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Public Investment Memorandum

**Whitehorse Liquidity Partners V LP**

Private Credit Commitment

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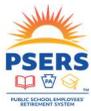
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Intermediate Investment Professional, Private Credit

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Junior Investment Professional, Private Credit

**December 21, 2021**



## Executive Summary

PSERS' Investment Office Professionals ("IOP"), together with Aksia, LLC ("Aksia") recommend that PSERS commit an amount not to exceed \$200 million plus reasonable, normal investment expenses to Whitehorse Liquidity Partners V LP (the "Fund" or "Fund V") and/or related investment vehicles. In addition to the recommended commitment to Fund V, PSERS IOP further recommend the establishment of a fund-of-one to be formed and managed by Whitehorse on behalf of PSERS, that will ultimately hold PSERS' interest in the Fund and PSERS' prior investment in Whitehorse Liquidity Partners IV LP, and that the investment office shall have authority to invest additional sums up to \$50 million (taken together with recallable distributions from prior funds) to maintain a \$200 million target commitment level to each of any subsequent flagship fund. This recommendation is based on our assessment of the investment strategy and our evaluation of Whitehorse Liquidity Partners, Inc. ("Whitehorse" or the "Firm") and its affiliates.

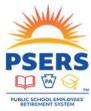
Fund Name	Whitehorse Liquidity Partners V LP
Firm Name	Whitehorse Liquidity Partners Inc.
Target Fund Size / Hard Cap	\$5.0 billion / \$6.0 billion
Recommended Commitment Amount	\$200.0 million
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Credit / Specialty Finance
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments James F. Del Gaudio, Senior Portfolio Manager Sean T. Sarraf, Intermediate Investment Professional
External Consultant Oversight	Aksia, LLC

Whitehorse was founded by Yann Robard in 2015 and currently employs over 100 professionals at its sole office based in Toronto, Canada. As of June 2021, the Firm had over \$8.0 billion in assets under management. Prior to founding Whitehorse, Mr. Robard spent 13 years at the Canada Pension Plan Investment Board ("CPPIB") where he served as Managing Director and Head of Secondaries and Co-Investments. Over his time with CPPIB, Mr. Robard grew the Secondaries and Co-Investments program to 15 professionals and invested over C\$7.5 billion across 49 transactions, generating a 21.6% IRR and 1.7x gross MoC.

Fund V is targeting \$5.0 billion in commitments (\$6.0 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(s) 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 September 30, 2021, Whitehorse has invested, committed, or reserved \$9.2 billion across more than 100 such investments across four prior vintage partnerships since inception:

- Whitehorse Liquidity Partners I LP ("Fund I"), a \$400.0 million 2016/2017 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
- Whitehorse Liquidity Partners IV LP ("Fund IV"), a \$4.0 billion 2020 vintage fund

As of June 30, 2021, Funds I-IV generated a blended 23.1% net IRR and 1.24x net MoC.



## Investment Team

Whitehorse is managed by Yann Robard (Managing Partner) and four additional Partners (Leah Boyd, Rob Gavin, Michael Gubbels, and Giorgio Riva) comprising the “Senior Leadership Team.” In aggregate, the Senior Leadership Team has over 75 years of collective experience sourcing, structuring, closing, and managing investments. The Senior Leadership Team is supported by five additional partners (Julian Mirsky, Josh Booth, Sebastien Siou, Derek Miners, and Marilia Bothamley) who oversee the Firm’s five organizational functions: (i) Strategic Management (ii) Capital Management (iii) Asset Management (iv) Portfolio Management, and (v) Firm Management.

In aggregate, Whitehorse employs over 100 professionals at their sole office in Toronto, Canada. The Firm has increased headcount significantly ahead of Fund V, adding 41 professionals over the twelve-month period ending September 30, 2021. The broader Whitehorse team has a complementary mix of secondaries, co-investment, direct lending, and investment banking backgrounds, which allows them to consider a wide range of transactions and provides for specialized and differentiated execution capabilities. Guided by the Senior Leadership Team, Whitehorse has an exceptional work culture emphasizing transparency, integrity, and alignment of stakeholder interests.

