

ARKANSAS TEACHER RETIREMENT SYSTEM

July 14, 2021

1400 West Third Street

BOARD ROOM

Little Rock, AR 72201

Called Board of Trustees 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
CALLED BOARD OF TRUSTEES

July 14, 2021

4:15 p.m.

1400 West Third Street

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- 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 Commit up to \$30 Million Dollars in Alpine Investors VIII, L.P., a Buyout Fund that will Focus on Small and Lower Middle Market Software and Services Companies.** (Attachment No. 2) page 4.
 - 1. ***Resolution 2021-29.** (Attachment No. 3) page 8.
- VI. Other Business.
- VII. ***Adjourn.**

* Action Item

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EXECUTIVE SUMMARY

TO: Board of Trustees
FROM: ATRS Staff
RE: Executive Summary
DATE: July 14, 2021

V. Investment Committee Report.

- A. **Recommendation to Commit up to \$30 Million Dollars in Alpine Investors VIII, L.P., a Buyout Fund that will Focus on Small and Lower Middle Market Software and Services Companies.** Based in San Francisco, Alpine Investors was founded in 2001 by Graham Weaver. Today, the firm consists of twenty-four professionals led by five senior professionals who each average more than ten years of private equity experience and have complimentary investing experience. The investment team has an attractive track record, having produced a gross IRR of 22.2% in its previous funds.

The firm primarily makes control investments in software and services companies in the small and lower middle market. The fund will target companies in need of new management due to poor management performance, founders retiring, or companies that are being carved out of larger companies. In general, investments will be made in companies for which the fund can install new management teams and scale the business through a buy-and build approach. The general partner will target predictable businesses with strong recurring revenue. The fund is targeting commitments of \$2 billion dollars and is well-positioned in its target market. Franklin Park recommends a commitment of up to \$30 million dollars in Alpine Investors VIII, L.P. and ATRS staff concurs with the recommendation.

1. Resolution 2021-27



Executive Summary Alpine Investors VIII, L.P.

Executive Summary

Fund	Alpine Investors VIII, LP (the “Fund”)
General Partner	Alpine Investors (the “General Partner” or “Alpine”)
Report Date	July 2021
Fundraising	The General Partner is targeting limited partner capital commitments of \$1.7 billion, with a cap of \$2.0 billion. The General Partner held a first closing on \$161 million in June 2021. The General Partner is targeting a second closing on July 30, 2021, with a final closing likely to follow in August 2021.
Source	The General Partner has retained Evercore to assist with fundraising.
Investment Strategy	<p>The Fund is being formed to make control investments in small and lower-middle market U.S. companies in the software and services sectors. The Fund will target companies in need of new management either because they are poorly run, the founder is retiring, or they are being carved out from a larger company. The Fund will target predictable asset-light businesses with strong recurring revenue and high switching costs. The Fund will target companies that are in a state of transition, either because of management changes, a revenue model change (ex: license vs. subscription) or growth from a single solution to a full suite of capabilities.</p> <p>The General Partner has an in-house CEO recruitment and development program which focuses on i) identifying what the General Partner perceives to be world class CEOs in its target sectors (“CEOs-in-Residence” or “CIRs”) and ii) developing future CEO candidates (“CEOs-in-Training” or “CITs”). CIRs are trained on the General Partner’s playbook and work with the General Partner’s investment team and sourcing team to develop a thesis and identify and diligence potential acquisition targets. CITs are recruited out of business school, trained in the General Partner’s playbook and initially placed in management-level positions with portfolio companies or add-on acquisitions. The goal is for CITs to eventually elevate to become CIRs. Each of the Fund’s portfolio companies will be matched with a CIR and two or more CITs.</p> <p>Post-acquisition, the Alpine Operations Group, along with the portfolio company management team, implements its operational playbook which focuses on team development, pricing, sales and marketing and add-on acquisitions. The General Partner intends to invest roughly 50% of the Fund’s capital into add-on acquisitions to help drive EBITDA growth and efficiently scale its platforms.</p>
Management Team	Based in San Francisco, the General Partner was founded in 2001 by Graham Weaver. The General Partner’s investment team consists of 24 professionals, led by five senior professionals (the “Principals”). The investment team is supported by seven sourcing professionals, 11 financial operations & support professionals, an investor relations professional and a 12-person Alpine Operations Group. The Principals’ backgrounds are summarized in the table below.

Principals	Yrs. GP	Yrs. PE	Background
Graham Weaver	20	26	Oak Hill, American Securities
Bill Maguy	17	17	Telephia, Swander Pace
Dan Sanner	19	19	Flowerdale Group, Alpine Label Holdings
Mark Strauch	13	13	EDC, Business Engine
Matt Moore	5	5	SPMB

Track Record

The General Partner has raised seven prior funds. The following chart summarizes the performance of the prior funds, as of December 31, 2020.

