

ARKANSAS TEACHER RETIREMENT SYSTEM

June 12, 2024

1400 West Third Street

BOARD ROOM

Little Rock, AR 72201

Board of Trustees Meeting

1:15 p.m.

Trustees

Danny Knight, Chair

Shawn Higginbotham, Vice Chair

Kelsey Bailey

Anita Bell

Susan Ford

Keri Hamilton

Dr. Mike Hernandez

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 Larry Walther, State Treasurer

AGENDA
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES

June 12, 2024

1:15 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 3.
- V. Investment Committee Report.
 - A. Recommendation to approve for Board adoption Resolution 2024-26 authorizing an investment of up to \$50 million dollars in KKR Global Infrastructure Investors V, (USD) SCSp, with Imminent Need. (Attachment No. 2) page 4.
 - 1. ***Resolution 2024-26.** (Attachment No. 3) page 12.
- VI. Other Business.
- VII. ***Adjourn.**

* Action Item

2024-06-12 08:41:53.361138

EXECUTIVE SUMMARY

TO: Board of Trustees
FROM: ATRS Staff
RE: Executive Summary
DATE: June 12, 2024

V. Investment Committee Report.

A. Recommendation to approve for Board adoption Resolution 2024-26 authorizing an investment of up to \$50 million dollars in KKR Global Infrastructure Investors V, (USD) SCSp, with Imminent Need. page 4.

This recommendation remains unchanged from the recommendation approved by the Investment Committee and Board on June 6, 2024. This update is required to make technical corrections to ensure the Resolution for this investment reflects the proper legal structure of the recommended investment.

Kohlberg Kravis Roberts and Company (KKR) has decades of investment experience since they began operations in 1976 as a private equity firm. KKR launched its first dedicated infrastructure fund in 2008 and launched Global Infrastructure Investors Fund I in 2011. KKR has raised over \$28 billion dollars across this fund series since inception and has 90 investment professionals dedicated to this strategy. KKR employs over 2500 people managing \$528 billion dollars firm wide.

Fund V will seek to pursue value-add investments across a diverse opportunity set including communications, renewable power, midstream energy, transportation, utilities, waste and social infrastructure assets and business with a focus on North America and Western Europe. The preceding funds in this series have averaged a net 13.6% IRR. ATRS invested in fund II in 2014 that has produced a 16.9% IRR. Aon Hewitt Investment Consulting recommends an investment of up to \$50 million dollars in KKR Global Infrastructure Fund V (USD) SCSp and ATRS staff concurs. Due to the fact that there is no scheduled meeting of the Arkansas Legislative Council before the anticipated closing date, Imminent Need is requested.

1. *Resolution 2024-26. page 12.

VI. Other Business.

Memorandum

To: Arkansas Teacher Retirement System (“ATRS”)
From: Chae Hong, Jack Dowd, CFA
CC: PJ Kelly; Matthew Hooker
Date: June 03, 2024
Re: KKR Global Infrastructure Investors V – \$50 million Commitment Recommendation

Background and Recommendation

KKR Global Infrastructure Investors V (“KKR V” or the “Fund”) is closed-end value-add infrastructure fund sponsored by KKR & Co. L.P. (“KKR”, the “Firm” or the “Manager”) which is listed on the New York Stock Exchange (NYSE: KKR¹). KKR is a global investment firm that manages multiple asset classes, including private equity, energy, infrastructure, real estate, credit, and hedge funds through its strategic partners. Since the establishment of its infrastructure team in 2008, KKR has been actively pursuing core+ and value-add infrastructure investments across the Organization for Economic Co-operation and Development (“OECD”) countries. KKR V is a closed-end infrastructure fund that seeks to pursue value-add investments across communications, power and renewable, midstream energy, transportation, utilities, waste and social infrastructure assets and businesses located primarily in the member countries of the Organization for Economic Co-operation and Development (“OECD”) with a focus on North America and Western Europe and an ability to invest up to 15% of the Fund’s aggregate capital commitments outside OECD countries. The Fund’s strategy involves acquiring control or significant minority stake in critical infrastructure businesses that offer low volatility in revenues and strong downside protection due to their market position and / or structural / contractual framework, where KKR can create value through complexity in sourcing, structuring, operational improvements, and execution. However, KKR retains a flexible approach to sector, geography and asset type diversification. The Fund will target 10-12% net annual returns including a strong annual cash yield post investment period.

