

**MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES – SPECIAL MEETING**

**Tuesday, March 8, 2014
8:50 a.m.
1400 West Third Street
Little Rock, AR 72201**

ATTENDEES

Board Members Present

Dr. Richard Abernathy, Chair*
Jeff Stubblefield, Vice Chair*
Lloyd Black
Kathy Clayton*
Hazel Coleman*
Kelly Davis*
Wes Goodner, designee for Charles Robinson
Peggy Gram, designee for Charlie Daniels
Danny Knight
Bobby Lester*
Susannah Marshall, designee for Candace Franks*
Robin Nichols
Deborah Thompson*

Members Absent

Dr. Tom Kimbrell
Janet Watson

ATRS Staff Present

George Hopkins, Executive Director
Gail Bolden, Deputy Director
Donna Bumgardner, Manager, Investment/Acct.
Rod Graves, Ret. Investment Specialist
Wayne Greathouse, Assoc. Director
Jerry Meyer, Manager, Real Assets
Tammy Porter, Administrative Assistant
Leslie Ward, Manager, Private Equity

Guest Present

J. French Hill, Delta Trust
Sean Barron, Delta Trust

Reporters Present

Mike Wickline, Arkansas Democrat Gazette

* *via teleconference*

- I. **Call to Order/Roll Call.** Dr. Richard Abernathy, Chair, called the Board of Trustee meeting to order at 8:53 a.m. Roll call was taken. Ms. Watson and Dr. Kimbrell were absent.

- II. **Adoption of Agenda.**

Ms. Nichols moved for adoption of the Agenda. Ms. Coleman seconded the motion, and the Committee unanimously approved the motion.

III. Executive Summary. The Executive Summary was provided for reference with no questions or expansions on the written summary.

IV. Investment Committee Report. Ms. Nichols, Chair, gave a report on the Investment Committee meeting.

A. Applying Imminent Need Status to Five (5) Previously Approved Investments.

1. Recommendation to apply Imminent Need status to previously approved BlackRock Core Plus Separate Account Change in Structure. The first investment that needs to be converted to imminent need status is the BlackRock Core Plus Account. This is the account that will essentially have the same management team and process but will be held at a fund level versus an ATRS account level so that BlackRock and not ATRS has to reconcile all trades and distributions. The closing on this fund is scheduled prior to an available Legislative Council meeting; therefore; imminent need status is requested.

Both Hewitt EnnisKnupp and ATRS staff recommended the change in structure from a separate account managed by BlackRock to the BlackRock U.S. Core Plus Bond Fund, a commingled trust fund (CTF) at the February 17, 2014, Board meeting and the Board adopted Resolution 2014-07 to change the account structure to a commingled fund.

Initially imminent need was not requested for this change because a March 21, 2014, ALC Review meeting was scheduled at that time. That meeting has since been cancelled and the next scheduled meeting is April 18, 2014. Due to the change in schedule of the ALC meetings, imminent need is now requested by ATRS staff to implement the new fund by the anticipated closing date.

a. Resolution 2014-18

Ms. Nichols *moved to adopt* Resolution 2014-18, to apply imminent need status to previously Staff work with the Board to transfer assets from the current core plus separate account to the newly created core plus collective trust fund. Mr. Black *seconded the motion*, and the Board *unanimously approved the motion*.

2. Recommendation to apply Imminent Need status to previously approved \$300 Million Dollars Investment in Wellington

Management Company, L.L.P., Global Total Return II Fund. The second investment that needs to be converted to imminent need status is the Wellington Management Company Global Return II Fund. This is a fixed income fund that has generated net returns to investors well above its benchmark. Typical investments are government bonds investment grade credit, and securitized assets. The closing on this fund is scheduled prior to an available Legislative Council meeting; therefore; imminent need status is requested.

