

**MINUTES  
ARKANSAS TEACHER RETIREMENT SYSTEM  
INVESTMENT COMMITTEE – SPECIAL MEETING**

**Monday, June 22, 2015  
1:00 p.m.  
1400 West Third Street  
Little Rock, AR 72201**

**ATTENDEES**

**Investment Committee Members Present**

Robin Nichols, Chair\*  
Danny Knight, Vice Chair\*  
Dr. Richard Abernathy\*  
Kelly Davis\*  
Susannah Marshall, designee for Candace Franks\*  
Janet Watson\*

**Members Absent**

Kathy Clayton  
Hon. Dennis Milligan

**Board Members Present**

Hazel Coleman\*  
Bobby Lester\*  
Jeff Stubblefield\*

**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. Director  
Manju, Dir. Data Processing.  
Jerry Meyer, Manager, Real Assets  
Tammy Porter, Administrative Assistant  
Michael Ray, Director, Member Services  
Clint Rhoden, Assoc. Director of Operations  
Leslie Ward, Manager, Private Equity

**Guest Present**

Donna Morey, ARTA

\* *via teleconference*

- I. **Call to Order/Roll Call.** Ms. Robin Nichols, Chair of Investment Committee, called the Investment Committee meeting to order at 1:00 p.m. Roll call was taken. Ms. Clayton and Mr. Milligan were absent.
  
- II. **Adoption of Agenda.**  
  
**Mr. Knight *moved for adoption of the Agenda. Dr. Abernathy 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. **ATRS Timberland Investment Concurrence and Update.** Beginning in 1998, ATRS made a series of commitments totaling \$316 million dollars to timberland investments through American Timberland, LLC, and American Timberland II, LLC, currently under the management of BTG Pactual Asset Management (BTG). The combined assets of these two LLCs are approximately \$374 million dollars and represent approximately 2.5% of the total ATRS fund.

1. **Recommendation for Board Concurrence in Potential Merger of American Timberland, LLC, and American Timberland II, LLC.** In 1999, ATRS established American Timberland II, LLC, in order to complete a complicated transaction needed to purchase a large tract of timber that was subject to special debt that could not be reasonably liquidated. The complications arose from debt requirements of the seller due to tax implications. ATRS created a second timberland holding company in the form of an LLC to keep the complicated holding separated. All the special requirements are over and the special loan is now paid off. ATRS and BTG Pactual both agree that it is no longer necessary to keep two separate entities for the ATRS timberland portfolio. ATRS staff believes combining the two LLCs will help to reduce the expense of maintaining two LLCs by eliminating the need for separate auditing and legal requirements for each LLC. Since this is an administration function and does not change the investment mandate, the change would not require Investment Committee and Board approval. Due to the timing of the Board meeting and the two (2) potential change addressed later in this agenda, ATRS staff requested concurrence of the potential merger.

**Ms. Davis *moved to recommend* to the Board approval of the Recommendation for Board Concurrence in Potential Merger of American Timberland, LLC, and American Timberland II, LLC. Mr. Knight *seconded the motion*, and the Committee *unanimously approved the motion*.**

2. **Recommendation to Clarify Leverage on Funds Managed by BTG Pactual Asset Management.** The American Timberland, LLC, partnership and management agreement provides BTG Pactual the ability to borrow funds in connection with the ATRS timberland investments to derive additional sources of revenue. Leverage is used throughout the investment world to enhance returns and achieve important goals. ATRS staff and BTG Pactual prefers for the existing right to leverage the timber portfolio be more specific and limited. The

use of a small amount of leverage would be beneficial in providing another potential source of revenue to ATRS by allowing borrowed funds to purchase timber assets and freeing cash to be deployed in other investments that most likely would provide a rate of return above the interest rate charged on the borrowed funds. At this time, it appears that a borrowing at 20% leverage could be at a rate between 3% and 3.5% with a 10 to 15 year term with interest only due for much of the term. These are great terms and add value to ATRS. Any overall return above the interest rate adds positive income to ATRS.

The freed cash from the loan that would be deployed to other areas could be used to buy diversifying properties and would also help bring the timber allocation in line with the target of 2%. Both ATRS staff and Aon Hewitt Investment Consulting support the use of leverage to help with the allocation, diversification, and returns of the timber portfolio. Both ATRS staff and Aon Hewitt Investment Consulting are comfortable with a 20% limit to the amount of leverage that can be applied to the timberland portfolio. ATRS staff is requesting to modify the open ended language to more restrictedly allow the use of leverage in the timber portfolio with a 20% limit, requiring ATRS staff consent to any leverage, and only after favorable notice to the ATRS Board Chair prior to using any leverage.

**Mr. Knight *moved to recommend to the Board approval of the Recommendation to Clarify Leverage on Funds Managed by BTG Pactual Asset Management.* Ms. Davis *seconded the motion,* and the Committee *unanimously approved the motion.***

3. **Recommendation to Allow Recallable Distributions for Funds Managed by BTG Pactual Asset Management.** BTG currently holds cash generated from investments in reserve to allow for the purchase of diversified properties for the portfolio. In other more direct investments ATRS has the ability to reinvest in the projects by using returned capital and distributions for reinvestment. The ability to accept and later to redirect the distributions helps enhance ATRS returns by ATRS having the immediate use of the distributions for investments and cash flow. Currently, the timberland management agreement does not include the ability to recall a distribution once it is made.

ATRS staff is requesting, effective July 1, 2015, to allow recallable distributions from American Timberland, LLC, American Timberland II, LLC, or any successor entity that may combine the two existing LLCs recallable by BTG, with consent of ATRS staff and positive Board

Chair notice. This includes the reinvestment of returns from dividends, distributions, return of capital, interest, tax credits payments, and other payments that arise from timber.

**Ms. Davis moved to recommend to the Board approval of the Recommendation to Allow Recallable Distributions for Funds Managed by BTG Pactual Asset Management. Ms. Watson seconded the motion, and the Committee unanimously approved the motion.**

V. **Other Business.** None

VI. **Adjourn.**

**Mr. Knight moved to adjourn the Investment Committee Meeting. Dr. Abernathy seconded the motion, and the Committee unanimously approved the motion.**

**Meeting adjourned at 1:15 p.m.**

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George Hopkins,  
Executive Director

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Ms. Robin Nichols, Chair  
Investment Committee

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Tammy Porter,  
Recorder

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Date Approved