

January 30, 2025

The Honorable Ben Gilmore
State Senator
Arkansas Legislative Council Co-Chair
State Capitol, Room 315
Little Rock, AR 72201

The Honorable Les Eaves
State Representative
Arkansas Legislative Council Co-Chair
State Capitol, Room 315
Little Rock, AR 72201

Re: Arkansas Public Employees Retirement System (APERS) Investment for Review under Act 1211 of 2009

Senator Gilmore and Representative Eaves:

In accordance with Act 1211 of 2009, APERS is providing a revised and updated investment summary for the Arkansas Legislative Council to review. Attached to this letter is an updated executive summary detailing APERS' partial equity ownership in this investment.

On September 15, 2023, the Arkansas Legislative Council passed a motion to file as reviewed an investment summary for HarbourVest Partners, LLC, pursuant to Act 1211 of 2009.

In my previous letter to you, dated August 22, 2023, I correctly noted that the APERS Board of Trustees allocated up to \$300 million for this investment. However, during a recent Legislative Audit, it was highlighted that to achieve a \$300 million Net Asset Value (NAV), APERS needed to commit \$400 million. (A cash flow analysis conducted by the investment manager is attached. APERS' private equity consultant, Stephens, Inc., has reviewed and concurred with this projection.)

To clarify:

- APERS reported that the actual "out-of-pocket" investment, or maximum capital deployed, would be up to \$300 million.
- However, we should have also noted that achieving the \$300 million NAV requires an upfront commitment of \$400 million due to the nature of the investment strategy and the anticipated cash flows.

The investment in question is a secondary private equity strategy. This is APERS' first investment in this type of strategy, and, to our knowledge, none of the other Arkansas retirement systems have engaged in similar investments.

Moving forward, APERS will explicitly include the commitment size and the target Net Asset Value in all future investment reporting related to partial equity ownership.

Please do not hesitate to contact me directly if you require additional information or have further questions.

Sincerely,

A handwritten signature in blue ink that reads "Amy Fecher". The signature is stylized with a large, looped "A" and a cursive "Fecher".

Amy Fecher

Private Equity Investment Executive Summary

Investment	Dover Street XI (the “Fund”)
Managing Party	HarbourVest Partners, LLC (the “General Partner” or “GP”)
APERS Legal Interest	APERS will be a Limited Partner (“LP”)
Report Date	Updated January 30, 2025
Expected Funding Date	Late-2023 thru 2037
APERS Commitment & Reason for Entry	A commitment of \$400 million will be necessary to achieve the ~\$250 to \$300 million Net Asset Value target allocation within the APERS’ Private Equity investments. The fund was vetted and recommended by the APERS Private Equity consultant.
Placement Agent	No placement agent was utilized.
Key Terms	<u>Management Fee</u>: The fund charges a management fee of ~0.61% on commitments during the investment period based on a 14-year life. <u>Carried Interest</u>: After the limited partners receive their aggregate capital on realized investments, write downs, fees, expenses, and an 8% preferred return is achieved the General Partner receives a 12.5% performance fee.
Justification of Investment Term & Anticipated Termination Date	The investment is a “private equity secondary” investment and the life of the investment could extend out to fourteen years.
Investment Strategy	The Fund invests in a Private Equity Secondaries Fund. The investment types will vary between buyout, venture, growth equity, and distressed funds. The transaction could be either GP-led, or LP-led. The fund will be primarily domestic secondary funds. There will also be vintage year diversification.
Management Team	The primary investment strategy team members include: Jeff Keay (Managing Director), and Michael Pugatch (Managing Director) HarbourVest began in the late 1970s making venture capital investments. The firm expanded its investment focus in 1981 to include buyout partnerships, and in 1982 formed its first fund which was one of the first closed-end funds.
Historical Performance	Dover Street 1a-IV was \$363 million and had a net IRR of 20.8%; Dover Street V had \$515 million and a net IRR of 17.9%; Dover Street VI had \$621 million and a net IRR of 3.9%; Dover Street VII had \$2.93 billion and a net IRR of 9.2%; Dover Street VIII had \$3.59 billion and a net IRR of 19.9%; Dover Street IX had \$4.7 billion and a net IRR of 25.9%. * Historical returns are not indicative of future performance

RE: MEMO

Carlos,

Private equity secondary investing offers attractive out of pocket capital exposure. This is achieved as secondary funds own mature assets that generate faster liquidity events which provide earlier distributions and thus offset out of pocket capital calls. Out of pocket exposure for a private equity secondary fund typically ranges from 50-70% of commitment amount. For example, a \$10mm commitment to a secondary fund with an out of pocket exposure of 60% would result in an out of pocket capital of \$6mm. In this example the investor contributed \$6mm while the remaining amount is funded by return of capital & distributions from the fund. Investors must take into consideration out of pocket exposure in their commitment planning process.

