

Recommendation on Altaris Health Partners IV, L.P. and Coinvestment Fund

To: RISIC
Prepared: July 1, 2017
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Altaris Health Partners IV ("Fund IV") and Altaris Constellation Partners IV ("Coinvestment Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the funds.

Summary of Altaris Health Partners IV and Coinvestment Fund.

Fund Overview: Fund IV will make private equity investments in middle market healthcare companies located primarily in North America. Investors are required to make 80% of their commitment to Fund IV and 20% of the commitment to the Coinvestment Fund. The Coinvestment Fund is meant to provide additional equity capital for transactions that would be too large for Fund IV's diversification requirements. The Coinvestment Fund does not charge a management fee.

People and Organization: Altaris Capital Partners (the "Firm") was founded by a team of professionals who spun out of Merrill Lynch in 2002 to establish a dedicated healthcare investment firm. The team was originally founded by George Aitken-Davies, Daniel Tully and Michael Kluger. Aitken-Davies and Tully will manage the Firm, and Kluger is transitioning to a Senior Consultant. Altaris has four senior members of its investment team and five additional investment professionals providing support. In addition to the investment team, Altaris utilizes a group of senior operating partners. These individuals have held management or executive positions across the healthcare industry. The Firm will engage members of this network during the sourcing and due diligence phases of a potential investment and to perform ongoing roles at portfolio companies.

Investment Strategy and Process: Altaris will invest in middle market healthcare companies by leveraging the knowledge, experience and network that the Firm has built since inception and through the senior professionals' previous experience. The Firm will make investments across the healthcare industry, but will primarily focus on investments in the pharmaceutical, medical devices & diagnostics, payor and insurance, and provider services verticals. Altaris targets companies located in North America, but will have a secondary focus on Western Europe, where the Firm can invest up to 20% of committed capital. Altaris will invest between \$30 million and \$100 million of equity per transaction, focusing on companies with total enterprise values between \$25 million and \$250 million. The Firm will make control and minority investments in companies that are profitable. Fund IV is expected to make ten to fifteen investments over a six year investment period. No one investment can exceed 20% of the Fund IV, but larger deals could utilize capital from the Coinvestment Fund which limits single company exposure to 35%.

Performance: The Firm's prior three fund vehicles have generated a total net return of 2.03 times paid-in-capital; distributed 1.67 times paid-in capital to limited partners, and generated a combined net IRR of 19.2% since inception. As of December 31, 2016, the Firm's 21 realized investments have generated a gross return of 3.1 times invested capital. Compared to Altaris's net IRR of 19.2% since inception, investing in the Russell 2000 Index¹ during the same period would have generated a return of 5.3%. Altaris has outperformed the Index by 13.9%. The Firm's prior two funds have generated first quartile or first decile net IRR, net TVPI, and net DPI as of

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December 31, 2016. The Firm's most mature fund, the 2003 vintage Altaris I has generated returns ranking in the third quartile.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. Fund IV will charge a 2.0% management fee during the six-year investment period and 2.0% of net invested capital thereafter. The management fee will be offset by 100% of all director fees; 80% offset for transaction, monitoring, and other such fees. The Fund charges a 20% carried interest with an 8% preferred return. The Fund has a 10 year term. The Coinvestment Fund has substantially similar terms to Fund IV however it does not charge a management fee.

Cliffwater Recommendation

Cliffwater recommends a commitment up to \$40 million to Alteris Health Partners IV and the Coinvestment Fund on an 80%/20% basis.

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