Aon Investments, USA is satisfied with the strategy of the Fund and its appropriateness for ATRS. Additionally, we believe that the merits of this offering outweigh its risks. A Fund V Investment Summary is attached as **Exhibit A**. In accordance with the previously approved 2024 ATRS Real Asset Pacing Schedule, we recommend that ATRS invest \$50 million in the Fund and borrow from ATRS’ 2025 infrastructure budget. The Fund intends to call capital in 2025, aligning the investment within the 2025 vintage year. Additionally, Fund V may provide investors with various investment vehicles. Townsend recommends ATRS consult with its tax and legal counsel to determine the most appropriate vehicle for the Plan.

¹ Select Aon / Townsend employees may have personal interest in this investment/fund or affiliates of this investment/fund. All Townsend employees are subject to an investment pre-clearance process for such investments under Townsend's Code of Ethics. To assess any conflict of interest/perceived conflict of interest and to avoid any opportunity of beneficial treatment, all employee investments that may create a conflict/or perceived conflict are monitored by Townsend Compliance and the Townsend Compliance Committee.

Exhibit A



Investment Summary

KKR GLOBAL INFRASTRUCTURE INVESTORS V

June 2024

EXECUTIVE SUMMARY

OVERVIEW

Review Date	Rating	Previous Rating
April 2024	Buy	Buy

KKR Global Infrastructure Investors V (“KKR V” or the “Fund”) is closed-end value-add infrastructure fund sponsored by KKR & Co. L.P. (“KKR”, the “Firm” or the “Manager”) which is listed on the New York Stock Exchange (NYSE: KKR). KKR is a global investment firm that manages multiple asset classes, including private equity, energy, infrastructure, real estate, credit, and hedge funds through its strategic partners. Since the establishment of its infrastructure team in 2008, KKR has been actively pursuing core+ and value-add infrastructure investments across the Organization for Economic Co-operation and Development (“OECD”) countries.

The Townsend Group, an Aon Company (“Townsend”) has reviewed and performed an in-depth analysis of the above categories which includes, but is not limited to:

- Retention of Limited Partners
- Institutional Investor Representation
- Management Company Ownership
- Organization Expenses
- Management Fee
- Incentive Fees/ Waterfall Distribution
- Fund Size
- Sponsor Commitment
- Investment Period
- Fund Term
- Key Person Provision
- Turnover/Tenure
- GP Attribution Concentration
- Consistency/ Volatility of Returns
- Write-offs
- Transaction Experience in Strategy
- Ability to Create Value in Deals
- Valuation Discipline
- Reporting Transparency
- Back-Office Resources
- Fault Provisions
- Advisory Board
- Priority of Distributions
- Alignment of Partner Interest
- Firm Leadership

In addition, Aon Investments, USA’s Operational Due Diligence team has reviewed the Firm from an operating perspective and has given KKR a pass rating.

RECOMMENDATION

Aon Investments, USA is satisfied with the strategy of the Fund and its appropriateness for ATRS. Additionally, we believe that the merits of this offering outweigh its risks. We recommend that ATRS invest \$50 million in the Fund and borrow from ATRS’ 2025 infrastructure allocation. The Fund intends to call capital in 2025, aligning the investment within the 2025 vintage year. Additionally, Fund V may provide investors with various investment vehicles. Townsend recommends ATRS consult with its tax and legal counsel to determine the most appropriate vehicle for the Plan.

Sponsor:

HQ Location	New York	Parent	Kohlberg Kravis Roberts & Co. L.P.
Ownership	Publicly listed company	Founded	1976
Employees	2,500 total employees	Team	90 investment professionals
AUM	\$527.7 billion		

Portfolio Characteristics:

Structure	Closed end	Risk Segment	Moderate / Value-add
Size	\$20 billion	Sponsor Commitment	\$600 million

