



December 9, 2010

Senator Henry "Hank" Wilkins
Representative Allen Maxwell
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 Wilkins and Representative Maxwell:

By means of the enclosed Investment Summaries, ATRS is submitting six private partnership 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 \$25 million is to be made in Franklin Park Venture Series 2011, a limited partnership that will then invest in small venture capital funds. The partnership is a fund of funds that is managed by Franklin Park Associates, LLC, private equity consultants to ATRS and was formed for the purpose of obtaining access to the best venture capital funds available. The fund is managed with no additional fees paid to the consultant by its clients.

Similar in structure to the venture capital fund is the Franklin Park International Fund 2011 which was formed to provide diversified exposure to international and emerging markets while reducing risk. ATRS plans to invest \$25 million in this fund as well. Again, Franklin Park charges no fee and recovers only legal and accounting expenses incurred by the fund.

ATRS is also submitting for review, a \$50 million limited partnership investment in EnCap Energy Capital Fund VIII. The focus of the fund is to acquire leases in an area of proven reserves of oil or natural gas. The leased area is then developed to maximize returns and then sold to larger energy players.

An investment of \$50 million is planned in Charterhouse Equity Partners V, a mature firm that has a long history of quality investments in the private equity space. The fund's strategy is to acquire companies with initial values of \$75 to \$300 million and enhance their cash flow and productivity.

George Hopkins, Executive Director – 501-682-1820 – Email: georgeh@atrs.gov

For part of its allocation to Alternative Investments, ATRS is planning separate account investments with two farmland managers. An investment of \$75 million is to be made with Halderman Farmland Management which operates 675 farms in 21 states. Halderman has a proven track record of quality returns and long-term value. The second manager is Chess Ag Full Harvest Partners which is headquartered in Clarksdale, Mississippi. Chess AG was established in 2007 and is an emerging farmland manager with an emphasis in the Delta states but also has a presence in the Midwest. Both Halderman and Chess Ag will select and purchase farmland as well as select farm operators, monitor their performance and provide technical assistance to those operators.

The ATRS Board approved each of the investments described above at its December 6, 2010 meeting and anticipates closing dates for the investments between December, 2010 and March, 2011. 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

GH:kd
enclosures

Arkansas Teacher Retirement System
Alternative Investments (Agricultural Manager Selection)
Executive Summary

Type of Investment	Agricultural Farmland Separate Account
General Partner	Chess Ag Full Harvest Partners, no equity interest.
Report Date	December 2010
Commitment Amount	\$25mm
Placement Agent	No placement agent or fees are associated with this investment.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 1% of net invested capital.</p> <p><u>Carried Interest</u>: After ATRS receives a 6% return, the General Partner will be entitled to 17% of the Fund's profits/appreciation after seven years. Key terms will be negotiated for more favorable terms where possible.</p>
Term of Agreement	The term of this management agreement is not to exceed 10 years. A 10 year period is necessary to go through several crop cycles & complete capital improvements in order to maximize returns.
Investment Strategy	<p>As approved at ATRS' October 4, 2010 meeting, ATRS established an initial \$100 million allocation through a separate account to farmland as a part of ATRS' Alternatives asset class. USDA growth rates on the land values from 1880 to 2007 are 4%, Current land cash yields from rent range from 3% to 6%.</p> <p>Chess Ag was established in 2007 and is an emerging farmland manager. Chess Ag is a regional farmland operation with an emphasis in the Delta states, but also has a presence in the Midwest. Chess Ag will select and purchase farmland operations as well as select farm operators, monitor their performance and provide technical support to those operators. Chess Ag's commitment amounts to 25% of the total farmland allocation</p>
Management Team	<p>Shonda Warner Managing Director- Former Goldman Sachs partner with over 20 years' experience trading commodities and financial products</p> <p>Janet Coursin Chief Operations Officer-Formerly Senior IT project manager for Navisite Inc.</p> <p>Kevin C. Dhuyvetter, Ph.D Agricultural Economics, Advisory Partner- As an agricultural economist, Kevin is the author of over 100 extension guides, fact sheets, bulletins, and other publications. Dhuyvetter conducts applied research in the areas of land values, crop and livestock production economics and marketing to support his extensive program at Kansas State University.</p> <p>Terry L. Kastens Ph.D. Agricultural Economics, Advisory Partner – Dr. Kastens research focuses on economic risk management issues at the farm level, and the risk and profit expected of new production and management technologies.</p>

