to enhance returns by investing in this Allianz fund that has global exposure. This will help balance the domestic and global asset classes of the ATRS portfolio.

**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 AllianzGI 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 is new and will be a global version of the strategy used by the AllianzGI Structured Alpha U.S. 250 and 500 funds. Since inception, the 250 fund has generated a return of 22.1% and the 500 has a return of 18.4% compared to the respective benchmarks of 18.2% and 13%.

# Arkansas Teacher Retirement System

## Private Equity Investment

### Executive Summary

<b>Investment</b>	Castlelake IV, L.P. (the "Fund")
<b>Managing Party</b>	Castlelake, L.P. (the "General Partner" )
<b>ATRS Legal Interest</b>	ATRS will be a limited partner
<b>Report Date</b>	June 2015
<b>Expected Closing Date</b>	The General Partner is targeting capital commitments of \$1.5-1.9 billion. ATRS is expected to close by July 31, 2015.
<b>ATRS Commitment &amp; Reason for Entry</b>	The investment of up to \$25 million is to help achieve the 10% target allocation to private equity. The fund was recommended by the ATRS private equity consultant.
<b>Placement Agent</b>	Allocation for ATRS was sourced without a placement agent.
<b>Key Terms</b>	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 1.75% of commitments during the three-year investment period. Thereafter, management fees will equal 1.5% of the lesser of aggregate cost or fair value.</p> <p><u>Carried Interest</u>: After the limited partners receive cumulative distributions equal to 100% of aggregate capital contributions on realized investments, impairments and fees and expenses, plus an 8% preferred return, the General Partner will be entitled to 20% of the Fund's profits.</p>
<b>Justification of Investment Term &amp; Anticipated Termination Date</b>	The term is six years (anticipated termination in 2021) plus three one-year extensions which is common for private equity debt funds due to the time required for buying, restructuring and/or adding value and then monetizing underlying assets.
<b>Investment Strategy</b>	The Fund is being formed to pursue an opportunistic distressed investment strategy primarily in the U.S. and Europe. The fund will invest in secured corporate debt and distressed assets in the aviation space, mortgage and consumer loan portfolios and other financial assets.
<b>Management Team</b>	The General Partner is based in Minneapolis and was founded in 2005 as an affiliate of TPG Capital by Rory O'Neill who previously led Cargill's global credit and special situations investment business. Besides Mr. O'Neill, the firm is led by Evan Carruthers, Kevin Hackler, Jonathan Fragodt, Luke Beltnick and Brandt Wilson, principals. The principals are supported by 19 additional investment professionals and 49 operating, accounting and administrative professionals.

**Historical  
Performance**

Since 2005, the General Partner has invested \$3.8 billion in 170 deals. In aggregate, these investments have generated a gross IRR of 16.3% and a multiple of 1.3x cost as of December 31, 2014. Historical returns are not indicative of future performance.