

ARKANSAS TEACHER RETIREMENT SYSTEM

June 23, 2021

1400 West Third Street

BOARD ROOM

Little Rock, AR 72201

Board of Trustees - Called Meeting Meeting

9:15 a.m.

Trustees

Danny Knight, Chair

Anita Bell

Lloyd Black

Kathy Clayton

Kelly Davis

Dr. Mike Hernandez

Shawn Higginbotham

Michael Johnson

Bobby G. Lester

Chip Martin

Robin Nichols

Ex Officio Trustees

Susannah Marshall, State Bank Commissioner

Johnny Key, Education Commissioner

Honorable Andrea Lea, State Auditor

Honorable Dennis Milligan, State Treasurer

AGENDA
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES - CALLED MEETING

June 23, 2021

9:15 a.m.

1400 West Third Street
Little Rock, AR 72201

- I. ***Call to Order/Roll Call.** page 1.
- II. ***Motion to Excuse Absences.**
- III. ***Adoption of Agenda.** page 2.
- IV. Executive Summary. (Attachment No. 1) page 3.
- V. Investment Committee Report. *Robin Nichols, Investment Committee Chair*
 - A. ***Recommendation to Commit up to \$30 Million Dollars in Revelstoke Capital Partners Fund III, L.P., a Buyout Fund that will Invest in Small and Lower Middle Market Healthcare and Related Business Services Companies.** (Attachment No. 2) page 4.
 - 1. ***Resolution No. 2021-27.** (Attachment No. 3) page 7.
- VI. ***Disability Review Case.** *Clint Rhoden, Executive Director*
- VII. ***Recognize Vacancy.** *Clint Rhoden, Executive Director and Danny Knight, Board Chair*
 - A. ***Rsolution 2021-28.** (Attachment No. 4) page 8.
- VIII. ***Fulfillment of Vacancy Pursuant to A.C.A. 24-7-302(b)(2).** *Clint Rhoden, Executive Director and Danny Knight, Board Chair*
- IX. Other Business.
- X. ***Adjourn.**

* Action Item

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EXECUTIVE SUMMARY

TO: Board of Trustees
FROM: ATRS Staff
RE: Executive Summary
DATE: June 23, 2021

V. Investment Committee Report. Ms. Robin Nichols, Chair

A. Recommendation to Commit up to \$30 Million Dollars in Revelstoke Capital Partners Fund III, L.P., a Buyout Fund that will Invest in Small and Lower Middle Market Healthcare and Related Business Services Companies

1. Resolution 2021-27

VI. Disability Review Case. During the April 4, 2021 Board Meeting, the Board granted ATRS staff authority to allow several members to be reconsidered for the Disability Review Case due to a denial and an appeal. We gave those members a deadline of **May 28, 2021** to provide our Medical Committee with new and/or additional information. We received one member's information on **June 2, 2021**. Staff is requesting that the Board extend the deadline for this member so that the matter can be heard at the July 2021 Medical Committee Meeting. **This is an action item.**

VII. Recognize Vacancies. If a trustee is no longer able to serve the Board, by adoption of a resolution, must recognize that a vacancy exists. **This is an action item.**

A. Resolution 2021-28

VIII. Fulfillment of Vacancy Pursuant to A.C.A. §24-7-302(b)(2). A.C.A. §24-302 states that if a vacancy occurs in the office of an elected trustee, then the board, by a majority vote, may fill the vacancy by a special election, or appointment of a trustee until the next system election. **This is an action item.**



**Recommendation Report
Revelstoke Capital Partners Fund III, L.P.**

Executive Summary

Fund	Revelstoke Capital Partners Fund III, L.P. (the "Fund")
General Partner	Revelstoke Capital Partners (the "General Partner" or "Revelstoke")
Report Date	June 2021
Fundraising	The General Partner is targeting limited partner capital commitments of \$1 billion. The General Partner is targeting a first closing on August 23, 2021.
Source	The General Partner has retained Houlihan Lokey to assist with fundraising.
Investment Strategy	The Fund is being formed to make control and significant minority investments in small and lower middle market companies in the U.S with \$5-\$75 million of EBITDA. The Fund will primarily target companies operating in the healthcare and related business services sectors. The Fund will target healthcare companies that provide reduced cost, improved health and wellness outcomes and/or improved patient/customer experience. The Fund will predominantly target investments in companies for which it represents the first institutional capital and where the companies' founders are rolling a significant amount of capital.

The General Partner has a proactive thematic approach to sourcing investment opportunities. After identifying a theme, the General Partner maps the industry to find actionable targets, attempts to become an expert on the sub-sector and directly approaches targets. The General Partner is currently pursuing themes in value-based care, home care, behavioral health and health and wellness, among others.

Management Team	Based in Denver, with offices in New York and Seattle, the General Partner was founded in 2013 by Mark King, Dale Meyer and Simon Bachleda, who previously worked together at KRG Capital Partners.
	Today, the General Partner is led by Mr. Bachleda and three other senior professionals (collectively, the "Principals") who are supported by five mid-level and five junior investment professionals, eight finance, IR and admin professionals and a six-person Portfolio Transformation Group.

The Principals' backgrounds are summarized in the table below.

