ATRS Board Policy 5
PRIVATE EQUITY INVESTMENT POLICIES

A.C.A. § 24-7-305

I. Board – Investment Policies and Procedures

A. Private Equity Investment Policies

1. The following private equity investment policy ("the Policy") serve to provide direction to Arkansas Teacher Retirement System ("ATRS"), its Investment Committee, its Board, its pension staff and its advisors in the investment and management of its private equity portfolio. This policy is to be considered an extension of ATRS' general Statement of Investment Policy.

2. ATRS has engaged an advisor as a consultant, with specialization in the field of private equity to perform due diligence, select investments, assist in negotiation of business terms and conditions, and monitor the portfolio of private equity investments.

B. Rationale for Development of the Private Equity Program ("the Program")

1. The private equity asset class offers the potential for significantly greater returns than those available in traditional public equity and debt security markets. The potential returns are commensurate with the higher risks of this asset class, such as illiquidity, limited regulatory oversight or reporting standards.

C. Formal Definition of Private Equity

1. ATRS generally makes private equity investments through private placements of limited partnership interests or similar vehicles. These partnerships, in turn, make privately negotiated direct investments in operating companies whose securities are generally not publicly traded on organized exchanges.

2. Private equity direct investments may involve the financing of new or emerging businesses, as well as corporate restructurings of established companies, through the financing of acquisitions, spin-offs or mergers. Private equity investments are accomplished almost exclusively through private offerings of debt or equity interests in operating companies.

3. Within this asset class, the following categories of private equity strategies shall be eligible for investment by ATRS:

    Venture capital funds;

Buyout and growth capital funds;

Mezzanine debt funds;

Distressed debt and turnaround funds; and

Any other private investment strategy approved by ATRS.

D. Allocation to the Asset Class

1. ATRS' Board, in conjunction with the most recent asset allocation review performed by its general investment consultant, has specified a target allocation of 12% of total assets for private equity. This target allocation may be reviewed from time to time to determine its appropriateness in light of current market conditions, changes in ATRS' investment return objectives and liquidity requirements, and other relevant factors.

E. Investment Objectives

1. The primary investment objective for ATRS' private equity portfolio is to maximize total risk-adjusted return. For purposes of this Policy, short term fluctuations in value will be considered to be secondary to the attainment of long-term investment returns with safeguards against the loss of capital.

2. The private equity portfolio shall be managed to achieve:

   A long-term return net of fees and expenses equal to or greater than the 10-year compound total annual return of the Dow Jones U.S. Total Stock Market index plus a spread of 200 basis points;

   A consistent flow of qualified investment opportunities that represent the most attractive investment vehicles currently available in the marketplace; and

   A diversified and balanced portfolio so that the risks inherent in these illiquid and long-lived assets may be minimized.

3. The determination of the target expected rate of return on any individual investment shall be based upon the particular investment strategy employed:

   For equity oriented investments, the expected long-term return should equal or exceed 20% per annum, net of fees.

   For debt oriented investments, the expected long-term return should equal or exceed 15% per annum, net of fees.

4. Additionally, investments should comply with all applicable laws, regulations and policies with respect to investment of ATRS' assets.

5. ATRS may waive any of the foregoing criteria, provided that sufficient security provisions can be demonstrated.

F. Diversification Guidelines

1. Portfolio Diversification. While manager selection takes precedence in the investment process, the private equity portfolio should be prudently diversified among private equity strategies. In order to achieve a diversified private equity portfolio, the following sub-allocations shall be used as an overall target for commitment levels within the portfolio:

Segment	**Long-Term Allocation Ranges**
Corporate Finance*	80% - 100%
Venture Capital	0% - 20%

* Includes buyout, turnaround and debt related strategies

Region	**Long-Term Allocation Ranges**
U.S. and Western Europe	80% - 100%
Other	0% - 20%

Appropriate consideration should be given to prevailing market conditions or other circumstances which may warrant a temporary departure for the recommended ranges.

2. Restricted Activities. Investments which shall not be eligible for initial evaluation or potential funding commitments are:

   Investments representing direct equity ownership in individual companies or other business entities, without the benefit of an intermediate partnership or other indirect ownership structure. However, this exception shall not include direct equity ownership which results from the distribution of securities from partnerships to ATRS; and

   Investments which would violate resolutions passed by ATRS' Board

3. ATRS may elect to waive certain of the foregoing prohibitions, provided that sufficient security provisions or other mitigating factors can be demonstrated. Such waivers shall be contingent upon full review and approval by ATRS.