Both Hewitt EnnisKnupp and ATRS staff recommended an initial investment of up to \$300 million in Wellington Management Company, L.L.P., Global Total Return II Fund at the February 17, 2014, Board meeting and the Board adopted Resolution 2014-08 to approve Wellington Management Company Global Total Return II Fund.

Initially imminent need was not requested for this approval because a March 21, 2014, ALC Review meeting was scheduled at that time. That meeting has since been cancelled and the next scheduled meeting is April 18, 2014. Due to the change in schedule of the ALC meetings, imminent need is now requested by ATRS staff to implement the new fund by the anticipated closing date.

a. Resolution 2014-19

Ms. Nichols *moved to adopt* Resolution 2014-19, to apply Imminent Need status to previously approved \$300 Million Dollars Investment in Wellington Management Company, L.P., Global Total Return II Fund. Ms. Gram *seconded the motion*, and the Board *unanimously approved the motion*.

- 3. Recommendation to apply Imminent Need status to previously approved \$300 Million Dollars Investment in Reams Core Plus Bond Fund, L.L.C.** The third investment that needs to be converted to imminent need status is the Reams Core Plus Bond Fund. This is the fund based in Indiana that uses market volatility to find opportunity and has a very focused portfolio of bonds and securitized assets. The fund has generated net returns well above its benchmark. The closing on this fund is scheduled prior to an available Legislative Council meeting; therefore; imminent need status is requested.

Both Hewitt EnnisKnupp and ATRS staff recommended an initial investment of up to \$300 million in Reams Core Plus Bond Fund,

L.L.C. at the February 17, 2014, Board meeting and the Board adopted Resolution 2014-09 to approve Reams Core Plus Bond Fund, L.L.C.

Initially imminent need was not requested for this approval because a March 21, 2014, ALC Review meeting was scheduled at that time. That meeting has since been cancelled and the next scheduled meeting is April 18, 2014. Due to the change in schedule of the ALC meetings, imminent need is now requested by ATRS staff to implement the new fund by the anticipated closing date.

a. Resolution 2014-20

Ms. Nichols *moved to adopt* Resolution 2014-20, to apply Imminent Need status to previously approved \$300 Million Dollars Investment in Reams Core Plus Bond Fund L.L.C. Mr. Knight *seconded the motion*, and the Board *unanimously approved the motion*.

- 4. Recommendation to apply Imminent Need status to previously approved \$50 Million Dollars Investment in First Reserve Energy Infrastructure II, L.P.** The fourth investment that needs to be converted to imminent need status is the First Reserve Energy Infrastructure fund. This is an infrastructure fund that invests in North America and Europe. Potential investments include power plants, energy storage, electrical transmission lines, and renewable power sources. The closing on this fund is scheduled prior to an available Legislative Council meeting; therefore; imminent need status is requested.

Both Hewitt EnnisKnupp and ATRS staff recommended an investment of up to \$50 million in First Reserve Energy Infrastructure Fund II L.P. at the February 17, 2014, Board meeting and the Board adopted Resolution 2014-12 to approve First Reserve Energy Infrastructure Fund II, L.P.

Initially imminent need was not requested for this approval because a March 21, 2014, ALC Review meeting was scheduled at that time. That meeting has since been cancelled and the next scheduled meeting is April 18, 2014. Due to the change in schedule of the ALC meetings, imminent need is now requested by ATRS staff to implement the new fund by the anticipated closing date.

a. Resolution 2014-21

Ms. Nichols moved to adopt Resolution 2014-21, to apply Imminent Need status to previously approved \$50 Million Dollars Investment in First Reserve Energy Infrastructure II., L.P. Ms. Clayton seconded the motion, and the Board unanimously approved the motion.

5. **Recommendation to apply Imminent Need status to previously approved to \$50 Million Dollars Investment in Antin Infrastructure Partners II, L.P.** The fifth investment that needs to be converted to imminent need status is the Antin Infrastructure Partners fund. This is a core infrastructure fund investing in Western Europe. Investments should include communications, energy, environment, and transportation sectors. The closing on this fund is scheduled prior to an available Legislative Council meeting; therefore; imminent need status is requested.