Target Sectors	Communications, power and renewable, midstream energy, transportation, utilities, waste and social infrastructure	Target Geography	Global (OECD)
Target Stage	Mainly Brownfield	Investment Limitations	<ul style="list-style-type: none"> • 20% for a single investment • 15% outside OECD countries • 10% in publicly traded companies
Target Return (USD)	10-12% net IRR	Partnership Level Leverage	Lesser of the 30% of aggregate commitments or unfunded commitments
Fund Term	12 years	Investment Period	6 years
<i>Fees and Timing:</i>			
Management Fees	1.5% p.a.	Carried Interest	20.0% (deal by deal basis)
Hurdle Rate	8.0% p.a.	Catch-Up	100% GP catch up
Organization Expenses	Up to 0.1% of aggregate commitments	Fee Income	100% offset against management fee for all transaction, break-up, directors', monitoring, financing and other fees
Status/Timing	First Close: May 22, 2024 Final Close: Q1 2025 (Estimated)		

Strategy: KKR V is a closed-end infrastructure fund that seeks to pursue value-add investments across communications, power and renewable, midstream energy, transportation, utilities, waste and social infrastructure assets and businesses located primarily in the member countries of the Organization for Economic Co-operation and Development (“OECD”) with a focus on North America and Western Europe and an ability to invest up to 15% of the Fund’s aggregate capital commitments outside OECD countries. The Fund’s strategy involves acquiring control or significant minority stake in critical infrastructure businesses that offer low volatility in revenues and strong downside protection due to their market position and / or structural / contractual framework, where KKR can create value through complexity in sourcing, structuring, operational improvements, and execution. However, KKR retains a flexible approach to sector, geography and asset type diversification. The Fund will target 10-12% net annual returns including a strong annual cash yield post investment period.

Performance as of 9/30/23:

Fund	Vintage Year	Fund Size	Capital Invested	# of Inv.	Inv. Realized	Realized Value	Unrealized Value	Total Value	Loss Ratio	Ave. Hold Period	Gross TVPI	Net TVPI	Gross IRR	Net IRR
KKR I	2011	\$1,045.0	\$1,042.7	13	13	\$2,229.0	\$0.0	\$2,229.0	3.1%	5.7	2.1x	1.9x	17.6%	15.6%
KKR II	2014	3,098.0	3,164.1	12	7	4,784.0	1,601.5	6,385.4	1.1%	5.1	2.0x	1.8x	19.6%	16.9%
KKR III	2018	7,358.0	6,333.5	15	1	1,835.9	6,945.9	8,781.8	0.8%	2.9	1.4x	1.3x	13.8%	10.6%
KKR IV	2021	17,000.0	9,665.7	12	0	292.0	10,307.5	10,599.6	0.0%	N/A	1.1x	1.1x	10.7%	8.0%
Total			\$20,206.0	52	21	\$9,140.9	\$18,854.8	\$27,995.8	0.6%	5.4	1.4x	1.3x	16.5%	13.6%

SPONSOR

OVERVIEW

Established in 1976 and headquartered in New York, KKR is a global investment firm with over \$528 billion in assets under management as of September 30, 2023 across alternative asset classes, including private equity, energy, infrastructure, real estate, credit, and through its strategic partners, hedge funds. The Firm has offices across 4 continents, 16 countries and 20 cities and approximately 2,500 employees.

KKR is a publicly traded company listed on New York Stock Exchange (NYSE: KKR). Based on information available as of Sep 30, 2023, KKR employees and former employees beneficially own approximately 39.9% of KKR through the ownership or control of units of KKR Holdings L.P.

In 2008, KKR established its dedicated infrastructure team. Since then, KKR has been actively pursuing core+ and value-add infrastructure investments in OECD countries. Across all its prior funds, the Firm has raised approximately \$28.5 billion in total commitments, invested \$20.2 billion across 52 individual transactions, realized \$9.1 billion. In addition, KKR has deployed approximately \$29 billion of co-investment capital alongside its prior infrastructure funds. In 2018, KKR also established an Asia Pacific infrastructure team to pursue infrastructure investments in the Asia Pacific region and launched KKR Asia Infrastructure Investors (“KKR Asia”), its first dedicated Asia Pacific infrastructure fund, in 2019.

