

ARKANSAS TEACHER RETIREMENT SYSTEM

August 3, 2021

1400 West Third Street

BOARD ROOM

Little Rock, AR 72201

Board of Trustees - Called Meeting Meeting

4:15 p.m.

Trustees

Danny Knight, Chair

Lloyd Black, Vice Chair

Anita Bell

Kathy Clayton

Kelly Davis

Dr. Mike Hernandez

Shawn Higginbotham

Michael Johnson

Bobby G. Lester

Chip Martin

Ex Officio Trustees

Susannah Marshall, State Bank Commissioner

Johnny Key, Education Secretary

Honorable Andrea Lea, State Auditor

Honorable Dennis Milligan, State Treasurer

AGENDA
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES - CALLED MEETING

August 3, 2021
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 3.
- V. Investment Committee Report. *Chip Martin, Investment Vice Chair*
 - A. ***Recommendation to Transfer Investment in ISQ Global Infrastructure Fund III, L.P. to ISQ Global Infrastructure Fund III (UST), L.P. with Imminent Need.** (Attachment No. 2) page 5.
 - 1. ***Resolution 2021-30.** page 7.
- VI. Other Business.
- VII. ***Adjourn.**

* Action Item

2021-07-31 08:40:04.680477

EXECUTIVE SUMMARY

TO: Board of Trustees
FROM: ATRS Staff
RE: Executive Summary
DATE: August 3, 2021

V. Investment Committee Report. *Chip Martin, Vice Chair*

- A. Recommendation to Transfer Investment in ISQ Global Infrastructure Fund III, L.P. to ISQ Global Infrastructure Fund III (UST), L.P. with Imminent Need.** The ATRS Board of Trustees approved Resolution 2021-09 authorizing an investment of up to \$50 million dollars in ISQ Global Infrastructure Fund III, L.P. at the February 1, 2021 Board Meeting. The investment was successfully negotiated, accepted, and closed on March 4, 2021.

ISQ Global Infrastructure Fund III is the main fund of this investment strategy and has several silos or sub accounts investors may choose from based on the investor's tax status. The sub accounts have the same characteristics of the main fund but each has a different tax treatment. It has been determined that ISQ Global Infrastructure Fund III (UST), L.P. is a more efficient investment structure for ATRS given the tax-exempt status of ATRS. Accordingly, Aon Hewitt Investment Consulting, Inc has revised its recommendation to recognize the different tax structures and acknowledges ATRS should seek legal counsel recommendation for the specific subaccount for the ATRS investment. ATRS legal counsel recommends the ISQ Global Infrastructure Fund III (UST), L.P. subaccount based on the tax status of ATRS.

ATRS staff is requesting to transfer the \$50 million dollar investment in ISQ Global Infrastructure Fund III, L.P. to ISQ Global Infrastructure Fund III (UST), L.P. It should be noted there are no material differences in investment strategy or terms, the only difference is the fund's structure for tax purposes. It should also be noted the transfer will not have any negative effects for ATRS. Since ATRS will need to close the transfer to ISQ Global

Infrastructure Fund III (UST), L.P. before the next meeting of the Arkansas Legislative Council, Imminent Need is requested.

As a reminder, the Fund is sponsored by I Squared Capital (ISQ), an independent infrastructure investment firm focused on core+ / value-add mid-market and large transactions across utilities, transportation, communication, power and renewables, midstream energy and social infrastructure businesses located in North America, Europe and select growth economies, mainly in Asia and Latin America. ISQ was founded by Sadek Wahba (Chairman and Managing Partner), Gautam Bhandari (Managing Partner) and Adil Rahmathulla (Managing Partner) (collectively the “Principals”) in 2012. I Squared Capital is a specialist global infrastructure firm headquartered in Miami with other offices in New York, London, New Delhi, Singapore, and Hong Kong. ISQ has been actively investing capital in its target infrastructure sub-sectors and geographies since 2014. Across its two prior funds, the firm has raised \$10.0 billion in total commitments, invested \$8.0 billion across 31 deals, and realized \$3.3 billion with the remaining portfolio marked at \$9.5 billion, as of March 31, 2021. This reflects a combined net internal rate of return (“IRR”) of 16.2%.

1. Resolution 2021-30

VI. Other Business

VII. Adjourn



950 Main Avenue
Suite 1600
Cleveland, OH 44113

Memorandum (revised from February 1, 2021)

To: Arkansas Teacher Retirement System (“ATRS”)
From: Chae Hong; Iftikhar Ahmed
CC: PJ Kelly; Jack Dowd; Richard Ferguson
Date: July 28, 2021 (revised from February 1, 2021)
Re: ISQ Global Infrastructure Fund III – \$50 million Commitment Recommendation

Background and Recommendation

ISQ Global Infrastructure Fund III (“ISQ III”, “Fund III” or the “Fund”) is targeting to raise \$12.0 billion in total commitments. The Fund is sponsored by I Squared Capital (“ISQ”, the “Firm” or the “Manager”), an independent infrastructure investment firm focused on core+ / value-add mid-market and large transactions across utilities, transportation, communication, power and renewables, midstream energy and social infrastructure businesses located in North America, Europe and select growth economies, mainly in Asia and Latin America. ISQ is headquartered in Miami with other offices in New York, London, New Delhi, Singapore, and Hong Kong.

