



State of Rhode Island
Office of the General Treasurer

Havencrest Healthcare Partners Fund II, L.P. - Staff Recommendation

March-2022

RECOMMENDATION: Approve a commitment of up to \$40 million to Havencrest Healthcare Partners Fund II, L.P. This will be ERSRI's first commitment to Havencrest.

ASSET CLASS: Private Equity

SUB-STRATEGY: Middle-Market Buyout

ALLOCATION: The target allocation for Private Equity is 12.5%, and the actual allocation as of 2/28/2022 is 13.7%. The pacing plan for Private Equity for the 2022 vintage year is \$200-250 million committed to 5 - 10 primary funds per year at \$20 - \$60 million per primary fund. Pending approval of the above recommendations, ERSRI will have committed \$190 million to the 2022 vintage year to-date.

PORTFOLIO FIT: ERSRI has emphasized middle-market buyout strategies that often have a sector specialization and/or operational value-add approach within the Private Equity portfolio. Havencrest Healthcare Partners Fund II ("Havencrest II") will target control buyouts of companies within healthcare services sector. Havencrest II will seek to acquire companies at the smaller end of the middle-market segment with EBITDA between \$2-10M and equity checks of \$20-50 million. As of 2/28/2021, the actual exposure (on a NAV basis) for the Private Equity portfolio to the healthcare sector is 12.8%. The existing GPs in the ERSRI portfolio that focus on healthcare services have moved up market over time creating the need for this exposure. At this end of the market, Havencrest is able to target growth-oriented companies where the firm is partnering with founders and is typically first institutional capital. In some instances, Havencrest will identify an emerging trend and will create an opportunity de novo with the firm's Operating Partners if there is no existing platform to purchase or the existing platforms are expensive.

MERITS: Havencrest's core merits are the GP's deep expertise within the healthcare sector and focused approach. The firm invests in companies in fragmented and niche markets that benefit from the secular shift to value-based care whereby the healthcare provider is paid based on demonstrated healthcare benefits vs traditional fee-for-service models. Rather than restructuring mature businesses, Havencrest identifies growth opportunities that will fill gaps in unmet needs in the healthcare system. Havencrest grows portfolio companies by refining sales strategies and sourcing new clients, as well as through tuck-in acquisitions. Havencrest will also add value through professionalization including C-suite recruitment and operational adjustments to add efficiencies and implement cost-reductions. Havencrest believes its value-add strategy is most effective in the smaller market segment and plans to remain disciplined in its fund size.

Havencrest is led by Dr. Christopher Kersey, who brings a medical background to the strategy and has been investing in the healthcare sector for over 15 years. Prior to starting Havencrest, Dr. Kersey spent eight years as a partner at Camden Partners, a growth equity manager, where he generated a gross return multiple of 5.6 times. Dr. Kersey spent eight years as the Chairman of the Board of Johns Hopkins Medicine International and in 2010 was elected to the board of trustees of Johns Hopkins Medicine and Johns Hopkins Hospital. Dr. Kersey is supported by Matthew Shofner, a partner at the firm, and four other investment professionals. Mr. Shofner joined Havencrest at its inception after spending five years at Hersh Family Investments, a Dallas-based family office, where he was responsible for deal sourcing, structuring and due diligence.

Relative to its size and younger firm history Havencrest has an expansive network of advisors and operating partners that assist with sourcing, diligence, and value-add initiatives. These individuals are experts in subsectors that Havencrest develops themes around and focuses on.

CONCERNS: As a firm, Havencrest has a limited track record and Havencrest II will be the second fund managed by the GP. This concern is mitigated by Dr. Kersey’s substantial history within the healthcare buyout space as well as the strong performance of Havencrest Healthcare Partners Fund I (“Havencrest I”), a 2018 vintage. To date, Havencrest I has generated a net IRR of over 65% and already generated substantial distributions through two realizations, producing a fund level DPI of over 1.4x.

An additional concern is the key-person risk around Dr. Kersey, the sole Managing Partner. This is mitigated by a key-person clause for Dr. Kersey as well as a No Fault termination provision for the fund triggered by 85% LP approval. Mr. Shofner currently acts as a deal lead for the firm and an additional deal lead is expected to emerge during the course of Havencrest II. Havencrest will continue to add to its investment team and has begun several searches.

ESG: Havencrest is categorized as a **Neutral** on ESG. As the firm is still young (founded in 2017), it is still developing its ESG policy which it intends to implement by the end of 2022. Havencrest investment professionals currently seek to assess ESG considerations during sourcing and avoid firms that focus on fee for service without proper demonstration of healthcare value.

FEES: The fees are in accordance with industry standards. Havencrest Healthcare Partners Fund II will charge a management fee of 2% of commitments during the investment period and 2% of invested capital thereafter. The fund charges a carry of 20% after an 8% preferred return on a deal-by-deal basis.