G. Private Equity Investment Process

In order to achieve the investment objectives described above, a consistent investment evaluation process will be applied to all investment opportunities for the Program. This process will be executed by the consultant and shall include the following components:

1. Prudent, formalized investment due diligence. Comprehensive due diligence is essential to screening and selecting investments suitable

for the private equity portfolio. Criteria to be considered during the due diligence process will consist of:

a. Relevant experience of the investment sponsor or principals. In particular, the investment sponsor or principals must demonstrate:

   · The requisite skills to be able to successfully execute the proposed investment strategy, including evidence of their ability to work together cohesively;

   · Independence from other interests which may conflict with representation of the investors; and

   · Successful investment results in applicable prior project(s).

b. Adequacy and depth of the investment sponsor's organization and resources to execute the stated investment strategy, including back office and fund reporting and administration infrastructure;

c. Professional reference and background checks to confirm the integrity and character of the principals;

d. Viability of the investment premise and strategy, including analysis of, and market research covering, the general investment environment related to the proposed strategy;

e. Assessment of historical and projected investment returns, risk factors and exit strategies; and

f. Assessment of compliance with all federal, state and local regulatory/legal requirements.

2. Review and negotiation of key investment terms and provisions in order to provide maximum investor protection and value.

   The agreements governing a private equity investment shall feature acceptable provisions concerning termination of commitments, winding-up procedures, responsibilities of management, the determination of distributions of earnings and capital to investors and the investment sponsor, management fees, carried interest and other fees, freedom from potential conflicts of interest, co-investment policies and tax considerations. Procedures to be employed by the consultant and ATRS will comprise:

   a. In-depth review of all investment offering documents for identification of key investment terms and provisions offering the opportunity for improved investor protection;

   b. Evaluation of the terms of the offering document which govern all remuneration, payment of investment returns, and return of capital to the principals, sponsors, or general partners in comparison to limited partners or financial investors;

c. Comparison of remuneration of the sponsor's principals or general partner with those of similar parties in comparable investments;

d. Comparison of distribution policies of the investment with those of other private equity funds; and

e. Direct negotiation with investment sponsors for amendments/enhancements to investment structure and terms.

3. Portfolio Suitability. The prospective investment should be compatible with other private equity investments held by ATRS in order to achieve appropriate diversification in terms of investment strategy, industry focus, stage of development of portfolio companies, and geographical focus.

4. Investment Size. ATRS shall, in general, make commitments of at least $10 million. In general, ATRS shall not make commitments to primary funds which exceed an amount equal to 15% of the total amount raised for a proposed fund, but in no event shall investments exceed 35% of the amount raised for a primary fund. Additionally, ATRS shall limit aggregate new commitments to a single investment sponsor to 35% of total Program allocation.

H. Risk Guidelines for Investment Opportunities

The private equity asset class carries a higher degree of potential investment risks. Investment risks shall be assessed by ATRS and the consultant for each private equity investment opportunity. Each investment shall be reviewed concerning the following risk categories and risk factors:

1. Investment Risks Pertaining to the Specific Investment Opportunity.

a. Events which could cause an investment to fail to meet expected levels of return or to return original commitments and lead to loss of capital;

b. Events which could lead to illiquidity of underlying assets or ineffectiveness of the exit strategies;

c. Characteristics of the investment which might lead to imprudent diversification within the partnership itself, or the expected diversification that an investment is expected to afford the overall private equity portfolio; and

d. Changes in circumstances, including investment sponsor management, which could lead to the possibility that the execution of an investment fund's strategy could be jeopardized.

2. Risks Pertaining to the Structure of the Overall Portfolio.

a. Consistent with the sub-allocations guidelines discussed above, ATRS shall avoid imprudent concentration of the private equity portfolio in any single investment strategy, industry or geographical region.

I. Portfolio Monitoring Guidelines

ATRS will follow procedures to minimize the inherent risks associated with this asset class. Certain of the principal risks have been enumerated in the risk guidelines set out in Section VIII. In addition, all phases of investment monitoring shall conform in their entirety to the "prudent investor" rule. These procedures shall be the responsibility of the consultant and shall include:

1. Periodic communication with investment sponsors, in order to obtain timely information on investment performance;
2. Quarterly and annual reporting to ATRS on investment performance and valuations, including summaries of material investment activities, key issues, economic outlooks, and other factors affecting the investment;
3. Analysis of special situations or circumstances requiring decision-making by ATRS, as required, including legal amendments and special investment opportunities.;
4. Where requested by ATRS, attendance at investor meetings on its behalf;

J. Authority to Make Investments

The final authority to make investment commitments under the private equity asset allocation shall be vested solely with the Board. No other party shall have discretionary control to commit new funds in this class.

K. Review and Modification of Private Equity Policy

This policy shall be reviewed periodically by the ATRS staff, the general consultant and the private equity consultant, to determine any additions or modifications that may be required.

HISTORY

Adopted: December 3, 2007
Amended: October 4, 2010
Amended: February 3, 2020