

# **ARKANSAS TEACHER RETIREMENT SYSTEM**

**May 10, 2023**

1400 West Third Street

**BOARD ROOM**

Little Rock, AR 72201

## **Board of Trustees - Called Meeting**

**4:15 p.m.**

### **Trustees**

Danny Knight, Chair

Kelly Davis, Vice Chair

Anita Bell

Kathy Clayton

Susan Ford

Dr. Mike Hernandez

Shawn Higginbotham

Michael Johnson

Bobby G. Lester

Chip Martin

Jeff Stubblefield

### **Ex Officio Trustees**

Susannah Marshall, State Bank Commissioner

Jacob Oliva, Secretary, Dept. of Education

Honorable Dennis Milligan, State Auditor

Honorable Mark Lowery, State Treasurer

**AGENDA**  
**ARKANSAS TEACHER RETIREMENT SYSTEM**  
**BOARD OF TRUSTEES - CALLED**

**May 10, 2023**

**4:15 p.m.**

**1400 West Third Street**

**Little Rock, AR 72201**

- I. **\*Call to Order/Roll Call.** page 1.
- II. **\*Motion for Excused Absences.**
- III. **\*Adoption of Agenda.** page 2.
- IV. Executive Summary. (Attachment No. 1) page 4.
- V. **\*Authority to Transact Business.**
  - A. Resolution 2023-17. (Attachment No. 2) page 6.
- VI. **\*Revised Timeline for the Executive Director Selection Process.** (Attachment No. 3) page 7.
- VII. Audit Committee Report.
  - A. **\*Executive Session - Evaluation of Internal Auditor Brenda West.**
- VIII. Investment Committee Report.
  - A. **\*Arkansas Related.**
    - 1. **\*Recommendation to approve for Board adoption Resolution 2023-18 authorizing an additional investment of up to \$700,000.00 dollars (of the remaining \$10 million dollars previously authorized) in GTLA Holdings, LP, and associated entities.** (Attachment No. 4) page 8.
      - a. **\*Resolution 2023-18.** (Attachment No. 5) page 10.
  - B. **\*General Investment Consultant. Aon Hewitt Investment Consulting.**

\* Action Item

2023-05-09 13:34:13.432600

1. **\*Update and Discussion on Resolution 2023-13 authorizing an investment of up to \$50 million dollars in Chatham Asset Private Debt and Strategic Capital Fund IV, L.P. (Attachment No. 6) page 12.**

IX. **\*Executive Session: Evaluation of Interim Executive Director, Rod Graves.**

X. Other Business.

XI. **\*Adjourn.**

## EXECUTIVE SUMMARY

TO: Board of Trustees - Called  
FROM: ATRS Staff  
RE: Executive Summary  
DATE: May 10, 2023

### V. **\*Authority to Transact Business.**

Authority to Transact Business

#### A. **Resolution 2023-17. page 6.**

### VI. **\*Revised Timeline for the Executive Director Selection Process. page 7.**

Revised Timeline for the Executive Director Selection Process

### VII. **Audit Committee Report.**

#### A. **\*Executive Session - Evaluation of Internal Auditor Brenda West.**

### VIII. **Investment Committee Report.**

#### A. **\*Arkansas Related.**

1. **\*Recommendation to approve for Board adoption Resolution 2023-18 authorizing an additional investment of up to \$700,000.00 dollars (of the remaining \$10 million dollars previously authorized) in GTLA Holdings, LP, and associated entities. page 8.**

The Board approved Resolution 2018-33 authorizing an investment of up to \$30 million dollars in the GTLA Holdings, LP, owner of GTL Americas, LP, and associated projects (GTLA) at the August 22, 2018 Board meeting. ATRS funded an initial investment of \$20 million dollars in GTLA in 2018. ATRS current Board policy requires recommendation from a third-party investment consultant and written approval by the Investment Committee and Board before any material changes are made in direct investments.

