



October 7, 2015

Senator Bill Sample
Representative David L. Branscum
Arkansas Legislative Council
State Capitol, Room 315
Little Rock, AR 72201

RE: Arkansas Teacher Retirement System (ATRTRS) Submission of Investments for
Review under ACA §19-11-1302
Investments: Trian Partners, L.P.
Trian Co-Investment Opportunities Fund, L.P.
Voya Absolute Alpha MSCI ACWI Trust Fund
Aeolus Property Catastrophe Keystone PF Fund, L.P.
JFL Equity Investors IV, L.P.

Dear Senator Sample and Representative Branscum:

By means of the enclosed Investment Summaries, ATRRS 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.

The ATRRS Board recently approved an investment of up to \$50 million dollars in Trian Partners, L.P., a public equity, activist manager that seeks to invest in underperforming companies with the objective of effecting change to increase their value. The investment was recommended by both ATRRS's general investment consultant, Aon Hewitt Investment Consulting and ATRRS staff.

Also approved is an investment of up to \$100 million dollars in Trian Co-Investment Opportunities Fund, L.P., managed by the same team as the Trian Partners, L.P. fund listed above. This fund seeks to concentrate on investments that the firm believes hold the most potential value. Again, this investment was recommended by both Aon Hewitt Investment Consulting and ATRRS staff.

Another ATRRS Board approved investment involves changing the approximately \$185 million dollars currently invested in Voya Absolute Alpha S&P 500 Trust Fund from a domestic mandate to a global mandate named Voya Absolute Alpha MSCI ACWI Trust Fund. This fund seeks to generate alpha or excess return over a benchmark. This modification will help balance the domestic and global asset classes of the ATRRS portfolio and was recommended by both Aon Hewitt Investment Consulting and ATRRS staff.

The ATRRS Board also authorized an initial investment of up to \$75 million dollars in Aeolus Property Catastrophe Keystone PF Fund, L.P. with a called contribution limit of \$110 million

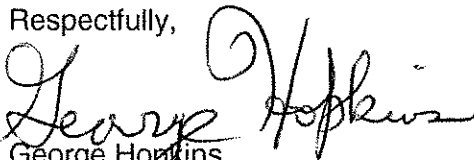
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dollars to account for withheld reserves each calendar year. This is an alternative reinsurance fund that seeks to use highly customized portfolios based on actuarial projections concerning catastrophic events to provide returns that are not usually correlated to other asset classes. The investment is needed to help add diversity to the ATRS portfolio and was recommended by both Aon Hewitt Investment Consulting and ATRS staff.

The ATRS Board also approved a private equity investment of up to \$30 million dollars in JFL Equity Investors IV, L.P., a fund that invests in defense, aerospace, and maritime industries. 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 October 5, 2015, meeting and anticipates closing dates from the end of October through December 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,


George Hopkins
Executive Director

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

Investment	Trian Partners, L.P. or the "Fund".
Managing Party	Trian Fund Management, L.P.
ATRS Legal Interest	ATRS will be a shareholder.
Report Date	October 2015
Expected Closing Date	Expected closing in November 2015.
ATRS Commitment & Reason for Entry	The investment of up to \$50 million is to help achieve the 50% target allocation to total equity. The fund will help diversify ATRS investment across the activist manager category. The fund was recommended by the ATRS general investment consultant.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : 1.5% <u>Incentive Fee</u> : 15% of profits over the preferred return of 8%.
Justification of Investment Term & Anticipated Termination Date	The fund has a five year commitment period with annual redemptions of up to 5% permitted without penalty. The investment will remain until liquidated, if ever.

**Investment
Strategy**

The fund invests in underperforming companies with the objective of effecting change to increase their value. Generally the fund will purchase large enough amounts of a public company's shares to obtain a seat on that company's board. The goal of obtaining a board seat is for the fund manager to be able to correct what they feel are mismanagement issues in a company in order to potentially increase the stock's price and extract value from the fund manager's initial investment.

**Management
Team**

Triam Fund Management, L.P., headquartered in New York, was founded by Nelson Peltz, Peter May, and Edward Garden in 2005. The founders have over 100 years of combined business and investing experience including direct operating and corporate turnaround involvement.

**Historical
Performance**

The Fund has an annualized net return of 9.7% since inception.

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

Investment	Trian Co-Investment Opportunities Fund, L.P. or the "Fund".
Managing Party	Trian Fund Management, L.P.
ATRS Legal Interest	ATRS will be a shareholder.
Report Date	October 2015
Expected Closing Date	Expected closing in November 2015.
ATRS Commitment & Reason for Entry	The investment of up to \$100 million is to help achieve the 50% target allocation to total equity. The fund will help diversify ATRS investment across the activist manager category. The fund was recommended by the ATRS general investment consultant.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : 0.5% <u>Incentive Fee</u> : 10%
Justification of Investment Term & Anticipated Termination Date	The fund has a two year commitment period with one optional one year extension at the manger's discretion; quarterly withdrawals are then available with 65 days notice. The investment will remain until liquidated, if ever.

**Investment
Strategy**

The fund invests in underperforming companies with the objective of effecting change to increase their value. Generally the fund will purchase large enough amounts of a public company's shares to obtain a seat on that company's board. The goal of obtaining a board seat is for the fund manager to be able to correct what they feel are mismanagement issues in a company in order to potentially increase the stock's price and extract value from the fund manager's initial investment.

**Management
Team**

Triam Fund Management, L.P., headquartered in New York, was founded by Nelson Peltz, Peter May, and Edward Garden in 2005. The founders have over 100 years of combined business and investing experience including direct operating and corporate turnaround involvement.

**Historical
Performance**

The Fund launched in 2015 and is relatively new. As of August the Fund has a return of 3.3% since inception.

