KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES SPECIAL CALLED MEETING
MARCH 25, 2021 at 9:30 A.M., EASTERN
VIA LIVE TELECONFERENCE/FACEBOOK LIVE
AGENDA
DRAFT

1. Roll Call
2. Public Comment
3. Approval of Minutes – February 18, 2021*
4. Investment Committee Recommendations* – Prewitt Lane, Steven Herbert
5. Adjourn*

**Board Action Required*

MINUTES OF MEETING #433
BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS
QUARTERLY MEETING FEBRUARY 18, 2021 AT 10:00A.M.
VIA LIVE VIDEO TELECONFERENCE DUE TO SB 150,
SIGNED INTO LAW BY THE GOVERNOR ON MARCH 30, 2020,
AND EXECUTIVE ORDER 2020-215 DECLARING A STATE OF EMERGENCY
EFFECTIVE MARCH 6, 2020 DUE TO COVID-19

At the meeting of the Board of Trustees held on February 18, 2021 the following members were present: David Harris (Chair), Joe Brothers, John Chilton, John Cheshire, Raymond Connell, Kelly Downard, JT Fulkerson, Joseph Grossman, Sherry Kremer, Prewitt Lane, Matthew Monteiro, Keith Peercy, Betty Pendergrass, Jerry Powell, David Rich and Sec. Gerina Whethers. Staff members present were David Eager, Rebecca Adkins, Erin Surratt, Kathy Rupinen, Connie Davis, Kristen Coffey, Ann Case, Connie Pettyjohn, Victoria Hale, Carrie Bass, D'Juan Surratt, Steven Herbert, Shaun Case, Phillip Cook, and Alane Foley. Also in attendance were Joseph Overhultz and Simon Keemer from Dean Dorton Allen Ford, Tracey Garrison and Larry Loew from Humana and David Lindburg from Wilshire.

Mr. Harris called the meeting to order.
Ms. Alane Foley called roll.

Mr. Eager thanked Mr. Harris, Mr. Monteiro and Sec. Whethers for their service on the Board. This will be their last meeting.

Mr. Harris introduced agenda item *Approval of Minutes- December 3, 2020.* A motion was made by Mr. Rich and seconded by Mr. Powell to approve the minutes as presented. The motion passed unanimously.

Mr. Harris introduced agenda item *Audit Committee Report.* Mr. Chilton introduced Joseph Overhults and Simon Keemer from Dean Dorton Allen Ford to provide details on *GASB 68 and 75 Proportionate Share Audits.* Mr. D'Juan Surratt gave an overview of the *Hazardous Duty Position requests* and Ms. Kristen Coffey discussed *Application for Trustee Elections* with the

Board, The Board discussed edits to this application and agreed to accept with those edits. A motion was made by Mr. Fulkerson and seconded by Mr. Powell to accept GASB 68 and 75 Proportionate Share Audits, hazardous duty position requests and the Application for Trustee Elections with requested edits. The motion passed unanimously.
Ms. Rebecca Adkins reviewed the financial report, administrative expenses, contribution report, penalty waivers and outstanding invoices. These reports were presented for informational purposes only.

Mr. Harris introduced agenda item *Investment Committee and Portfolio Quarterly Report*. Mr. Lane introduced the new CIO, Steven Herbert and advised that Steve Willer was promoted to Deputy CIO. Mr. Herbert provided a performance overview and market update. David Lindburg from Wilshire also provided commentary on performance. Mr. Fulkerson made a motion and was seconded by Ms. Kremer to accept the Investment Committee Report as presented. The motion passed unanimously.

Mr. Harris introduced agenda item *Retiree Health Care Report*. Mr. Rich stated that Humana provided a presentation at the February Retiree Health Care Meeting. Ms. Connie Pettyjohn introduced Tracey Garrison from Humana to provide an overview on the McClennan Group Pilot, which has goals to engage retirees in the KRS Humana Medicare Advantage Plans. This report was presented for informational purposes only.

Mr. Harris introduced agenda item *Northern Kentucky University Cessation Resolution*. Ms. Erin Surratt provided details regarding the cessation application from Northern Kentucky University and advised that they have satisfied all requirements to file this application. Mr. Fulkerson made a motion and was seconded my Mr. Cheshire to accept the cessation application as presented. The motion passed unanimously.