KKR’s infrastructure investment team (“Investment Team”) is composed of 90 members including 15 partners, 11 managing directors, 15 directors, 19 principals, 19 associates and 6 analysts. The Investment Team is led by Raj Agrawal and is organized by geography with presence across New York, Menlo Park, Houston, London, Singapore, Seoul, Hong Kong, Tokyo, and Mumbai. In addition, the Investment Team has access to KKR’s broader platform resources including KKR Capstone, Global Macro and Asset Allocation, KKR Capital Markets, KKR Global Institute and KKR Global Public Affairs. Following is the list of key senior members of the infrastructure team;

Name	Title	Years of Experience	Years at KKR
Joe Bae	Partner, Co-Chief Executive Officer	29	17
Raj Agrawal	Partner & Global Head of Infrastructure	25	17
Brandon Freiman	Partner & Head of North American Infrastructure	19	16
Vincent Policard	Partner & Co-Head of European Infrastructure	26	11
Tara Davies	Partner, Global Head of Core Infrastructure, Co-Head of European Infrastructure & CEO of K-Infra	24	7
David Luboff	Partner, Head of Asia Pacific Infrastructure and Co-Head of Australia & New Zealand	22	4
James Cunningham	Partner, Infrastructure	20	6
Dash Lane	Partner, Infrastructure	18	12
Alberto Signori	Partner, Infrastructure	26	4
Waldemar Szlezak	Partner, Infrastructure	20	4
Emmanuel Lagarrigue	Partner, Co-Head of Global Climate	29	1
Charlie Gailliot	Partner, Co-Head of Global Climate	21	1
Neil Arora	Partner, Head of Asia Climate	33	10
Hardik Shah	Partner, Infrastructure	18	6
Keith Kim	Partner	17	5
Cristina Gonzalez	Managing Director, Infrastructure	18	10
James Gordon	Managing Director	15	6
Ryan Miller	Managing Director	17	8
Andrew Peisch	Managing Director	14	10
Cecilio Velasco	Managing Director	14	12
Michael Ryan	Managing Director	26	2
Paul Workman	Managing Director	15	10

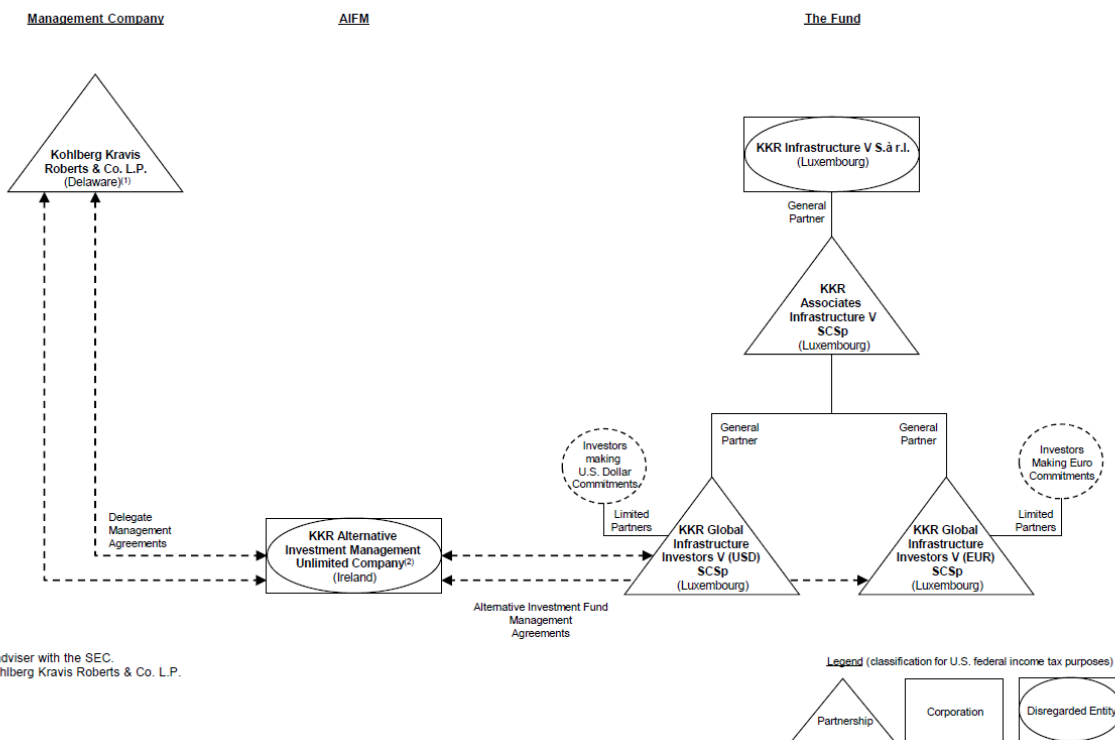
FUND STRUCTURE:

