

# **ARKANSAS TEACHER RETIREMENT SYSTEM**

**October 31, 2024**

1400 West Third Street

**BOARD ROOM**

Little Rock, AR 72201

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

**4:15 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-CALLED MEETING**

**October 31, 2024**  
**4:15 p.m.**  
**1400 West Third Street**  
**Little Rock, AR 72201**

- I. **\*Call to Order/Roll Call.** page 1.
- II. **\*Adoption of Agenda.** page 2.
- III. Executive Summary. (Attachment No. 1) page 3.
- IV. Investment Committee Report.
  - A. **\*Update and Recommendations for South Harbor GP I, LLC.**
    - 1. **\*Recommendation to approve for Board adoption Resolution 2024-34 authorizing a promissory note of up to \$16.64 million dollars to South Harbor GP I, LLC.** (Attachment No. 2) page 4.
      - a. **\*Resolution 2024-34.** (Attachment No. 2)
    - 2. **\*Resolution 2024-34.** (Attachment No. 3) page 7.
- V. Other Business.
- VI. **\*Adjourn.**

\* Action Item

2024-10-31 11:18:49.879157

## EXECUTIVE SUMMARY

TO: Board of Trustees-Called Meeting  
FROM: ATRS Staff  
RE: Executive Summary  
DATE: October 31, 2024

### IV. Investment Committee Report.

#### A. \*Update and Recommendations for South Harbor GP I, LLC.

Representatives of Arkansas Capital Corporation will provide the Committee with an update and recommendations for the System's investment in Highland LP managed by South Harbor GP I, LLC.

1. **\*Recommendation to approve for Board adoption Resolution 2024-34 authorizing a promissory note of up to \$16.64 million dollars to South Harbor GP I, LLC.** page 4.
  - a. **\*Resolution 2024-34.**
2. **\*Resolution 2024-34.** page 7.

### V. Other Business.



## EMPOWERING ENTREPRENEURS

October 30, 2024

Mr. Mark White  
Executive Director  
Arkansas Teacher Retirement System  
1400 West Third Street  
Little Rock, AR 72201

Re: Potential Loan to South Harbor GP I, LLC

Dear Mr. White:

As a consultant to Arkansas Teacher Retirement System ("ATRS"), Arkansas Capital Corporation ("ACC") delivers this letter to ATRS, outlining ACC's recommendations related to a proposed loan by ATRS's wholly owned subsidiary, Pinnacle Mountain Holding Company V, LLC ("Pinnacle") into South Harbor GP I, LLC, the general partner of Highland LP ("Highland"), one of ATRS's limited partnership fund investments.

### **Background**

Highland LP (the "Fund") invests in biomass-related industries in the United States. ATRS has made prior debt and equity investments into the Fund starting in 2016 which owns, directly or through subsidiaries, Highland LLC, Highland Pellets Holdco LLC, Highland Pellets Subholdco LLC, Highland Pellets, LLC, Highland Port LLC, Highland Pellets South LLC, Highland FR and HP Finance LLC.

Highland Pellets, LLC is the main operational asset of the Fund. It owns a wood pellet production plant in Pine Bluff, Arkansas, which produces pellets under an offtake agreement that runs through 2026 for a major UK utility customer. Highland FR owns the assets of the former Fiber Resources production facility in Pine Bluff which produces pellets for a Danish multinational energy company under an offtake agreement through 2027. Highland Port LLC owns approximately 54 acres of development property at the Port of Pine Bluff. Highland Pellets South LLC owns approximately 350 acres of development property in Ogemaw, Arkansas.

## **Recommendation**

South Harbor has requested an up to \$16,640,000 loan from ATRS. In exchange South Harbor would cancel/waive accrued management fees up to and including 9/30/24. From 10/1/24 until March 31, 2031, cancel/reduce the management fee by 0.5% (net fee payable 2.0%) and from April 1, 2031, to the end of the term of the Fund, cancel/reduce the management fee by 1.75% (net fee payable 0.75%). Starting 10/1/2024, the ATRS limited partner may be called by the GP to pay any SHM management fees due and payable for the current quarter or in advance (as they come due under the investment management agreement). The right of the GP to call for such fees may be suspended by the ATRS LP under certain conditions to be negotiated and documented. Investment Expenses of the Fund under the LPA may be called by the GP and paid by the ATRS limited partner from time-to-time but shall not exceed \$250K per quarter or \$2 million in the aggregate. Any accrued or forward fee payments, that under the terms of the note and/or LP agreement are owed, will be paid by ATRS "forgiving" a portion of the note. ATRS, at their sole discretion, may also elect to pay any investment expenses owed under the LPA by "forgiving" a portion of the note.

This loan opportunity creates a reduction of 15-year lifetime fund management expenses of \$27,306,088.55 through the waiver/cancellation of current accrued fees and the reduction of fee expenses going forward.

Based on our review of materials and other due diligence conducted and considering, among other things, the factors cited above, **we recommend that Pinnacle make the proposed \$16.64 million** loan subject to additional terms and conditions satisfactory to ATRS and ATRS counsel. We further recommend that ATRS execute an amendment to the Agreement of Limited Partnership necessary to implement these modifications to the management fees, subject to additional terms and conditions satisfactory to ATRS and ATRS counsel.

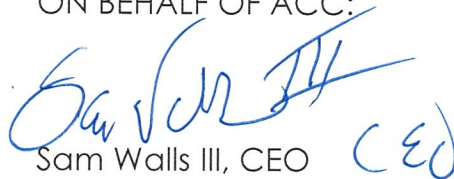
## **ACC Statement**

In performing its analysis and delivering this recommendation, ACC relied on drafts of documents for the Transactions along with research from the sources cited herein. ACC has not independently verified the accuracy of such information and

Mr. Mark White  
Re: Transactions Related to Highland LP Fund  
October 30, 2024  
Page 3

disclaims all liability based on its reliance on such information in performing its analysis and making its recommendation hereunder.

Sincerely yours,  
ON BEHALF OF ACC:

  
Sam Walls III, CEO (ED)

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

**RESOLUTION**  
**No. 2024-34**

**Approving a Promissory Note to South Harbor GP I, LLC**

**WHEREAS**, the Board of Trustees (Board) of the Arkansas Teacher Retirement System (ATRS) is authorized to invest and manage trust assets for the benefit of its plan participants; and

**WHEREAS**, the ATRS Board has reviewed the recommendation of Arkansas Capital Corporation along with the recommendation of ATRS staff regarding a potential promissory note related to South Harbor GP I, LLC in connection with the ongoing capital needs related to an existing limited partnership investment of ATRS.

**THEREFORE, BE IT RESOLVED**, that the ATRS Board approves an investment of up to \$16,640,000 through a promissory note to **South Harbor GP I, LLC**, subject to satisfaction of those additional terms and conditions in the discretion of the director and pursuant to the recommendation of Arkansas Capital Corporation. The Promissory note may provide for the forgiveness of principal in exchange for the waiver of accrued but unpaid management fees. The ATRS Board further approves necessary amendments to the agreement of limited partnership in order to accomplish the waiver and reduction in accrued but unpaid management fees discussed in the recommendation of Arkansas Capital Corporation, and the payment of ongoing management fees and expenses similar to other limited partnership fund investments. The total amount of investment is to be determined by Arkansas Capital Corporation and ATRS staff based upon 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 31<sup>st</sup> day of October 2024.**

---

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