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. An ISQ III InDetail is attached for reference. We recommend that ATRS invest \$50 million in the Fund to fulfill ATRS’ 2021 infrastructure allocation, in accordance with the previously approved 2021 ATRS Real Asset Pacing Schedule. Additionally, ISQ Global Infrastructure Fund III provides investors with various Cayman Island exempted limited partnerships and Luxembourg limited partnerships. Townsend recommends ATRS consult with its tax and legal counsel to determine the most appropriate vehicle for the Plan.

Subject: ISQ Fund III (UST) Proposed Investment

From: Heartsill Ragon III <ragon@gill-law.com>

Date: 7/30/2021, 9:17 AM

To: Clint Rhoden <clintr@artrs.gov>, "Rod Graves - ATRS (rodg@artrs.gov)" <rodg@artrs.gov>, "Martha Miller - ARTRS (martham@artrs.gov)" <martham@artrs.gov>, Jerry Meyer <jerrym@artrs.gov>, Kevin Odum <kevin@artrs.gov>

Clint, Rod, Martha, Jerry and Kevin, I have completed my review of the submittal documents regarding the proposed investment. I have additionally worked with fund counsel in connection with the documentation of the side letter that generally conforms with the System's approved template. Follow-up diligence questions have additionally been submitted and appropriate responses have been received.

Based upon the foregoing and our review of the System's prior investments in similar funds, it is our conclusion that the legal structuring and general business terms of this transaction are generally consistent with the best practices and standards required by institutional investors in similar transactions. We provide no insights into the investment merits or suitability of this proposed transaction, it being understood that Townsend Group, an Aon company, as investment advisor, has provided this comfort.

We note to you that the System originally subscribed to an investment in the ISQ Fund III but that the investment is contemplated to be transferred and exchanged to ISQ Fund III (UST), with the fund's approval. In our discussion with fund counsel, we have concluded that this exchange will result in a more efficient investment structure based upon the System's tax status and will place the System in-line with similarly situated investors. This transfer and assignment comes with no cost to the System.

Thanks, Heartsill

Heartsill Ragon III ([Click here for Bio and V-Card](#))

Gill Ragon Owen, P.A.

Simmons Tower

425 West Capitol Avenue

Suite 3800

Little Rock, AR 72201

501-376-3800

501-801-3810 (direct dial)

501-372-3359 (fax)

ragon@gill-law.com

GILL RAGON OWEN
ATTORNEYS

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

**RESOLUTION
No. 2021-30**

**Approving Transfer of Investment in ISQ Global Infrastructure
Fund III, L.P. to ISQ Global Infrastructure Fund III (UST), L.P.
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 previously approved Resolution 2021-09 authorizing an investment in **ISQ Global Infrastructure Fund III, L.P.** of up to **\$50 million dollars (\$50,000,000)** with imminent need at the February 1, 2021 ATRS Board meeting; and

WHEREAS, the ATRS full commitment of **\$50 million dollars (\$50,000,000)** in **ISQ Global Infrastructure Fund III, L.P.** was successfully negotiated, accepted, and closed on March 4, 2021; and

WHEREAS, **ISQ Global Infrastructure Fund III, L.P.** is the main fund of the investment strategy and has several options for investors to utilize based on the investor's tax status; and

WHEREAS, it has been determined that **ISQ Global Infrastructure Fund III (UST), L.P.** is a more efficient ownership structure based on the tax status of ATRS. Accordingly, the revised recommendation of the ATRS real assets investment consultant, Aon Hewitt Investment Consulting, Inc., and subsequent recommendation from ATRS legal counsel along with the recommendation of the Investment Committee and ATRS staff has been revised to transfer ATRS interests in their entirety from **ISQ Global Infrastructure Fund III, L.P.**, to **ISQ Global Infrastructure Fund III (UST), L.P.**; and

WHEREAS, the ATRS Board approves the transfer of the **\$50 million dollar (\$50,000,000)** investment in **ISQ Global Infrastructure Fund III, L.P.**, to **ISQ Global Infrastructure Fund III (UST), L.P.** and the Board, after its review of the timing in which the transfer to **ISQ Global Infrastructure Fund III (UST), L.P.** may need to occur, has determined that there is an imminent need to

immediately enter into the transfer of equity ownership agreement prior to the next scheduled meeting of the Arkansas Legislative Council. The Board also deems it financially appropriate to transfer 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 the transfer of the **\$50 million dollar (\$50,000,000)** investment in **ISQ Global Infrastructure Fund III, L.P.** to **ISQ Global Infrastructure Fund III (UST), L.P.** and agrees to immediately move to transfer the subscription of the limited partnership investment interest from **ISQ Global Infrastructure Fund III L.P.** to **ISQ Global Infrastructure Fund III (UST), L.P.**; and

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

Adopted this 3rd day of August, 2021.

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