Arkansas Capital Corporation will present a recommendation to make an additional investment of up to \$700,000.00 in GTLA for Investment Committee and Board consideration.

- a. **\*Resolution 2023-18. page 10.**

#### B. **\*General Investment Consultant. Aon Hewitt Investment Consulting.**

**1. \*Update and Discussion on Resolution 2023-13 authorizing an investment of up to \$50 million dollars in Chatham Asset Private Debt and Strategic Capital Fund IV, L.P. page 12.**

The Board approved Resolution 2023-13 with Imminent Need at the April 3, 2023 meeting. That same day the SEC announced its findings and associated penalties related to trading violations across different investment vehicles managed by Chatham.

Imminent Need was initially requested in order for ATRS to participate in a closing of the Chatham fund by the end of April for ATRS to take advantage of certain fee discounts associated with the Chatham fund. ATRS staff and Aon requested an extension of the closing deadline to the end of May. The requested extension of the closing deadline for the fee discount was granted and ATRS now has until the end of May to close this investment and still participate in the associated fee discounts originally offered in the April closing. Aon will provide the Board an update on the diligence process.

This item is presented to provide opportunity for additional Board discussion, questions, and consideration.

**IX. \*Executive Session: Evaluation of Interim Executive Director, Rod Graves.**

**X. Other Business.**

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

**RESOLUTION  
No. 2023-17**

**Authority to Transact Business**

***BE IT RESOLVED***, That effective this 10<sup>th</sup> day of May, 2023, **ROD GRAVES**, Interim Executive Director, and **WILLIE KINCADE**, Associate Director of Operations, each are authorized to execute, acknowledge and deliver such agreements, documents, and instruments as might be necessary or appropriate in connection with the purchase, sale, pledge, transfer, or other transaction of any kind whatsoever involving any investment approved by the Arkansas Teacher Retirement System Board of Trustees or approved by the Investment Committee of said Board; and

***WHEREAS***, This authority shall continue until after the first regular scheduled Board meeting in 2024, or until changed by Board authority; and

***FURTHER RESOLVED***, That the execution, acknowledgment and/or delivery of such agreement, document, or instrument by any one of the two (2) named persons shall constitute the valid, binding and enforceable act of the Arkansas Teacher Retirement System by its Board of Trustees.

**Adopted this 10<sup>th</sup> day of May, 2023.**

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

**REVISED TIMELINE FOR THE EXECUTIVE DIRECTOR SELECTION PROCESS**

<b>Date</b>	<b>Action</b>	<b>Notes</b>
April 3, 2023	Approve executive position/vacancy announcement and intent to fill request form a  Approve submission of intent to fill request, posting position/vacancy announcement, posting locations, and posting dates	
April 4 - April 7, 2023	Post position/vacancy announcement	Position/vacancy announcement will be posted for fourteen (14) days from the date of the initial posting after which the posting will close.
April 18 – April 21, 2023	Posting end date	Position/vacancy announcement will be posted for fourteen (14) days from the date of the initial posting after which the posting will close.
April 24 – April 28, 2023	Review submitted applications on your own	Board meeting is not required
<b>*May 13, 2023</b>	<b>Select candidates to be interviewed</b>	<b>Board meeting is required.</b>
<b>*May 22, 2023</b>	<b>Interview candidates</b>	<b>Board meeting is required.</b>
<b>*May 22, 2023 or TBD</b>	<b>Offer Position to Candidate</b>	<b>Board meeting is required.</b>

*\* Indicates where timeline has been revised.*

TO: Arkansas Teachers Retirement System (ATRS)  
FROM: Arkansas Capital Corporation (ACC)  
DATE: May 3, 2023  
RE: GTLA request for interim capital prior to A2 capital raise

Background:

GTL Americas, LP (GTLA, and its various affiliated entities) was formed for the purpose of developing Phase 1 of a Gas to Liquid (GTL) plant that could produce a combination of ultra-clean, premium-quality, liquid transportation fuels on lands under their control in Jefferson County, Arkansas. GTLA Holdings, LP Formation, a Delaware limited partnership, (the “Partnership” or “HoldCo”) was formed August 3, 2018, under a limited partnership agreement and was amended August 30, 2018, to include additional Limited Partners who invested in “HoldCo” via a \$70 million “Series A1” private placement.

