



Public Investment Memorandum

Whitehorse Liquidity Partners IV LP

Private Credit Commitment

James F. Del Gaudio
Senior Portfolio Manager

Sean T. Sarraf
Investment Professional

May 12, 2020



Executive Summary

PSERS' Investment Office Professionals ("IOP"), together with Aksia, recommend that PSERS invest \$200 million in Whitehorse Liquidity Partners IV LP (the "Fund" or "Fund IV"). This recommendation is based on our assessment of the investment strategy and our evaluation of Whitehorse Liquidity Partners Inc. and its affiliates ("Whitehorse" or the "Firm").

Fund Name	Whitehorse Liquidity Partners IV LP
Firm Name / General Partner	Whitehorse Liquidity Partners Inc.
Target Fund Size / Hard Cap	\$3 billion / \$3.5 billion
Recommended Commitment Amount	\$200 million
Existing Relationship	No, the proposed investment would be PSERS' first commitment to Whitehorse.
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Credit / Specialty Finance – PE Portfolio Finance
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments James F. Del Gaudio, Senior Portfolio Manager Sean T. Sarraf, Investment Professional
External Consultant Oversight	Aksia LLC

Whitehorse was founded by Yann Robard in 2015 and currently employs 49 professionals at its sole office based in Toronto, Canada. As of May 2020, the Firm had over \$4.3 billion in assets under management (excluding GP commitments). Prior to founding Whitehorse, Mr. Robard spent 13 years at the Canada Pension Plan Investment Board ("CPPIB"). Prior to moving to the private sector, Mr. Robard's CCPIB title was Managing Director, Head of Secondaries and Co-investments, where he grew the program to 15 professionals and invested over C\$7.5 billion across 49 transactions, generating a 21.6% IRR and 1.7x MoC.

Fund IV is targeting \$3 billion in commitments (\$3.5 billion hard-cap). Its focus is to generate attractive risk-adjusted returns by providing structured liquidity solutions or preferred equity financing to private markets investors ("PMI"), including both limited partners and general partners, that are seeking to generate liquidity on their private investment while retaining both upside and flexibility (the "Whitehorse Solution"). The Whitehorse Solution can be utilized by a PMI as an alternative to (i) disposing of an investment, allowing the PMI to generate liquidity while still retaining upside or (ii) utilizing leverage, allowing the PMI to retain operating flexibility. Through March 31, 2020, Whitehorse has invested \$4.3 billion across more than 50 such investments in three prior vintage partnerships:

- Whitehorse Liquidity Partners I LP ("Fund I"), a \$400.0 million 2016 vintage fund
- Whitehorse Liquidity Partners II LP ("Fund II"), a \$1.0 billion 2018 vintage fund
- Whitehorse Liquidity Partners III LP ("Fund III"), a \$2.0 billion 2019 vintage fund.

As of December 31, 2019, Funds I-III generated a blended 18.4% net IRR and 1.12x net MoC.

Investment Team

Whitehorse is managed by Yann Robard (Managing Partner) and 4 additional Partners (Michael Gubbels, Rob Gavin, Leah Boyd, and Giorgio Riva) who comprise the "Senior Leadership Team". The Senior Leadership Team has significant experience sourcing, structuring, closing, and managing investments. The broader Whitehorse team has a mix of secondaries, co-investment, direct lending, and investment banking



backgrounds, allowing them to consider a wide range of transactions and provides complementary, specialized, and differentiated execution capabilities.

Market Opportunity

The secondary market for private equity interests has experienced significant growth since 2007, resulting in a 20.6% compound annual growth rate from December 2013 to December 2019. This growth has been primarily driven by an increased acceptance of the secondary market as a portfolio management tool for private equity investors. In 2019, the global private equity secondary market generated an estimated transaction volume of ~\$80 billion.¹ Whitehorse estimates the current potential annual market opportunity for global structured liquidity solutions to private equity investors is between \$4 and \$8 billion. Whitehorse derives deal flow from the existing secondary market and believes its product can be additive to the size of the secondary market. For example, the Whitehorse Solution can unlock transactions that may not have otherwise been completed, helping investors accelerate liquidity in their portfolios without necessarily needing to crystallize a discount, forgo future proceeds, or time the market. Whitehorse believes there is an opportunity to provide liquidity solutions to both GPs and LPs using a four-pillar approach as depicted below.