Mr. Harris introduced agenda item *New Administrative Regulation, 105 KAR 1:360, Hybrid Cash Balance Plan ("Tier III").* Ms. Carrie Bass stated The Kentucky Retirement Systems has been administering a hybrid cash balance plan tier ("Tier 3") since January 1, 2014 for select members of the Kentucky Employees Retirement System ("KERS"), County Employees Retirement System

(“CERS”), and State Police Retirement System (“SPRS”). The Office of Legal Services and the Office of Benefits have been working to draft a regulation tentatively titled, “105 KAR 1:360, Hybrid cash balance plan,” reflecting the administration of Tier 3 that was already ongoing. This regulation largely pertains to members of KERS, CERS, and SPRS who participate in Tier 3 based on their participation date occurring on or after January 1, 2014; however, this regulation also addresses the option for members with a participation date in KERS, CERS, and SPRS between September 1, 2008 and December 31, 2013 to “opt-in” to Tier 3. Work on this regulation was halted pending a Private Letter Ruling (“PLR”) from the Internal Revenue Service (“IRS”) addressing the permissibility of such “opt-ins” under federal law. The PLR was received in mid-2020 and allowed drafting to resume. Ms. Pendergrass asked for clarification on calculated interest. This topic has been tabled until after April 2021 to allow for further research.

Mr. Harris introduced agenda item *Legislative Update*. Mr. Eager advised that HB 8 passed the House 88-0. Credit was given to Representatives DuPlessis, Miller, Sheldon, Tipton, Wheatley and Graviss for the hard work and long hours committed to this bill. He also touched on HB 9, which is the enactment of HB 484. We are still waiting on the Governor for the new appointees. HB 87, which is a housekeeping bill restores alternative death benefit and clarifies pension spiking rules.

Mr. Harris introduced agenda item *KRS Administrative Update*. Mr. Eager stated that during the COVID pandemic service has been uninterrupted to our retirees. Retirements are level with last year. KRS continues to have all employee meetings, weekly emails titled “Weekly Wrap” and Good News on Fridays to keep employees connected while working from home.

Mr. Harris introduced agenda item *Future Pension Plan Liability Funding*. Mr. Harris gave kudos and congratulations to the current Board Members on their hard work and dedication to the retirement systems.

A motion was made by Mr. Cheshire and seconded by Mr. Downard to go in to closed session. The motion passed unanimously.

Mr. Harris read the following statement and the meeting moved into closed session: A motion having been made in open session to move into closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter closed session to consider litigation, pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege and to discuss the potential appointment of an employee, pursuant to KRS 61.810(1)(f). It is necessary to enter closed session because of the sensitive nature of the material to be considered regarding this employee. All public attendees exited the meeting.

Mr. Harris called the meeting back in to Open Session.

Mr. Connell made a motion and was seconded by Mr. Lane to adjourn the meeting, to meet again upon the call of the Executive Director or the Chair of the Board of Trustees. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held February 18, 2021 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Directors on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.

____
Recording Secretary

We, the Chair of the Board of Directors of the Kentucky Retirement Systems and Executive Director of the Kentucky Retirement Systems, do certify that the Minutes of Meeting Number 433, held on February 18, 2021 were approved on March 25, 2021.

____
Chair of the Board of Directors

____
Executive Director

I have reviewed the Minutes of the February 18, 2021 Board of Trustees Meeting for content, form, and legality.

____
Executive Director
Office of Legal Services

KENTUCKY RETIREMENT SYSTEMS

INVESTMENTS

To:	Investment Committee – Kentucky Retirement Systems
From:	Anthony Chiu, Director
Date:	March 18, 2021
Subject:	Investment Recommendation – MiddleGround Partners II

KRS staff and Wilshire are proposing a commitment to MiddleGround Partners II, a leveraged buyout fund that invests in US industrial and specialty distribution companies. MiddleGround's team has differentiated operational improvement experience from their work together at Toyota and Monomoy Capital that they have applied to their Fund I portfolio companies.

KRS is a current investor in MiddleGround's $460 million Fund I. A commitment of $75 million was approved by the Investment Committee in May 2019.

Fund I has deployed capital more quickly than expected in part due to a couple of attractive 2020 deals that were relatively large and in bankruptcy - Shiloh and Dura. While MiddleGround is not a distressed fund, these two deals were both in their areas of expertise (industrial and automotive) and attractively priced.

As an existing investor, KRS has been offered no fee, no carry co-investment rights with Fund II for up to 50% of its commitment. Fund I has generated close to $300 million of co-investment opportunity to date. Fund II is expected to reach its hard cap of $650 million during the first half of 2021.

