



Investment Committee Memorandum

Altaris Health Partners V, L.P.

Private Equity Asset Class

February 25, 2020

Investment Recommendation

SERS' Investment Office Staff and SERS' Private Equity Consultant, StepStone Group, recommend that the State Employees' Retirement System Investment Committee interview Altaris Capital Partners ("Altaris", the "GP" or the "Firm") at the February 25, 2020 Investment Committee Meeting to consider a potential commitment of up to \$50 million to Altaris Health Partners V, L.P. ("Altaris V", "Fund V" or the "Fund"), subject to the satisfactory completion of legal due diligence.

Investment Rationale

Staff identified Altaris V as a strong candidate for SERS' capital commitment, as it offers:

- A long track record with strong net performance since inception;
- Strong quartile ranking against private equity competitors;
- Strong net alpha generation against the Russell 3000 Total Return Index benchmark since inception, far exceeding SERS' 3.0% excess return above the benchmark index;
- A stable and experienced team of senior investment professionals that have focused exclusively on the healthcare sector;
- Consistency with SERS' PE portfolio objectives to partner with investment managers that outperform private peers and public indices;
- Exposure to an attractive sector with a sector specialist;
- Potential for SERS to save fees through co-investments.

Investment Risks

Staff identified the following potential risks of a commitment to Altaris Health Partners V:

- Increasing fund size.
- Fund IV portfolio is largely unrealized.
- Regulatory and complexity risk.

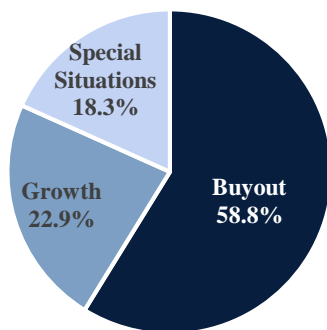
Portfolio Implications

A commitment to the Fund would be considered a 2020 vintage allocation, which is categorized in the Private Equity asset class and Buyout sub-asset class. As of September 30, 2019, SERS' market value of Buyout investments represented approximately 59.0% of the Core Private Equity portfolio. An allocation to Altaris V is consistent with the strategic initiatives of making fewer commitments to top-tier managers as outlined in SERS' Strategic Investment Plan.

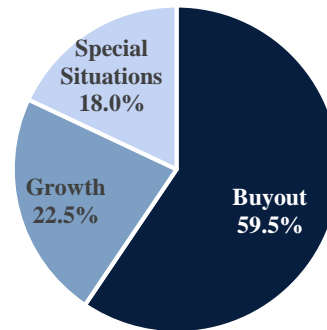
SERS is targeting a commitment to Altaris V of up to \$50 million, which represents 8.7% of the strategic plan pacing budget for the private equity asset class in 2020. A commitment level of \$50M also reflects a position size of appx. 1.6% within the Core PE portfolio.

The following two charts show the Core PE portfolio allocations by sub-strategy as of September 30, 2019 on the left, and a prospective view of the allocation post a commitment to Altaris V on the right. Altaris V can be expected to add approximately 0.7% of market value to Buyout over the next several years, before the effects of future cash flow or capital gains activity.

SERS Core PE Sub-Strategy Allocation as of 09/30/19



SERS Proforma Core PE Sub-Strategy Allocation



Sponsor Overview

Altaris Capital Partners is a private equity firm focused on the healthcare industry, primarily in North America. The firm invests across all major healthcare sub-industries, including pharma & services, medical device & diagnostics, and healthcare provider & services. Altaris seeks to target middle market companies with proven business models that are generating revenue and positive cash flow. Key investment themes are tied to value-based care delivery models that improve patient outcomes, increase system efficiency, eliminate costs, and align stakeholder incentives.

The firm was founded in 2003 by George Aitken-Davies and Daniel Tully, who previously worked together in Merrill Lynch’s healthcare capital markets and healthcare investment banking groups. The Co-Founders and two additional Managing Directors, David Ellison and James O’Brien, comprise the senior investment team. In total, Altaris has a team of 10 investment professionals. In addition, Altaris has an extensive network of healthcare industry operators who are deployed as needed. This network currently consists of 21 executives who serve in senior roles at Altaris’ portfolio companies.

Investment Strategy

Fund V will invest in a range of companies that operate in or serve the healthcare system. Altaris expects to make both control and minority investments in a range of transaction types, including carve-outs, break-outs, corporate, and take private and family/founder owned businesses. Historically, Altaris has Board of Directors representation in each investment and has sought to drive equity value appreciation through business improvement and growth. Altaris expects to build a concentrated portfolio of eight to ten companies in Fund V, over a four-year investment period with two to three investments per year. The investment size is expected to be predominantly in the range of \$100 to \$500 million of equity in each portfolio company.

Altaris’ investment strategy has the following characteristics:

- Focus on Value-Based Healthcare Trends
- Focus on Growth Businesses
- Value-Focused Philosophy
- Corporate Carve-outs Focus
- Altaris is a Conservative Investor

Management Team

George E. Aitken-Davies, Co-Founder and Managing Director. Mr. Aitken-Davies is a co-founder and managing director at Altaris, where he is responsible for co-managing the firm. Prior to the formation of Altaris, he held various positions in Merrill Lynch’s private equity and healthcare investment banking groups. Mr. Aitken-Davies received a Master’s in Biochemistry from the University of Oxford and completed the research for his dissertation at the Università di Padova, Italy. Mr. Aitken-Davies currently serves as a trustee of the Children’s Hospital of Philadelphia and the Senator Foundation.

Daniel G. Tully, *Co-Founder and Managing Director*. Mr. Tully is a co-founder and managing director at Altaris, where he is responsible for co-managing the firm. Prior to the formation of Altaris, he held various positions with Merrill Lynch, including serving as the firm's global head of healthcare equity capital markets, and as a member of Merrill Lynch's private equity and investment banking groups. Mr. Tully received a B.S. in Economics from the University of Pennsylvania, Wharton Undergraduate Program.

Davis G. Ellison, *Managing Director*. Mr. Ellison is a managing director at Altaris, where he leads the firm's investments in the provider and payor service sectors. Prior to joining Altaris, Mr. Ellison was a member of the healthcare investment banking group at Lehman Brothers, where he assisted clients in the execution of a number of mergers, acquisitions and financing transactions across the healthcare industry. Mr. Ellison graduated with a degree in Mathematics and Economics from Washington and Lee University.

James D. O'Brien, *Managing Director*. Mr. O'Brien is a managing director at Altaris, where he leads the firm's investments in the medical device and diagnostics sectors. Prior to joining Altaris, Mr. O'Brien was a member of the investment banking and equity capital markets groups at Merrill Lynch, where he assisted clients in the execution of a number of mergers, acquisitions and corporate finance transactions across various industries. Mr. O'Brien received a B.A. in History from Princeton University.