Both Hewitt EnnisKnupp and ATRS staff recommended an investment of up to \$50 million in Antin Infrastructure Partners II L.P. at the February 17, 2014 Board meeting and the Board adopted Resolution 2014-13 to approve Antin Infrastructure Partners II L.P.

Initially imminent need was not requested for this approval because a March 21, 2014, ALC Review meeting was scheduled at that time. That meeting has since been cancelled and the next scheduled meeting is April 18, 2014. Due to the change in schedule of the ALC meetings, imminent need is now requested by ATRS staff to implement the new fund by the anticipated closing date.

a. Resolution 2014-22

Ms. Nichols moved to adopt Resolution 2014-22, to apply Imminent Need status to previously approved \$50 Million Dollars Investment in First Reserve Energy Infrastructure II., L.P. Ms. Davis seconded the motion, and the Board unanimously approved the motion.

- V. **Recommendation to Commit up to \$18 Million Dollars in BlueOak Arkansas, LLC.** Mr. Hopkins presented the recommendation for BlueOak, Arkansas, LLC. BlueOak, Arkansas (BOA) intends to locate an e-waste recycling facility in Osceola, AR and will employ approximately 50 people. Management is joined by Global Principals Partners in development of BOA. He discussed and explained the process, overview and supply of E-waste. Mr. Hopkins told the Committee that ATRS Staff has worked over the last six (6) months to analyze a potential investment in BOA. Delta Trust Investment

was also hired to perform due diligence on BOA. The recommendation of Delta Trust and ATRS staff is that ATRS should invest in BOA according to the terms of the recommendation report in the board packet. The deal terms would put the entire potential ATRS investment in BOA to a maximum of \$18 million dollars. The potential ATRS investment would break down as follows:

1. \$12.84 million due at close.
2. \$600,000 to optionally add on to the investment through additional shares after close unless construction costs exceed expectations by over 110% which would make the \$600,000 required. These funds would be needed in the event ATRS would like to increase the investment based on performance of the investment.
3. \$1.34 million as a 10% contingency amount in the event additional capital is needed after the close to cover any additional costs involved with the project. All equity owners are required to make the 10% contingency amount available to the project if needed.

Mr. Hopkins introduced Mr. J. French Hill and Mr. Sean Barron, of Delta Trust. Mr. Hill gave a recap of the due diligence. Mr. Hill explained the process of the smelter in melting down e-waste for the removal of waste from precious metals. He told the Committee that if the Board approved the recommendation, ATRS would have a 38.16% investment in BOA. Expected returns for this project were calculated using a build-up method and adjusting the return hurdle for additional risks associated with the project. Delta Trust expects a return of 24%.

Mr. Knight asked Mr. Hill what was the EPA's take on this project. Mr. Hill explained that the EPA did not have any problems and that no regulations were required.

This investment is smaller than many ATRS makes with initial funding of under \$13 million dollars; however, the upside potential of this investment and the level of participation and control make this investment one that ATRS staff strongly recommends to the ATRS Board and at the same time helps ensure this cutting edge process and technology is also an Arkansas related investment in an area of the state that needs jobs to put the students graduating from Arkansas public schools into a high-paying quality workforce.

1. Resolution 2014-23

Ms. Nichols *moved to adopt* Resolution 2014-23, to Commit up to \$18 Million Dollars in BlueOak, Arkansas, LLC. Mr. Black *seconded the motion*, and the Board *unanimously approved the motion*.

VI. **Other Business.** None

VII. **Adjourn.**

Mr. Knight *moved to adjourn* the Board Meeting. Ms. Nichols *seconded the motion*, and the Board *unanimously approved the motion*.

Meeting adjourned at 9:05 a.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Tammy Porter,
Recorder

Date Approved