ARTRS
Arkansas Teacher Retirement System

June 7, 2011

Senator Mary Anne Salmon
Representative Tommy Lee Baker
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 Salmon and Representative Baker:

By means of the enclosed Investment Summary, ATRS is submitting a private partnership 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 $40 million is planned in JFL Equity Investors III, L.P., a limited partnership that will invest in small and lower middle market defense, aerospace and maritime companies in the United States and the United Kingdom. The fund has a successful track record and was recommended by ATRS's private equity consultants.

The ATRS Board approved the investment described above at its June 6, 2011 meeting and anticipates a closing date for the investment in late June or early July 2011. 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 the investment.

Respectfully,

George Hopkins

George Hopkins
Executive Director

GH:lw
enclosures

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Arkansas Teacher Retirement System
Private Equity Investment
Executive Summary

Investment	JFL Equity Investors III, 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	June 2011
Expected Closing Date	The General Partner is targeting capital commitments of $550 million. ATRS is expected to close in late June 2011.
ATRS Commitment & Reason for Entry	The $40 million investment 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	<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. Transaction fees will be used to offset the management fee by 50% until the sum of the management fee plus 50% of the year's transaction fees equals $13.5 million. Thereafter, 100% of transaction fees will be used to offset the management fee. <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.
Justification of Investment Term & Anticipated Termination Date	The term is ten years from March 2010 (anticipated termination in 2020) plus two 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 small and 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 founder 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 1992, the General Partner has invested $368 million in 14 portfolio companies. In aggregate, these investments have generated a gross IRR of 116.5% and a multiple of 2.0x cost as of December 31, 2010. Historical returns are not indicative of future performance.