Four Whitehorse Pillars			
LP Solutions		GP Solutions	
1 Alternative to Secondary Sale	2 Securitized Secondaries	3 Fund Level Liquidity Solutions	4 General Partner Balance Sheet Liquidity Solutions
Description:	<ul style="list-style-type: none"> Enable counterparty to generate liquidity on existing PE portfolios 	<ul style="list-style-type: none"> Execute an outright purchase of a portfolio and subsequently tranche into preferred and common equity 	<ul style="list-style-type: none"> Liquidity solutions to a GP of a private equity fund GP balance sheet liquidity management
Solving For:	<ul style="list-style-type: none"> Seller avoids discount and keeps upside remaining in PE assets Relieves seller of ongoing administration 	<ul style="list-style-type: none"> Seller seeking a full exit on its private equity portfolio Whitehorse subsequently tranches into two securities 	<ul style="list-style-type: none"> Avoids premature sale of portfolio company Avoids burdensome levels of company leverage Solves for illiquid balance sheet investments Solves for capital constraints for GP commitments
Counterparty Benefits:	<ul style="list-style-type: none"> Generate liquidity Avoids sale at a discount Retains upside Simplifies transfer process 	<ul style="list-style-type: none"> Generate liquidity Crystallizes returns 	<ul style="list-style-type: none"> Enhances fund returns Facilitates longer hold period for portfolio companies More compelling than a portfolio company level dividend recap Increased balance sheet flexibility Maximized GP commitment and optimized cost of capital
Counterparty:	<ul style="list-style-type: none"> Limited partners Secondary & Co-invest Funds / FoFs 	<ul style="list-style-type: none"> Limited partners Secondary & Co-invest Funds / FoFs 	<ul style="list-style-type: none"> All private equity funds Direct Secondaries All private equity funds
Market Size¹:	±\$80B		
Estimated Market Share²:	\$4.0B - \$8.0B (5% – 10%)		

¹ Source: YE 2019 Secondary Market Survey Results, Evercore, January 2020.

² Source: Whitehorse internal estimate based on the size of market opportunity in 2019

In Pillar 1, the Whitehorse Solution can be used by traditional limited partners, secondary funds, and fund-of-fund investors as an alternative to an outright secondary sale of their private equity portfolios. Pillar 2 enables Whitehorse to participate in the secondary market as a traditional buyer through an outright purchase of private equity portfolios from traditional limited partners, secondary funds, and fund-of-fund investors, expanding Whitehorse’s actionable opportunity set. Pillar 3 directly addresses the maturation of the private equity market, providing an alternative means for private equity funds to generate liquidity and which Whitehorse believes is a potentially large and growing opportunity set. And finally, Pillar 4 directly addresses the needs of general partners for a flexible source of capital.



Investment Strategy

Whitehorse seeks to generate attractive risk-adjusted returns by providing structured liquidity solutions or preferred equity financing to private markets investors ("PMI") seeking to generate liquidity while retaining both upside and flexibility (the "Whitehorse Solution"). The Whitehorse Solution can be utilized by a PMI as an alternative to (i) disposing of an investment, allowing the PMI to retain the upside or (ii) utilizing leverage, allowing the PMI to retain operating flexibility.

As discussed above (see *Market Opportunity*), the Firm has identified four applications of the Whitehorse Solution. This four-pillar approach affords Whitehorse the flexibility to adapt to macroeconomic themes and match the needs of the end-user. Whitehorse is targeting 10 - 15 preferred equity structures in the Fund, ranging from \$100 million - \$500 million in size, and will primarily focus on investments located in North America or Europe.

The holding period of a preferred equity structure in the Fund is dependent on the life of the underlying asset. However, Whitehorse will actively monitor each investment to identify opportunities to enhance returns for investors through active portfolio management ("APM") initiatives which may include: (i) the sale of assets within an underlying private equity portfolio, (ii) the outright sale of an entire underlying portfolio, (iii) a recapitalization of a single transaction, and/or (iv) the recapitalization of multiple transactions. All APM initiatives are reviewed by the Fund's investment committee on an ongoing basis and must receive approval from the investment committee.

Investment Instruments

As described above, there are various applications of the Whitehorse Solution. Importantly, irrespective of which application Whitehorse uses on a particular transaction, the Fund will invest primarily through preferred equity securities.

Portfolio Fit

The Fund will be allocated to the Specialty Finance bucket of PSERS' Private Credit portfolio. The table below summarizes PSERS' projected exposure inclusive of a recommended \$200 million commitment:

Investment Type (\$M)	NAV	%	Unfunded ¹	%	Total Exposure ¹	%
Distressed & Special Situations	\$ 2,266.9	42.7%	\$ 1,463.2	43.1%	\$ 3,730.0	42.9%
Direct Lending	1,250.2	23.6%	576.7	17.0%	1,826.9	21.0%
Real Estate Credit	261.1	4.9%	737.3	21.7%	998.4	11.5%
Mezzanine	481.7	9.1%	258.1	7.6%	739.8	8.5%
Real Assets Credit	459.0	8.6%	157.3	4.6%	616.3	7.1%
Structured Credit	508.1	9.6%	0.0	0.0%	508.1	5.8%
Specialty Finance	79.6	1.5%	200.0	5.9%	279.6	3.2%
Total	\$ 5,306.5	100.0%	\$ 3,392.6	100.0%	\$ 8,699.1	100.0%

(1) Include post Q4'2019 pending/closed commitments.