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

Fund	Charterhouse Equity Partners V, L.P. (the "Fund")
General Partner	Charterhouse Group (the "General Partner" or "Charterhouse")
Report Date	December 2010
Fundraising	The General Partner is targeting capital commitments of \$400-500 million. A first closing is targeted for early 2010.
ATRS Commitment	\$50 million (to help achieve 10% target allocation to private equity)
Placement Agent	The General Partner has retained Greenhill to assist with marketing and fundraising.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 2.0% of aggregate capital commitments during the investment period. Thereafter, the management fee will equal 1.5% of net invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive their aggregate capital contributions on realized investments, write-downs and an 8% preferred return, the General Partner will be entitled to 20% of the Fund's profits. The Fund has a clawback provision.</p>
Term of Agreement	Ten years (anticipated termination in 2021) plus two one-year extensions (industry standard for private equity funds due to the time required for buying, improving and selling underlying companies).
Investment Strategy	The Fund is being formed to acquire small and lower middle market U.S. companies with enterprise values between \$75 million and \$300 million. The General Partner will typically pursue buy-and-build and growth build-up investments. The Fund will focus on companies in the business services, healthcare services, and consumer products and services sectors.
Management Team	<p>Based in New York, the General Partner was formed in 1973 by as the U.S. investment arm of the U.K. based Charterhouse Bank. The General Partner became independent in 1985 and raised its first fund in 1989.</p> <p>Today, the General Partner is led by Thomas Dircks, David Hoffman, William Landuyt, C. Taylor Cole, and Jay Gates (the "Principals"), who are supported by two mid-level and two junior investment professionals, in addition to accounting and administrative staff.</p>
Historical Performance	Since 1989, the General Partner has invested \$2.0 billion in 66 portfolio companies. In aggregate, these investments have generated a gross IRR of 24.7% and a multiple of 1.9x cost as of June 30, 2010. Historical returns are not indicative of future performance.

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

Fund	EnCap Energy Capital Fund VIII, L.P. (the "Fund")
General Partner	EnCap Investments (the "General Partner" or "EnCap")
Report Date	December 2010
Fundraising	The General Partner is targeting maximum capital commitments of \$3.5 billion for the Fund. The General Partner held a first closing for the Fund in October 2010 with \$1.25 billion in commitments. The General Partner expects to hold a final closing in early 2011.
ATRS Commitment	\$50 million (to help achieve 10% target allocation to private equity)
Placement Agent	The General Partner has retained Park Hill Advisors for assistance in raising the Fund.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 1.5% of commitments during the investment period. Thereafter, management fees will equal 1.5% of net invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive their aggregate capital contributions on realized investments plus an 8% preferred return, the General Partner will be entitled to 20% of the Fund's profits. The Fund has a clawback provision.</p>
Term of Agreement	<u>Term</u> : Ten years (anticipated termination in 2021) plus two one-year extensions (industry standard for this type of private equity fund due to the time required for acquiring, developing and selling underlying assets).
Investment Strategy	The Fund is being formed to primarily make control equity investments in oil and natural gas exploration and production companies in the U.S. and Canada. The Fund will provide capital to proven management teams to execute acquisition-oriented growth strategies in the oil and gas market in North America.
Management Team	<p>With offices in Houston and Dallas, EnCap has been investing in the oil and gas production sector since its inception in 1988. EnCap has managed 14 institutional funds since inception, including seven private equity funds targeting primarily upstream energy assets.</p> <p>The Fund will be managed by a team of 19 investment professionals, led by David Miller, Gary Petersen, D. Martin Phillips, and Robert Zorich (the "Principals"). The Principals will be supported by six Partners, three Directors, four Vice Presidents, and two junior professionals.</p>
Historical Performance	Since 1997, the General Partner has invested \$4.2 billion in 124 upstream energy assets. In aggregate, these investments have generated a gross IRR of 38.3% and a multiple of 1.9x cost as of June 30, 2010. Historical returns are not indicative of future performance.

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

Fund	Franklin Park Venture Fund 2011, L.P. (the "Fund")
General Partner	Franklin Park (the "General Partner")
Report Date	December 2010
Fundraising	The General Partner is targeting capital commitments of \$50-100 million. A closing is targeted for early 2011.
ATRS Commitment	\$25 million (to help achieve 10% target allocation to private equity)
Placement Agent	The General Partner did not use a placement agent to assist with marketing and fundraising.
Key Terms	<u>Management Fee</u> : None <u>Carried Interest</u> : None
Term of Agreement	<u>Term</u> : The later of (i) the liquidation of the last fund investment or (ii) 15 years (anticipated termination in 2026). Term is standard for a private equity fund of funds due to the fact that terms for underlying funds are at least ten years and all underlying funds must be liquidated in order to terminate the fund of funds.
Investment Strategy	The Fund is being formed to build a well-diversified portfolio of top-tier venture capital funds.
Management Team	Franklin Park, based near Philadelphia, PA, was founded in 2003 by six professionals that formerly worked together at a global private equity consultant and asset manager. The team is led by Bradley Atkins, Michael Bacine, James McGovern, Karl Hartmann, Narayan Chowdhury, Laure Brasch and Kristine O'Connor (the "Senior Team"). The Senior Team is supported by eight associates, three analysts and an office manager.
Historical Performance	Since inception, Franklin Park has committed or advised on commitments totaling \$3.5 billion to approximately 50 corporate finance funds and 20 venture capital funds.