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

Investment	Voya Absolute Alpha MSCI ACWI Trust Fund or the "Fund".
Managing Party	Voya Investment Management
ATRS Legal Interest	ATRS will be a shareholder.
Report Date	October 2015
Expected Closing Date	Expected closing in November 2015.
ATRS Commitment & Reason for Entry	The commitment is an extension of a current ATRS investment. The change of approximately \$185 million from the existing domestic base to a global base is intended to enhance returns by allowing additional diversity for the investment. This will help balance the domestic and global asset classes of the ATRS portfolio.
Placement Agent	No placement agent was utilized.
Key Terms	<p><u>Management Fee</u>: The tiered management fee structure of 0.6 basis point for asset values under \$250 million dollars and 0.4 basis points for asset values greater than \$250 million dollars will remain the same.</p> <p><u>Incentive Fee</u>: The performance fee currently calculated by taking 20% of the difference of the annual return of the fund compared to the annual return of the S&P 500 plus 1.25% will be modified to reflect the new benchmark of the MSCI ACWI.</p>
Justification of Investment Term & Anticipated Termination Date	The fund is of the open-end variety and investors may exit according to provisions outlined in the Fund documents. The investment will remain until liquidated, if ever.

**Investment
Strategy**

The absolute alpha strategy seeks to generate alpha or excess return over a benchmark. The fund employs a fund-of-funds approach under which the manager invests primarily in other collective trust funds, pooled vehicles, and various forms of derivatives. Derivatives are used to manage the fund's market exposure, or beta, to closely approximate that of the MSCI ACWI while also seeking to generate returns over the benchmark, or alpha, by investing in areas that have little or no correlation to the underlying benchmark.

**Management
Team**

The Voya Absolute Alpha team is led by Paul Zemsky who has 31 years of industry experience. Other members include Frank van Etten, Pierre Couture, and Ben Chen.

**Historical
Performance**

The Fund is new and will be a global version of the strategy used by the Voya Absolute Alpha domestic funds. Since inception, the domestic fund has generated a return of 10.4%.

**Arkansas Teacher Retirement System
Alternative Investment
Executive Summary**

Investment	Aeolus Property Catastrophe Keystone PF, L.P. (the "Fund")
Managing Party	Aeolus Capital Management (the "General Partner" or "Aeolus")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	October 2015
Expected Closing Date	The General Partner is targeting capital commitments of \$2.1 billion. ATRS is expected to close by December 2015.
ATRS Commitment & Reason for Entry	The initial investment of up to \$75 million with a called contribution limit of \$110 million to account for withheld reserves each calendar year is to help achieve the 5% target allocation to alternative investments. The fund was recommended by the ATRS alternative investment consultant.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u> : The General Partner has proposed an annual management fee of 2.0% of commitments plus a 15% performance fee.
Justification of Investment Term & Anticipated Termination Date	The Fund has no termination date and invested funds will be automatically renewed unless the investor makes a redemption request 60 days' notice prior to renewal season.
Investment Strategy	The Fund will focus on customized reinsurance and retrocession contracts in various parts of the world in the catastrophic property insurance market. Investment and underwriting risk will be managed by using actuarial statistics for events and by the firm's policy not to employ leverage.
Management Team	Aeolus Reinsurance was founded in 2006 by Peter Appel and David Ecklund and was transformed into a managed capital platform in 2011 that was renamed Aeolus Capital Management. The firm which is based in Bermuda is led by Peter Appel, David Ecklund, Christopher Grasso, Andrew Bernstein and Robert Tuchman as well as three other partners.
Historical Performance	Prior funds managed by the General Partner have generated net average returns of 18% for three years and 16.9% for four years. Historical returns are not indicative of future performance.

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

Investment	JFL Equity Investors IV, L.P. (the "Fund")
Managing Party	J.F. Lehman & Company (the "General Partner" or "JFL")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	October 2015
Expected Closing Date	The General Partner is targeting capital commitments of \$700 million. ATRS is expected to close in October 2015.
ATRS Commitment & Reason for Entry	The investment of up to \$30 million is to help achieve the 10% target allocation to private equity. The fund was recommended by the ATRS private equity consultant.
Placement Agent	The General Partner has retained Stanwich Advisors to assist with fundraising.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 2.0% of commitments during the five-year investment period. Thereafter, management fees will equal 2.0% of net invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive cumulative distributions equal to 100% of aggregate capital contributions and a preferred return of 8%, the General Partner will be entitled to 20% of the Fund's profits.</p>
Justification of Investment Term & Anticipated Termination Date	The term is ten years (anticipated termination in 2025) plus three one-year extensions which is the industry standard for private equity funds due to the time required for buying, improving and selling underlying companies.
Investment Strategy	The Fund will make control investments in lower middle market defense, aerospace and maritime companies in the United States and the United Kingdom. The Fund will primarily invest in corporate divestitures and acquisitions of entrepreneur owned companies with a particular focus on suppliers to the government and/or commercial markets.
Management Team	The General Partner was founded in 1992 by John Lehman, Donald Glickman and George Sawyer (the "Co-Founders") and originally provided financial advisory services to companies in the defense and aerospace sectors. The firm's advisory business was terminated in 1997 upon the formation of its first institutional private equity partnership. Today, the General Partner is led by John Lehman, Louis Mintz, Stephen Brooks and Alex Harman (the "Principals") and is headquartered in New York, NY with satellite offices in Washington, D.C. and London.

**Historical
Performance**

Since 1997, the General Partner has invested \$648 million in 17 portfolio companies. In aggregate, these investments have generated a net IRR of approximately 14% as of March 31, 2015. Historical returns are not indicative of future performance.