KKR Global Infrastructure Investors V as of November 2023

CONFIDENTIAL

KKR & Co. Inc.
(NYSE: KKR)
(Delaware)

KKR & Co. Inc., together with entities owned by current and former employees and associated persons of KKR and their designees, owns 100% of Kohlberg Kravis Roberts & Co. L.P. and KKR Infrastructure V S.à r.l.



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About Townsend Group – An Aon Company

Founded in 1983, The Townsend Group, an Aon Company (“Townsend”) provides a core set of investment skills exclusively focused on global real estate and real asset classes. The firm offers these capabilities to institutional investors as an investment advisor and consultant.

Townsend has been advising and managing real estate portfolios for over three decades and across multiple market cycles. As of September 30, 2023, Townsend had assets under management of approximately \$22.1 billion. As of September 30, 2023, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding \$122.9 billion. We believe, through our global investment platform, fiduciary culture, asset class expertise and client capital scale, we are able to deliver clients unique information, while providing a sourcing and execution advantage.

Disclaimer

This document has been prepared by Townsend Holdings LLC (“Townsend”), a division of Aon plc., and is appropriate solely for qualified investors. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. The information contained herein is given as of the date hereof and does not purport to give information as of any other date. The delivery at any time shall not, under any circumstances, create any implication that there has been a change in the information set forth herein since the date hereof or any obligation to update or provide amendments hereto. The information contained herein is derived from proprietary and non-proprietary sources deemed by Townsend to be reliable and are not necessarily all inclusive. Reliance upon information in this material is at the sole discretion of the reader. This document does not constitute an offer of securities or solicitation of any kind and may not be treated as such, i) in any jurisdiction where such an offer or solicitation is against the law; ii) to anyone to whom it is unlawful to make such an offer or solicitation; or iii) if the person making the offer or solicitation is not qualified to do so. Townsend is a registered investment adviser with the Securities and Exchange Commission and is a wholly owned, indirect subsidiary of Aon plc. Employees of Townsend may hold securities in affiliates of investment fund managers that are currently managing funds in which Townsend clients may invest or which Townsend may recommend. Employees of Townsend must report their holdings pursuant to applicable law and clear any conflicts of interest with Townsend’s compliance department.

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

RESOLUTION
No. 2024-26

**Approving Investment in KKR Global Infrastructure Investors V,
(USD) SCSp
with Imminent Need**

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 real assets investment consultant, Aon Hewitt Investment Consulting, Inc, along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **KKR Global Infrastructure Investors V, (USD) SCSp**, a fund specializing in infrastructure investment opportunities including communication, power, energy, transportation, and utility assets primarily in North America and Western Europe; and

WHEREAS, the ATRS Board approves an investment of up to **\$50 million dollars (\$50,000,000.00)** in **KKR Global Infrastructure Investors V, (USD) SCSp**, and the Board, after its review of the timing in which the closing of the investment in **KKR Global Infrastructure Investors V, (USD) SCSp** may need to occur, has determined that there is an imminent need to immediately enter into the partial equity ownership agreement prior to the next scheduled meeting of the Arkansas Legislative Council. The Board also deems it financially appropriate to enter into the partial equity ownership agreement and concludes that to forego the opportunity to promptly implement its investment directives under the prudent investor rule would be inconsistent with its fiduciary duty of care to the members and annuitants;

NOW, THEREFORE, BE IT RESOLVED, that the ATRS Board approves an investment of up to **\$50 million dollars (\$50,000,000.00)** in **KKR Global Infrastructure Investors V, (USD) SCSp** and agrees to immediately move to close and subscribe the approved ATRS limited partnership interest in **KKR Global Infrastructure Investors V, (USD) SCSp**. The total investment amount is to be determined by the real assets investment consultant and ATRS staff

based upon the allocation available to ATRS and the overall investment objectives set by the Board; and

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

Adopted this 12th day of June 2024

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