Based on Harbourvest's projected pacing schedule and their 10 previous funds, we anticipate Dover Street XI Fund distributions to offset out of pocket capital contributions by 2027 and NAV to peak at less than \$300mm during the life of the fund as seen in the projection below. As a result, we determined a commitment of \$400mm was the appropriate amount to provide likelihood of achieving desired NAV. Thus the disclosed NAV amount of \$250mm-\$300mm is the correct target amount.

HarbourVest Cash Flow Projections- Net Capital

Summary of Investments		LP Commitment
	Vintage	(USD)
Dover XI	2023	\$400.0
Total HarbourVest Funds		\$400.0

Fund	Commitment	(Actual) Inception Through 2022	(Projected)														Total
			2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	
Contributions (\$)	\$0.0		(\$80.0)	(\$88.0)	(\$84.0)	(\$80.0)	(\$24.0)	(\$20.0)	(\$16.0)	(\$8.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$400.0)
Distributions (\$)	\$0.0		\$12.0	\$16.0	\$64.0	\$72.0	\$120.0	\$116.0	\$84.0	\$60.0	\$56.0	\$40.0	\$24.0	\$8.0	\$4.0	\$4.0	\$680.0
Net Cash Flow (\$)	\$0.0		(\$68.0)	(\$72.0)	(\$20.0)	(\$8.0)	\$96.0	\$96.0	\$68.0	\$52.0	\$56.0	\$40.0	\$24.0	\$8.0	\$4.0	\$4.0	\$280.0
Net Asset Value (\$)	\$0.0		\$68.0	\$153.8	\$205.2	\$254.9	\$210.8	\$157.7	\$121.8	\$94.6	\$57.8	\$29.7	\$11.7	\$6.1	\$3.3	\$0.0	

Source: Cambridge Associates, HarbourVest

APERS Dover XI Cash Flow Projections (Hypothetical)

Actual and Projected Cash Flows as a % of LP Commitment and \$ Amounts (\$ in Millions)

Summary of Investments	Vintage	LP Commitment (USD)
Dover XI	2023	\$400.0
Total HarbourVest Funds		\$400.0

		(Actual) Inception Through 2022	(Projected)														Total	Multiple
Fund	Commitment		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036		
Dover XI	\$400.0																	
Contributions (%)		0.0%	(20.0%)	(22.0%)	(21.0%)	(20.0%)	(6.0%)	(5.0%)	(4.0%)	(2.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	(100.0%)	1.7x
Distributions (%)		0.0%	3.0%	4.0%	16.0%	18.0%	30.0%	29.0%	21.0%	15.0%	14.0%	10.0%	6.0%	2.0%	1.0%	1.0%	170.0%	
Contributions (\$)		\$0.0	(\$80.0)	(\$88.0)	(\$84.0)	(\$80.0)	(\$24.0)	(\$20.0)	(\$16.0)	(\$8.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$400.0)	
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Combined																		
Contributions (\$)		\$0.0	(\$80.0)	(\$88.0)	(\$84.0)	(\$80.0)	(\$24.0)	(\$20.0)	(\$16.0)	(\$8.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$400.0)	1.7x
Distributions (\$)		\$0.0	\$12.0	\$16.0	\$64.0	\$72.0	\$120.0	\$116.0	\$84.0	\$60.0	\$56.0	\$40.0	\$24.0	\$8.0	\$4.0	\$4.0	\$680.0	
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Performance is based on hypothetical projections after January 2023. Drawdowns and distributions may continue beyond final year (2036) shown in this exercise. Hypothetical projections are not a reliable indicator of future performance. This information is provided at your request, solely as an example of the pace at which capital may be called and distributed by the fund(s). Hypothetical projections should be used solely as a guide and should not be relied upon to manage your investments or make investment decisions. Past performance and hypothetical projections are not reliable indicators of future results. Realized results will differ from the hypothetical projections, and there can be no assurance that future funds will achieve comparable results. See additional disclosures at the beginning of this section.