Excluding the proposed commitment to Fund IV, Specialty Finance investments represent less than 1% of the current Private Credit total exposure. A commitment to the Fund allows PSERS to gain exposure to a growing market opportunity set, while further diversifying PSERS across the Private Credit universe. The Fund's return target meets the return objective for PSERS' Private Credit portfolio of generating double-digit net returns.



Investment Highlights

- Experienced Senior Leadership Team
- Attractive Market Opportunity / Investing in a Post-COVID-19 World
- Solid Track Record & Cash Flow Profile
- Downside-Focused Mindset
- Active Portfolio Management
- Market Leadership & Sourcing Network

Investment / Risk Considerations

- Larger Fund Size / Growth of Team to Manage Increasing AUM
- Velocity of Fundraises
- Syndication Risk in Pillar 2 Transactions
- Recent CFO Departure

Investment Committee Disclosure

Relationship with Aksia	Aksia represents non-discretionary clients with commitments to prior Whitehorse funds. It is anticipated that additional Aksia clients will commit to Fund IV.
Introduction Source	Aksia
Placement Agent	<p>Capstone Partners has been engaged to advise and administer a capital raise for the Fund within North America. Whitehorse anticipates formally engaging a globally recognized placement firm to target investors in Europe and a local Israeli placement firm to target investors in Israel.. No other placement agents are expected to be hired for the fundraise for Fund IV at this time.</p> <p>No placement agents shall be used, and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with securing PSERS' investment in the Fund.</p> <p>Any placement fees charged to the Fund in connection with securing commitments from other investors (excluding PSERS) will result in a corresponding reduction to management fees.</p>
PA Political Contributions	None Disclosed
Conflicts of Interest	We are not aware of Whitehorse having any material conflicts.
PSERS History with the Investment Manager	PSERS has no prior investments with Whitehorse.
Litigation Disclosure	Whitehorse receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on the Fund.
PSERS Allocation Implementation Committee Approval	May 16, 2020

Manager Recommendation Memo

May 5, 2020

Board of Trustees
Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")
5 North Fifth Street
Harrisburg, PA 17101

Re: Whitehorse Liquidity Partners IV, L.P.

Dear Trustees:

Aksia LLC ("Aksia"), having been duly authorized by the Board of PSERS, has evaluated and hereby recommends, in line with PSERS' Investment Policy Statement and Private Credit Policy, a commitment of up to \$200 million to Whitehorse Liquidity Partners IV, L.P. ("WLP IV" or the "Fund").

Whitehorse Liquidity Partners Inc. ("Whitehorse") was founded in August 2015 by Yann Robard; Mr. Robard previously directed the secondaries effort at the CPPIB (Canada Pension Plan Investment Board), most recently as Head of Secondaries and Co-Investments where he established the pension's principal secondary program and led several portfolio financing transactions similar to the strategy Whitehorse is pursuing. Whitehorse provides liquidity to LPs and GPs via a preferred equity investment in their portfolio interests as an alternative to both regular leverage and outright secondary sales. Headquartered in Toronto, Ontario, Whitehorse has approximately \$3.3 billion of AUM across its three prior funds. The firm is now raising Fund IV with a target of \$3 billion (\$3.5 billion hard cap), its largest fundraise to date.

Whitehorse has been at the forefront of this developing market niche and remains one of the few active providers of alternative private equity portfolio finance solutions, especially with respect to the secondary market. Whitehorse's transactions completed to-date appear to offer attractive economics and downside protection given the diversified nature of their collateral, their priority in the waterfall, and their upside potential. Given the significant size of the private equity industry, and the proliferating number of older vintage funds and portfolio companies, the anticipated near-term liquidity challenges of both GPs and LPs is expected to be substantial; we believe the opportunity to provide flexible financing solutions will continue to grow. In addition, it appears Whitehorse's opportunity set has expanded recently as COVID-19 and the related shutdowns and economic struggles have introduced significant uncertainty to private equity markets in the near-term and have led to a pullback in traditional secondary activity, providing possible opportunities for structured liquidity solutions. The Whitehorse team has a diverse mix of investment backgrounds which should allow them to consider a broad assortment of transactions across fund and portfolio company financings, making Whitehorse well-positioned to implement this strategy.

Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of the Fund's investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
 - Most recent investment due diligence review conducted February 20, 2020.
- Due diligence of the Fund's operations, including a review of its organizational structure, service providers, regulatory and compliance, LPA and financial statement analysis;
 - Most recent operational due diligence review conducted January 24, 2020.
- Evaluation of the Fund's strategy within the context of the current investment environment; and
- Appropriateness of the Fund's strategy as a component of PSERS' portfolio.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives, and circumstances may not be identical to those of PSERS. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the due diligence reports. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,



Patrick Adelsbach
Partner, Head of Credit Strategies



Simon Fludgate
Partner, Head of Operational Due Diligence