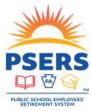
## Market Opportunity

The secondary market for private equity interests has experienced significant growth over the past 8 years, resulting in a 12.7% compound annual growth rate from December 2013 to December 2020<sup>1</sup>. Whitehorse estimates the potential annual global secondary market opportunity for private capital assets, including structured equity solutions, to be ~\$90 – \$135 billion, and believes this market will likely continue experiencing strong growth, driven by an increased acceptance of the secondary market as a portfolio management tool for private markets investors.<sup>3</sup> Whitehorse projects its own market share to be ~4% – 6% based on historical deal flow, representing an estimated annual market opportunity of ~\$4.5 – \$6.5 billion.<sup>4</sup>

Whitehorse derives deal flow from the existing secondary market, but also believes its product can be additive to the size of the secondary market as a whole. 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.

	LP Solutions		GP Solutions	
<b>Whitehorse Pillar:</b>	<b>1</b> Alternative to Secondary Sale	<b>2</b> Structured Secondaries	<b>3</b> Fund Level Liquidity Solutions	<b>4</b> GP Balance Sheet Liquidity Solutions
<b>Counterparty:</b>	<ul style="list-style-type: none"> <li>Limited partners</li> <li>Secondary &amp; co-investment funds / FoFs</li> </ul>	<ul style="list-style-type: none"> <li>Limited partners</li> <li>Secondary &amp; co-investment funds / FoFs</li> </ul>	<ul style="list-style-type: none"> <li>All private equity funds</li> <li>Direct secondaries</li> </ul>	<ul style="list-style-type: none"> <li>All private equity funds</li> <li>All private equity investors with existing minority stakes in GPs</li> </ul>
<b>Overall Private Capital Market:<sup>2</sup></b>	Existing Global Private Capital AUM +\$9.0 trillion			
<b>Estimated % Transacting in the Secondary Market:<sup>3</sup></b>	~1.0% to 1.5% p.a.			
<b>Addressable Market:<sup>3</sup></b>	~\$90.0 - \$135.0 billion p.a.			
<b>Whitehorse Market Share:<sup>4</sup></b>	~4% - 6%			

**The current global addressable market for the Whitehorse Solution is estimated by Whitehorse to be approximately \$90.0 billion to \$135.0 billion per annum and growing<sup>3</sup>**



<sup>1</sup> Source: YE Secondary Market Survey Results, Evercore, January 2021

<sup>2</sup> Source: Preqin as of June 18, 2021

<sup>3</sup> Whitehorse projection of secondary market transaction volume is based on global private capital AUM and historical secondary market transaction volume. Source: Preqin, as of June 18, 2021 and YE 2020 Secondary Market Survey Results, Evercore, January 2021. Actual results may differ materially from Whitehorse's projections.

<sup>4</sup> Whitehorse projection of market share is based on historical Whitehorse deal flow. However, note that past performance is not indicative of future returns. Actual results may differ materially from Whitehorse's projections.

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. Finally, Pillar 4 directly addresses the needs of general partners for a flexible source of capital.

Adding further momentum to the Fund's market opportunity is the substantial growth of private capital markets as a whole. The global private capital market has grown by over \$1 trillion annually, from \$5.1 trillion in 2016 to \$9.7 trillion as of December 31, 2020<sup>5</sup>. Whitehorse expects this trend to continue, in part due to increasing demand for private markets exposure from institutional investors, as well as new sources of demand from high-net-worth investors and wealth management platforms.

Owing to their established originations network, Whitehorse has successfully sourced over \$40 billion of deal flow per annum since 2019, but has remained highly selective in their deployment activity, closing on ~6% of sourced deal volume over the same period. Fund V is similarly expected to benefit from a strong and diversified pipeline, and given the large and growing opportunity set, Whitehorse endeavors to remain prudent in structuring transactions to achieve attractive risk-adjusted returns.