Principals	Yrs. GP	Yrs. PE	Background
Simon Bachleda	8	19	Eos Capital, KRG Capital
Russell Cassella	4	5	GCM Grosvenor, Credit Suisse PE
Eric Shuey	4	11	Fresenius, Liberty Dialysis, Aurora, Deutsche Bank
Andrew Welch	7	7	Morgan Stanley

Track Record	The General Partner has raised two prior funds. The following chart summarizes the performance of the prior funds, as of March 31, 2021.
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Aggregate Performance Summary ¹			(USD 000)			
Fund (Vintage)	Rlzd Deals / # Deals	Invested	Realized	Unrealized	Gross ROI	Gross IRR
Fund I (2015)	4 / 10	291,078	303,790	445,368	2.6x	25.7%
Fund II (2018)	1 / 10	447,843	97,055	702,487	1.8x	43.7%
Total	5 / 20	738,921	400,844	1,147,855	2.1x	29.9%

¹ Gross of fees and carried interest expenses. The unrealized investments were valued by the General Partner.

**Investment
Evaluation**

1. **The Fund's strategy is compelling.** The return potential for the Fund's strategy is high given the Fund's focus on small and lower middle market quality companies. Purchase prices for smaller companies are typically lower than larger companies, and smaller companies often have higher growth potential. Moreover, there are significant opportunities for value creation with smaller companies that an experienced private equity investment team can exploit.
2. **The General Partner is well positioned in its target market.** The General Partner's proactive research-driven approach to identifying healthcare sub-sectors, developing investment themes, and originating target companies should be advantageous in sourcing less competitive deals. The General Partner's experience and success in the healthcare sector differentiates it from generalist competitors.
3. **The Principals have complementary operating and investing experience.** Simon Bachleda has over 19 years of private equity investment experience. Eric Shuey has significant healthcare operating experience, having founded and led several healthcare companies including Liberty Dialysis, which was sold for \$2.3 billion. Russell Cassella and Andrew Welch have been with the General Partner for five and seven years, respectively.
4. **The General Partner's track record is attractive.**
 - Fund I has produced a 2.2x TVPI and 21.2% net IRR, which rank in the second and first quartile, respectively, compared to its vintage peers.
 - While early, Fund II has produced a 1.5x TVPI and 35.5% net IRR, which each rank in the first quartile compared to its vintage peers.
 - The operating performance of the prior investments has been impressive. Funds I and II have each generated median revenue and EBITDA growth rates in excess of 20% per annum over the General Partner's hold.

However, the General Partner's realized track record is limited. There are only three fully exited companies across Funds I and II. However, the General Partner has identified several exit candidates that are expected to be sold in the next year for attractive returns.

5. **The Fund's size is larger than Funds I and II.** The Fund's target size of \$1 billion is 40% larger than Fund II and almost three times as large as Fund I. In addition, the General Partner has yet to set a fund size cap. However, the General Partner has utilized \$526 million of co-investment capital alongside the committed capital of Funds I and II.

- Recommendation** Franklin Park recommends a commitment of up to \$30 million to the Fund, subject to completion of operational due diligence and satisfactory negotiation of final documentation, based on the following:
- The General Partner's strategy is compelling;
 - The Principals have complementary operating and investment experience; and
 - The General Partner's track record is attractive.

**ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201**

**RESOLUTION
No. 2021-27**

**Approving Investment in Revelstoke Capital Partners
Fund III, L.P.**

WHEREAS, the Board of Trustees (Board) of the Arkansas Teacher Retirement System (ATRS) is authorized to invest and manage trust assets for the benefits of its plan participants; and

WHEREAS, the ATRS Board has reviewed the recommendation of its private equity consultant, Franklin Park Associates, LLC, along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **Revelstoke Capital Partners Fund III, L.P.**, a buyout fund that will invest in small and lower middle market healthcare and related business services companies.

THEREFORE, BE IT RESOLVED, that the ATRS Board approves an investment of up to **\$30 million dollars (\$30,000,000.00)** in **Revelstoke Capital Partners Fund III, L.P.** The total investment amount is to be determined by the private equity consultant and ATRS staff based upon the allocation available to ATRS and the overall investment objectives set by the ATRS Board; and

FURTHER, BE IT RESOLVED, that the ATRS staff is hereby authorized to take all necessary and proper steps to implement this investment, if acceptable terms are reached.

Adopted this 23rd day of June 2021.

Mr. Danny Knight, *Chair*
Arkansas Teacher Retirement System

**ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201**

**RESOLUTION
No. 2021-28**

**Recognize Vacancy for
Position #1 - Member Trustee, 1st Congressional District**

WHEREAS, A.C.A. §§ 24-7-302 (a)(2) states that an active member trustee shall be ineligible to serve after retiring; and

WHEREAS, A.C.A. §§ 24-7-301 (2)(B) states that one (1) active member trustee employed in a position that requires state licensure, but not an administrator's license will be elected from each of the four (4) congressional districts; and

WHEREAS, Ms. Robin Nichols served on the ATRS Board of Trustees as a member trustee in position #1 for the 1st Congressional District; and

WHEREAS, Ms. Nichols retired effective June 30, 2021.

NOW, THEREFORE, BE IT RESOLVED, that effective July 1, 2021 a vacancy on the Board of Trustees of the Arkansas Teacher Retirement System exists for position #1 for the 1st Congressional District.

Adopted this _____ day of June, 2021.

Mr. Danny Knight, Chair
Arkansas Teacher Retirement System Board