Aggregate Performance Summary ¹			(USD 000)				
Fund (Vintage)	Fund Size	Rlzd Deals / # Deals	Invested	Realized	Unrealized	Gross ROI	Gross IRR
Fund I (2001)	54,000	7 / 7	59,677	65,450	0	1.1x	2.9%
Fund II (2003)	68,000	7 / 7	65,712	158,537	0	2.4x	25.7%
Fund III (2006)	125,000	6 / 8	107,732	186,213	121,587	2.9x	16.4%
Fund IV (2010)	262,000	11 / 15	286,541	460,258	361,639	2.9x	23.2%
Fund V (2014)	406,000	6 / 9	308,878	830,918	281,571	3.6x	39.2%
Fund VI (2017)	532,000	1 / 7	465,585	171,487	966,100	2.4x	52.7%
Fund VII (2019)	1,000,000	0 / 5	477,828	85,249	523,963	1.3x	34.8%
Total		38 / 58	1,771,955	1,958,112	2,254,859	2.4x	22.2%

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

Investment Evaluation

- 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. Further, the Fund's target companies in the software and services sectors have a number of favorable investment traits, including high recurring revenue, high switching costs, and strong secular growth drivers.
- The General Partner is well positioned in its target market.** The General Partner possesses a number of advantages relative to generalist investment funds that opportunistically invest in its target sectors. The team is highly knowledgeable about the forces shaping the software and services sectors, the value drivers that determine investment potential, what constitutes best operating practices, and how performance can be improved through management initiatives. Further, the General Partner's CEO recruitment and development program positions it to source and win deals that require a new management team.
- The Principals have complementary operating and investing experience.** The Principals average 16 years of private equity investment experience. Further, four of the five Principals have been investing together at the General Partner for the last 13 years. Mark Strauch was previously the CEO of two technology companies.

Further, the Fund will benefit from the General Partner's deep bench of management talent. The General Partner is currently working with 37 CEOs-in-Residence and 24 CEOs-in-Training. The General Partner's ability to recruit talented managers to its portfolio companies is enhanced by this program. In addition, the time spent training CEOs on the Alpine playbook and working together through due diligence on investment opportunities brings familiarity, confidence and alignment to General Partner's relationships with management teams.

- The General Partner's track record is attractive.**
 - The General Partner's approach of i) focusing on the software and service sectors, ii) hiring an Alpine CEO pre-close and iii) pursuing a buy and build strategy through add-on acquisitions was implemented beginning in Fund IV and throughout all of Funds V-VII. Funds IV-VII have produced attractive returns to date, each ranking in the first quartile for net IRR and TVPI among their vintage peers.

- The General Partner's 14 prior software investments have produced a 2.0x ROI and 40.3% gross IRR, including seven realized investments for a 2.9x ROI and 44.9% gross IRR
 - The General Partner's 17 prior services investments have produced a 2.7x ROI and 34.7% gross IRR, including seven realized investments for a 5.9x ROI and 36.7% gross IRR
 - The General Partner's 33 prior investments in which it hired an Alpine CEO pre-close have produced a 2.5x ROI and 33.0% gross IRR, including 15 realized investments for a 4.9x ROI and 38.8% gross IRR
 - The General Partner's 25 prior investments in which it has completed two or more add-on acquisitions have produced a 2.7x ROI and 35.0% gross IRR, including 13 realized investments for a 4.5x ROI and 38.9% gross IRR
5. **The Fund will be significantly larger than the prior funds.** At a cap of \$2.0 billion, the Fund would be twice the size of Fund VII and almost 4x the size of Fund VI. The General Partner's ability to generate attractive returns at a larger fund size is unproven.

However, the General Partner has become more efficient in deploying capital through add-on acquisitions. The number of add-on acquisitions per portfolio company has increased significantly over the General Partner's prior three funds. As the General Partner has refined its add-on approach and improved its building of M&A capabilities within portfolio companies, the amount of capital it can deploy, while continuing to target similar-sized companies, has increased. Fund VII has utilized co-investment capital to fully capitalize on the add-on opportunities in those companies.

Recommendation Franklin Park recommends a commitment 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 General Partner is well positioned in its target market;
- 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. 2021-29**

Approving Investment in Alpine Investors VIII, 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 **Alpine Investors VIII, L.P.**, a buyout fund that will invest in small and lower middle market software and services companies.

THEREFORE, BE IT RESOLVED, that the ATRS Board approves an investment of up to **\$30 million dollars (\$30,000,000.00)** in **Alpine Investors VIII, 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 14th day of July 2021.

Mr. Danny Knight, Chair
Arkansas Teacher Retirement System