ATRS invested \$20 million in the \$70 million A1 round. GTLA is now looking to raise a \$125 million A2 round that will allow it to fund the finishout of the so-called Front-End Engineering and Design (FEED) expenses, i.e., Plant Design and Engineering, Project Development, Financing, Personnel, G&A, Environmental/Permitting, Commercial, Site Design and Development and some contingency. GLTA management states that the A2 round gets the project through the next two years and to the point of so-called Final Investment Decision (FID), where they will raise both debt and equity in a B1 round to build out and commence operations at the GTL facility.

Per the terms of the A1 investment, ATRS has a right of first refusal for any additional capital raises. In February, GTLA met with ACC to present the A2 proposal and was seeking ACC’s recommendation to the ATRS board to participate in the A2 round. GTLA walked ACC through the quite extensive and very impressive financial model that articulates the plan, assumptions, and analysis undergirding the overall GTL plant project. The GTLA team also explained the “de-risking” factors that they believe they have accomplished since the funding of the A1 round in 2018 that now make the project more realistic and financially viable. After review, and with consultation with ATRS staff, ACC felt it best that ATRS, at a minimum, wait until the lead investors were committed to the A2 round before ATRS considered its potential investment in the A2 round. At the time GTLA felt that an A2 closing could occur in May/June.

Current Request:

In consultation with Pickering Energy Partners (Pickering), the investment banker that is leading the raise for the A2 round, GLTA now believes that the A2 investors are now likely to be in a position to close on the A2 round withing the next three to four months. This has created a challenge in that GTLA does not have enough cash on hand to cover what they consider crucial and necessary expenses during that period. GLTA has developed an “austerity budget” that requires approximately \$175,000/month for a total of \$700,000 to cover the up to four-month delay



in A2 funding. The majority of the monthly budget would go to continue to pay nine (9) key employees (not senior management) the loss of whom could possibly cause the current A2 investors to reconsider their commitments. GTLA has proposed funding the \$700,000 through a SAFE agreement (Simple Agreement for Future Equity) which would allow the \$700,000 to convert to A2 equity at 50% of the established A2 share value once that value has been established.

#### Analysis:

ACC heard the GTLA presentation for this request on April 25, 2023. Discussions included conversations around the “austerity budget,” their concerns that losing these key employees may have on closing an A2 round and the implications of what happens if the A2 round is not closed. A main point of discussion was where things stood with their proposed A2 investors and the likelihood that funds will be raised within the proposed four-month window. ACC asked to speak directly with Pickering. That conversation was held on April 26, 2023. Pickering walked ACC through the list of the investor pool that has been engaged in extensive due diligence for approximately one year now. Pickering explained why they believe the funding window has extended longer than anticipated and noted that they had effectively over-subscribed the offering to develop a contingency against a last minute, unanticipated investment decline by any prospect. ACC pressed Pickering on their belief that the four-month window was sufficient and whether they were confident of the success of the A2 capital raise. Pickering felt that all prospects had completed their due-diligence and were in the final decision process. Pickering had also received very positive feedback from the prospects and were optimistic of a successful capital raise.

ACC also made inquiries through various persons with extensive experience in capital raises of this nature as to whether the proposed 50% discount on the final A2 share price was reasonable. All answers came back that 50% would be on the very high-end of what is normally seen in the industry as a “SAFE Discount.”

#### Recommendation:

ACC recommends that ATRS make the \$700,000.00 investment into GTLA for use to cover the expenses noted in the “Austerity Budget”. The 50% discount against the final price per share of the A2 round is a reasonable “premium” to ATRS for making this investment, recognizing the inherent risk in any such investment. While SAFE agreements are regularly used, legal counsel’s enthusiasm for their use varies. ACC defers to ATRS legal counsel as to whether another instrument, such as a convertible note, is a better mechanism to document this transaction.