<sup>5</sup> Source: Preqin as of September 30, 2021, data as of December 31, 2020

## **Investment Strategy**

As introduced earlier, Whitehorse seeks to generate attractive risk-adjusted returns by providing structured liquidity solutions or preferred equity financing to PMI seeking to generate liquidity, while retaining both upside and flexibility. 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. The Fund's strategy is highly cash-generative and takes a senior priority in receiving cash flows from underlying investments. Consistent with prior flagship funds, Fund V will target a monthly cash distribution of ~2% to the limited partners as a percentage of invested capital.

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. Importantly, irrespective of which application (i.e., pillar) of the Whitehorse Solution is used in a particular transaction, the preferred equity structure will remain consistent.

Whitehorse is targeting 15 – 20 preferred equity structures in Fund V, ranging from \$100 million - \$750 million in size, and will primarily focus on investments located in North America or Europe. Each preferred equity structure is designed to be highly diversified and may contain dozens (up to hundreds) of underlying private equity interests, including secondary, primary, or co-investment interests. Whitehorse will endeavor to diversify its investments across sectors to avoid reliance on any one sector to drive the majority of return to investors. While not obligated to do so, the Fund may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices, or exchange rates through the use of swaps, short sales, forward contracts, or options.

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 portfolio management ("PM") 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 PM



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 in a particular transaction, the Fund will invest primarily through preferred equity securities.

### **Portfolio Fit**

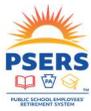
The Fund will be allocated to the Specialty Finance bucket of PSERS' Private Credit portfolio and the table below summarizes PSERS' projected exposure inclusive of a recommended \$200 million commitment, as of September 30, 2021:

Investment Strategy (\$M)	NAV	%	Unfunded	%	Total Exposure	%
Distressed & Special Situations	\$2,773.1	47.3%	\$1,193.7	37.2%	\$3,966.9	43.7%
Direct Lending	\$1,192.8	20.3%	\$820.7	25.6%	\$2,013.5	22.2%
Real Estate Credit	\$303.6	5.2%	\$585.5	18.2%	\$889.0	9.8%
Mezzanine	\$660.5	11.3%	\$194.5	6.1%	\$855.0	9.4%
Real Assets Credit	\$437.2	7.5%	\$75.5	2.4%	\$512.7	5.6%
Specialty Finance	\$142.1	2.4%	\$339.7	10.6%	\$481.8	5.3%
Structured Credit	\$345.3	5.9%	\$0.0	0.0%	\$345.3	3.8%
<b>Total Portfolio</b>	<b>\$5,867.03</b>	<b>100%</b>	<b>\$3,209.6</b>	<b>100%</b>	<b>\$9,076.6</b>	<b>100%</b>

Source: Burgiss

Note: Above data inclusive of two co-investments that were not funded as of 9/30/2021.

Excluding the proposed commitment to Fund V, Specialty Finance investments represent less than 4.0% of the current Private Credit total exposure. A commitment to the Fund allows PSERS to increase 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.



**Investment Highlights**

- Experienced Senior Leadership Team
- Attractive Market Opportunity
- Downside-Focused Mindset
- Strong Performance Across Flagship Funds (I – IV)
- PSERS' Strong Performance in Fund IV
- Fund-of-One Structure

**Investment / Risk Considerations**

- Larger Fund Size / Growth of Team to Manage Increasing AUM
- Syndication Risk in Pillar 2 Transactions
- Product Extension
- Competitive Landscape

**Investment Committee Disclosure**

Relationship with Aksia	Aksia represents both non-discretionary and discretionary clients with commitments to various Whitehorse-managed investments, including Fund V.
Introduction Source	Fund Sponsor
Placement Agent	Whitehorse has engaged Pine Grove Capital Ltd to assist fundraising efforts in Isreal; Asante Capital Group LLP to assist fundraising efforts in Europe; and GrovePeak S.A.S. to assist fundraising efforts in Central and South America.  In accordance with Board policy, no placement agents were 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.
PA Political Contributions	None Disclosed
Potential Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
PSERS History with the Investment Manager	Yes, PSERS committed \$200 million in one prior Whitehorse-managed partnership.
Litigation Disclosure	Whitehorse receives communications from regulators and is 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	December 21, 2021