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

Fund	Franklin Park International Fund 2011, L.P. (the "Fund")
General Partner	Franklin Park (the "General Partner")
Report Date	December 2010
Fundraising	The General Partner is targeting capital commitments of \$40-50 million. A closing is targeted for early 2011.
ATRS Commitment	\$25 million (to help achieve 10% target allocation to private equity)
Placement Agent	The General Partner did not use a placement agent to assist with marketing and fundraising.
Key Terms	<u>Management Fee</u> : None <u>Carried Interest</u> : None
Term of Agreement	<u>Term</u> : The later of (i) the liquidation of the last fund investment or (ii) 15 years (anticipated termination in 2026). Term is standard for a private equity fund of funds due to the fact that terms for underlying funds are at least ten years and all underlying funds must be liquidated in order to terminate the fund of funds.
Investment Strategy	The Fund is being formed to build a well-diversified portfolio of private equity funds targeting less efficient international private equity markets.
Management Team	Franklin Park, based near Philadelphia, PA, was founded in 2003 by six professionals that formerly worked together at a global private equity consultant and asset manager. The team is led by Bradley Atkins, Michael Bacine, James McGovern, Karl Hartmann, Narayan Chowdhury, Laure Brasch and Kristine O'Connor (the "Senior Team"). The Senior Team is supported by eight associates, three analysts and an office manager.
Historical Performance	Since inception, Franklin Park has committed or advised on commitments totaling \$3.5 billion to approximately 50 corporate finance funds and 20 venture capital funds.

**Arkansas Teacher Retirement System
Alternative Investments (Agricultural Manager Selection)
Executive Summary**

Type of Investment	Agricultural Farmland Separate Account
General Partner	Halderman Farm Management Services, no equity interest.
Report Date	December 2010
Commitment Amount	\$75mm
Placement Agent	The General Partner has retained C.P. Eaton Partners, LLC to assist with marketing and fundraising.
Key Terms	<p><u>ATRS - Proposed Fee Structure</u></p> <p>A) Fixed Cash Rent Mgmt Fee: 0.75% of committed capital Hurdle: None Promote: None Expected Net Returns: 6-8% (incl 5% est annual land appreciation)</p> <p>B) Cash Flex Lease Mgmt Fee: 1.00% of committed capital Hurdle: 7% Promote: 10%, 50/50 Catch-up Expected Net Returns: 7-9% (incl 5% est annual land appreciation)</p> <p>C) Custom Farming Operation / Direct Ops Mgmt Fee: 1.25% of committed capital Hurdle: 7% Promote: 10%, 50/50 Catch-up Expected Net Returns: 9-12% (incl 5% est annual land appreciation)</p> <p>Key terms will be negotiated for more favorable terms where possible.</p>
Term of Agreement	The term of this management agreement is not to exceed 10 years. A 10 year period is necessary to go through several crop cycles & complete capital improvements in order to maximize returns.
Investment Strategy	<p>As approved at ATRS' October 4, 2010 meeting, ATRS established an initial \$100 million allocation through a separate account to farmland as a part of ATRS' Alternatives asset class. USDA growth rates on the land values from 1880 to 2007 are 4%, Current land cash yields from rent range from 3% to 6%.</p> <p>Halderman Farm Management Services was established in 1930 and is a national farmland operation, currently operating 675 farms, over 250,000 acres in 21 states with satellite offices in 6 states. Halderman Farm Management Services will select and purchase farmland operations as well as select farm operators, monitor their performance and provide technical support to those operators. Halderman's</p>

commitment amounts to 75% of the total farmland allocation.

Management Team

Howard Halderman – President Halderman Farm Management Services since 2000. BS in Agricultural Economics, Purdue University 1988.

Pat Karst, VP Real Estate Acquisitions. Vice President of Real Estate since 2005. Area Representative from 1984 – 2005. Purdue University - Bachelor of Science in Agricultural Economics - Farm Business and Management – December 1983

David Martin - *Halderman Special Accounts Manager Since 2008.*
Purdue University - Bachelor of Arts in Agriculture Economics, May 1992.

Adam Gore – Operations. Cornell University - Bachelor of Science in Agribusiness Management, May 2009 Oversees the management of \$300 M of row crop and livestock operations in 8 states for Halderman Farm Management Services.