

Recommendation Havencrest Healthcare Partners Fund II, L.P.

To: RISIC
Prepared: March 15, 2022
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Havencrest Healthcare Partners Fund II ("Havencrest II" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends Havencrest II as part of ERSRI's Private Equity allocation.

Summary of Havencrest II

Fund Overview: Havencrest II is a lower middle market buyout fund focused on the healthcare sector.

People and Organization: Havencrest Capital Management ("Havencrest" or the "Firm") was founded in 2017 by Christopher Kersey. Prior to founding the Firm, Kersey was a partner at Camden Partners, a healthcare growth equity investor. Kersey produced a successful track record at Camden Partners, generating a gross return of 5.6 times invested capital across nine platform investments. Since 2017, Kersey has built a team with both transaction execution professionals and healthcare operators. The investment team is comprised of six individuals and includes Kersey, an additional partner, a VP of business development, a vice president, an associate, and an analyst. The team is based out of a single office in Dallas, Texas. The investment team is responsible for sourcing, executing transactions, and overseeing the portfolio. Kersey and Shofner are the two deal leads, supported by the rest of the team. During the course of Fund II, an additional deal lead is expected to emerge. In addition to its core investment team, Havencrest utilizes a network of senior executives that currently consists of twenty-six operating partners and nine senior advisors. This network provides greater conviction in the Firm's underwriting process. These operating partners provide expertise across a number of healthcare sub-sectors including managed care, pharma services, medical products, and public policy. Additionally, the Firm utilizes a group of nine executive advisors with industry specific expertise. The advisors are involved throughout the investment process and are experienced founders and CEOs.

Investment Strategy and Process: Havencrest pursues primarily buyout and growth equity investments across a number of healthcare subsectors. The Firm targets companies with total enterprise values between \$25 million and \$100 million, that are generating between \$2 million and \$10 million in EBITDA. Targeted companies are considered high-growth and aimed at creating improvement in care, which fits into Havencrest's selection criteria. The Firm follows a thesis-driven approach across the healthcare sector. Key representative themes include behavioral health, post-acute care, and value-based care. Havencrest will seek companies with business models that are aligned with secular trends and have limited payor, physician, or customer concentration. The Firm seeks to invest in founder-led companies that re-invest meaningful equity post-closing. Havencrest drives value creation through developing strategic direction, improving operational efficiencies, upgrading management, and assisting with the acquisition strategy. The Firm's operating partners and / or advisors are involved with the developing and executing growth initiatives. Havencrest invests in the lower middle market and seeks to generate interest from both strategic and financial buyers through creating more stable and substantial companies. While exits through a SPAC or IPO are not typical exit avenues for Havencrest's companies, the Firm is flexible and opportunistic.

This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may not be disclosed except as required by applicable law.

Performance: Havencrest has previously raised capital for one institutional fund which has generated an aggregate net return of 3.21 times invested capital, 70.2% net IRR, and 1.43 times net DPI as of December 2021. The 2018 vintage fund ranks in the first decile across all performance metrics. Fund I has completed two exits, which have generated an aggregate gross return of 8.76 times invested capital. The fund has made five total investments, including two in 2021. All investments are valued at cost or greater. Additionally, founder Chris Kersey's pre-Havencrest track record includes nine investments that generated an aggregate gross return of 5.6 times invested capital.

As of December 31, 2021, Havencrest I has generated a net IRR of 70.2%. Investing in the Russell 2000 during the same period would have generated a return of 15.5%. Havencrest has outperformed the Index by 50.7%.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a ten-year term and a five-year investment period. The Fund will charge a 2.0% management fee during the five-year investment period; thereafter, 2.0% on net invested capital. The management fee will be offset by 80% of all closing, investment banking, placement, commitment, breakup, litigation, monitoring, consulting, directors', and other similar fees and 100% of all placement agent fees and excess organizational expenses. The Fund has a 20% carried interest and an 8% preferred return.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$40 million to Havencrest Healthcare Partners Fund II as part of ERSRI's Private Equity allocation.