

Minutes
The Arkansas Local Police and Fire Retirement System
Board of Trustees
Investment Committee Meeting

The Arkansas Local Police and Fire Retirement System Investment Committee met on Tuesday, February 11, 2014 in the LOPFI office at 620 W. 3rd, Suite 200, Little Rock, Arkansas.

Members Present: Bev Lambert, Public Trustee, Chairman
 Mayor Mike Gaskill, Employer Trustee
 Terry Henson, Fire Employee Trustee

Staff Present: David Clark, Executive Director
 Tracy Warfe, Assistant Director
 Crystal Holsted, Secretary to the Committee

Chairman Lambert called the meeting to order at 9:30 a.m. and recognized a quorum and notification of the news media.

Investment Consultant report

Larry Middleton, Stephens Inc., stated in keeping with past discussions, the objective is to leverage the expertise of existing managers. Year-end 2013 resulted in a strong growth from stocks, the portfolio percentage of the equity holdings is rising and money needs added to the fixed income managers. Today we will hear from two (2) alternative asset managers. Mr. Middleton stated that three (3) domestic managers' current numbers are WAMCO (\$130 million), PIMCO (\$169 million), Garcia Hamilton (\$60 million) and the current liquidation account has approximately \$82 million. Mr. Middleton recommended that the Committee add \$20 million to Garcia Hamilton and that if monies were added, the agreement of fees would be 25 basis points (bps) on the first \$50 million, 18 bps for the next \$50 million and 10 bps on anything over \$100 million. Mr. Gaskill made a motion, seconded by Mr. Henson to deploy \$20 million to Garcia Hamilton's fixed income mandate. The motion passed unanimously.

Manager Interviews

Alternative Investment Management, LLC (AIM): presented by John Harris, Bill Brown and Susan Mays. Mr. Harris thanked the Committee for their relationship and gave an overview of the current hedge fund strategy. Mr. Harris presented their private equity fund stating that it is similar to their hedge fund. Chairman Lambert stated that he was impressed with AIM's biographies and case studies. Mr. Gaskill stated that AIM's significant internal capital commitment gives him confidence.

- Fund size – \$50 million
- Internal capital commitment – \$5 million
- Management fee – 50 bps (reduced for existing relationships)
- Carried Interest – 5%, subject to a 10% hurdle
- Call – 20-25%

Mr. Harris concluded the presentation and thanked the Committee for their time. Mr. Gaskill made a motion, seconded by Mr. Henson to deploy \$20 million to AIM's Private Equity 3, L.P. The motion passed unanimously.

The Committee recessed at 10:12 a.m. and reconvened at 10:15 a.m.

Kohlberg Kravis Roberts (KKR): presented by Dash Lane. Mr. Lane thanked the Committee for their relationship in direct lending and mezzanine finance. Mr. Lane stated that KKR's Energy Income and Growth Fund combines four (4) key strategies: Oil and Gas Development, Minerals and Royalties, Mature Oil and Gas, and Oil and Gas Mezzanine and Opportunistic Other. Mr. Lane stated that KKR collaborates with the industry allowing companies to accelerate their development by providing capital. Mr. Henson asked about the associated risks with the inability to move product. Mr. Lane stated that KKR does not invest in companies without a fixed flow in place. Mr. Lane stated that the biggest risk with energy is the commodity prices; however, there is an advantage to participant in any of KKR's four (4) key strategies, worst-case scenario investing less will occur to protect distributions.

- Fund size – \$2 billion
- Internal capital commitment – \$500 million (20%)
- Management Fee – 1.5% on committed capital
- Carried Interest – 15% of net profits, subject to an 8% preferred return
- Investment Period: 10-year term
 - 5 years development/re-investing
 - 5 years payout generate mid teens returns

Mr. Lane concluded the presentation and thanked the Committee for their time. Mr. Gaskill made a motion, seconded by Mr. Henson to deploy \$20 million to KKR's Energy Income and Growth Fund. The motion passed unanimously. The Committee was very pleased with Mr. Lane. Mr. Clark asked Mr. Middleton to confirm the management fee. Mr. Middleton stated KKR's management fee is 1.5% on committed capital and a 15% carried interest with an 8% preferred return.

The Committee adjourned at 10:48 a.m.

Respectfully submitted,

Board Approved 03/05/14

Crystal Holsted
Recording Secretary for the Committee