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

**RESOLUTION**  
**No. 2023-18**

**Approving Additional Investment in GTLA Holdings, LP, Owner  
of GTL Americas, LP, and Associated Projects (GTLA)**

**WHEREAS**, the Board of Trustees (ATRS 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 approved Resolution 2018-33 authorizing an investment of up to \$30 million dollars in GTLA; and

**WHEREAS**, ATRS has currently invested \$20 million dollars of the previously approved \$30 million dollars leaving a remaining balance of \$10 million dollars yet to be invested; and

**WHEREAS**, pursuant to ATRS Board Policy 4, § (I)(A)(5), before any material change in a direct investment may be approved by the ATRS Board, the ATRS Board must be provided with the: (1) Written advice or recommendation of a third-party investment consultant and, if needed, outside legal counsel, and (2) Written approval of the Investment Committee and the ATRS Board; and

**WHEREAS**, there is currently an additional investment opportunity in GTLA, a natural gas-to-liquids facility being developed near Pine Bluff, Arkansas; and

**WHEREAS**, if approved by the ATRS Board, the additional investment opportunity in GTLA, may constitute a material change in a direct investment; and

**WHEREAS**, the ATRS Board has reviewed the recommendation of its direct third-party investment consultant, Arkansas Capital Corporation, the Investment Committee, and ATRS staff regarding the potential additional investment in **GTLA**.

**THEREFORE, BE IT RESOLVED**, that the ATRS Board approves an additional investment of up to **\$700,000.00** in **GTLA**. For clarity, the \$700,000.00 investment is an amount already included in the \$30 million dollar investment in

GTLA that was previously approved and authorized by Resolution 2018-33. The total investment amount is to be determined by the direct investment 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 10th day of May 2023**

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



## Memo

To: Arkansas Teacher Retirement System (ATRS) Board of Trustees

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From: PJ Kelly, Katie Comstock, Craig Adkins, Kevin Hrad

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Cc: Clint Rhoden, Rod Graves, Jerry Meyer

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Date: April 21, 2023

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Re: Confirmation of recommendation to invest \$50 million in Chatham PDSC IV

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### Summary and Recommendation

At the April 2023 Board meeting, Aon recommended an investment of \$50 million into the Private Debt and Strategic Capital Fund IV (“PDSC IV”) managed by Chatham Asset Management (“Chatham”). This is a follow-on fund from the previous vintage of the strategy, PDSC III, in which ATRS invested in November 2021, that provides access to Chatham’s best ideas in the current opportunity set. Following a due diligence review, Aon confirms its “Buy” rating and investment recommendation to ATRS.

### Background

On April 3, 2023, coincidentally the same day as the Board meeting, the SEC announced its findings and the penalties associated with a trading violation related to certain bond holdings across different investment vehicles managed by Chatham. Aon was made aware of this issue during our original research into Chatham in 2021, as an investigation had been underway and Chatham was transparent about the circumstances related to trades that were made during the 2016-2018 period. This investigation was taken seriously by Aon and vetted thoroughly within both our investment and operational due diligence teams.

We learned through our discussions with Chatham that the manager intended to pay the settlement directly rather than from any of its funds. Aon concluded that the main risk from the pending outcome was whether or not the settlement would impact Chatham’s ability to operate going forward from a business perspective. Aon’s ORSA team completed another operational due diligence review specific to PDSC IV prior to the recommendation to invest at the April 2023 Board meeting.

Following the announcement, Aon’s investment and operational due diligence teams conducted a thorough review of the SEC’s charges. As expected, Chatham stated that judgements would be paid by the management company and its partners with no expense to its funds or investors. We believe the settlement finally removes uncertainty for Chatham; the manager can focus on managing the investment strategy, and noted that it has already



received subscriptions since the ruling while other prospective investors who had been waiting for closure are expected to commit.