

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

**Tuesday, June 17, 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\*  
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\*  
Janet Watson\*

**Members Absent**

Dr. Tom Kimbrell  
Lloyd Black  
Kathy Clayton

**ATRS Staff Present**

George Hopkins, Executive Director  
Gail Bolden, Deputy Director  
Shane Benbrook, Internal Audit/Risk Mgmt.  
Rod Graves, Manager, Investment Dept.  
Wayne Greathouse, Assoc. Dir. Investments  
Manju, Dir. Data Processing  
Tammy Porter, Administrative Assistant  
Clint Rhoden, Assoc. Dir. Operations  
Gaye Swaim, Operations Manager  
Leslie Ward, Manager, Private Equity  
Brenda West, Internal Audit/Risk Mgmt.

**Guest Present**

Sean Barron, Delta Trust  
Jessica Middleton-Kurylu, Bureau of Legislative Research  
Desi Berry, BOSC, Inc.

**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 8:45 a.m. Roll call was taken. Dr. Kimbrell, Lloyd Black, and Kathy Clayton were absent.
- II. **Adoption of Agenda.**

**Ms. Nichols *moved for adoption of the Agenda. Mr. Goodner 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. Authority to Sell All Properties in Arkansas (Except ATRS Headquarters and Victory Building) for Appraised Value or Higher.** Mr. Hopkins reported that improving real estate markets have potential investors looking for quality properties with attractive rental rates and/or special opportunities. This would give ATRS the ability to continue to realign and refresh its directly held Arkansas real assets to enhance returns.

With the support of Hewitt EnnisKnupp, staff request authority to sell all Arkansas properties other than the ATRS Headquarters at 1400 W. Third Street, Little Rock, AR and the Victory Building at 1401 West Capitol, Little Rock, AR. Any sale less than the appraised value would be subject to ATRS Board approval. The proceeds from any sale could be redeployed in investments that offer the possibility of greater returns and better diversification.

**1. Resolution 2014-18**

**Ms. Nichols *moved to adopt* Resolution 2014-38, to sell all Properties in Arkansas (Except ATRS Headquarters and Victory Building) for Appraised Value or Higher. Ms. Watson *seconded the motion*, and the Board *unanimously approved the motion*.**

**B. Funding of Big River Steel with Imminent Need.** The Board approved Resolution 2013-08 authorizing a 20% equity investment in Big River Steel at the February 4, 2013, meeting. Big River Steel LLC is a steel "mini" mill to be located near Osceola, Arkansas. The initial due diligence and recommendation focused on the equity required for ATRS to be a 20% equity owner at the time the research was done. As often happens with deals of this size, several components have changed and presented ATRS with additional obligations for the original \$60 million dollar commitment, if ATRS wants to maintain a 20% equity ownership, and more opportunities to invest in this project. These opportunities may be composed of both equity and debt components.

1. In addition to the \$60 million dollar investment authorized through Resolution 2013-08, the German bank that is providing a significant part of the financing for the project is requiring all equity participants to fund a contingency account to better protect the project if a cost overrun occurs. The requirement is \$100 million dollars for the contingency account and would only be used in case additional funds were needed due to cost overruns or if other unplanned expenses arise. Equity owners would participate in this account on a pro rata basis, so for ATRS, the requested amount would be 20% of the \$100 million dollars or \$20 million dollars. This contingency fund is not expected to be needed as a large majority of the hard dollar costs of construction have been finalized.
2. In addition to the contingency account, the German bank has guidelines for approximately 6 months of debt payments be reserved to cover that initial obligation. The ATRS commitment to the debt service account would be a 20% pro rata share of \$60 million dollars or \$12 million dollars. These funds would be placed in escrow until used for debt service or returned to ATRS and the other investors. ATRS may be able to substitute a letter of credit or similar document during this escrow period so ATRS assets are not idle during the escrow period. At the end of the escrow period, \$12 million dollars of cash would be needed to complete the ATRS obligation for debt service at the end of construction.

During negotiations, ATRS staff saw an opportunity to participate in the debt structure of Big River Steel for quality interest returns. These discussions lead to cost savings for the project and the opportunity for ATRS to invest in this special project for strong returns instead of bringing in third party mezzanine debt funds.

1. ATRS staff and the consultant recommend an investment of up to \$5 million dollars in the mezzanine portion of the Big River Steel debt structure. This investment is expected to yield a final IRR in excess of 15%.
2. ATRS staff and consultant also recommend an investment of up to \$10 million dollars in the senior

secured debt. This investment is expected to yield a final IRR in excess of 11%.

Finally, as this project nears the final closing, ATRS and other investors have already contributed \$5.45 million dollars (the ATRS portion is \$1.09 million dollars) which is to be treated as pre development funds (\$1 million dollars has already been funded through Pinnacle Mountain Holdings II). Due to the equity, structure requirements of the transaction, and the flow of government funds from loans and grants, final closing requirements may present an opportunity for ATRS to provide final equity or debt financing with special circumstance returns. If required at all, typically these investments would be short term with significant return profiles based upon the short term need but immediate need. It may be referred to as bridge financing until the governmental or other entity's funds become available. This contingent financing helps ensure this project closes and provides ATRS a bridge financing opportunity and the quality returns bridge financing can provide. There is a very small chance that any bridge financing will be needed.

In Summary the funding amounts are:

\$60 million dollars	Approved through Resolution 2013-08.
\$1.09 million dollars	Pre development close obligation (\$1 million dollars already funded, \$90,000 needed for true up). Required to maintain 20% equity ownership.
\$20 million dollars	Required for the contingency fund to maintain 20% equity ownership.
\$12 million dollars	Required for debt service reserve to maintain 20% equity ownership, expected to be initially funded with a letter of credit or similar instrument but cash payment is possible. Cash due at end of escrow period.
\$5 million dollar	For the mezzanine debt opportunity.
\$10 million dollars	For the senior secured debt opportunity.
\$16.91 million dollars	Potential bridge financing of equity and debt structure opportunities.

\$125 million dollar total funding authority requested with expected actual funding of \$108.09 million dollars.

**a. Resolution 2014-39**

**Ms. Nichols *moved to adopt* Resolution 2014-39, Funding of Big River Steel with Imminent Need. Mr. Lester *seconded the motion*. Roll call was taken, with 11 members voting "yes", Ms. Coleman abstaining, and the Board *not unanimous* with one abstaining *approved the motion*.**

VI. **Other Business.** None

VII. **Adjourn.**

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

**Meeting adjourned at 8:58 a.m.**

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George Hopkins,  
Executive Director

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Dr. Richard Abernathy, Chair  
Board of Trustees

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Tammy Porter,  
Recorder

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Date Approved