Business / People:
Middle Ground Capital was formed in 2018 by John Stewart, Lauren Mulholland, and Scot Duncan in Lexington, KY and New York City. The three co-founders previously worked together for six years at Monomoy Capital, while John and Scot worked at Toyota together for 12 years prior to that.

Since KRS's last commitment in 2019, Middle Ground has continued to grow. The team now has 41 people, including 10 who have worked previously with John Stewart at Toyota and/or Monomoy. Both the investment and operations teams have more than doubled to 13 and 15 people, respectively. Monica McClinton has also been promoted to Partner and has management company ownership as well.

Middle Ground's size is partially a result of its operationally intensive approach. Nine team members have experience at Toyota, which is known for its operational efficiency and improvement processes. Another operator brings over 20 years of experience from Coors and worked with John for seven years to stabilize and enhance the operations of several portfolio companies at Monomoy.

As they said they would, Middle Ground is growing assets gradually, with Fund II's hard cap at $650 million. Management company ownership is shared among anchor investor Archean and the four partners, with John Stewart having the largest share. Carried interest is available to team members at the Senior Associate level and above. The operating team members are employees of Middle Ground, with their time billed to portfolio companies. Operators also participate in the equity pool set aside for management at the portfolio companies they work with.

Investment Process and Portfolio:
Fund I is close to 70% deployed today across seven platform deals. MiddleGround anticipates doing two more platform investments and two more add-on acquisitions in Fund I before starting Fund II later this year. Expected pacing and portfolio construction remains the same at one to two platform investments per year and 10-12 portfolio companies in Fund II.

The firm has put significant resources toward deal sourcing, which targets buyout investments in profitable US companies with enterprise values of $75 to $300 million. Lauren built a sourcing network and deal pipeline similar to the one she managed at Monomoy. Subsequently, MiddleGround hired Christen Paras from a family office in 2019 and Dyana Baurley from Milestone Partners in 2020 as dedicated business development professionals and believes this effort has significantly enhanced the firm's actionable deal flow.

Although Middle Ground is not a "value buyer," they are attracted to companies with operations and margins that they believe can be improved. An operating professional is included in every due diligence process and helps the team construct a Value Creation Plan (VCP) prior to close. Working capital management, pricing, labor processes, and other cost savings are typically among the key components of the VCP.

Middle Ground then embeds an operator onsite at each portfolio company for the first 9 to 12 months of ownership to implement the VCP. Once the VCP is in place and improvements are in process, the company moves to a monitoring phase and the operator moves to another acquisition opportunity or VCP onsite. However, the operator remains responsible for each portfolio company until it is sold and is incentivized by their allocation of the management equity pool.

Performance:

Fund	Vintage	Size ($MM)	Gross IRR	Gross Multiple	Net IRR	Net Multiple
MiddleGround I	2018	$460	57%	1.5x	40%	1.3x

Source: MiddleGround as of 12/31/20

Conclusion: Staff is recommending an investment of up to $75 million in MiddleGround Partners II, as well as a $37.5 million co-investment commitment to be shared among all plans.

<u>Investment and Terms Summary</u>

Type of Investment: Private Equity – Buyout

Structure: GP / LP

Management Fee: Years 1-6: 2% on committed capital
Thereafter: 2% on invested capital, net of write-offs and distributions

Performance Fee: 20% over an 8% preferred return, with a European waterfall

Purpose: Capture the value created by Middle Ground's operational improvements and portfolio company profitability growth.

Risks: Equity, Leverage, Liquidity, Concentration, Key Person

Exp. Net Return: 15% - 20%

Wilshire Private Markets

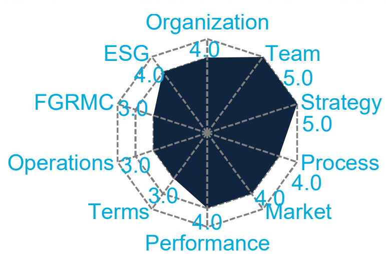
MIDDLEGROUND PARTNERS II

($650 million)

REQUEST DECISION

Target Size / Hardcap	$550 million / $650 million
First Close (M)	TBD
First Close Date	March 2021
Expected Close Date	June 2021
Geographic Focus	North America
Sector	Mid Buyout
Investment Focus	Industrials
Investment Size (M)	Up to $75
Number of Investments	8 – 10
Investment Period	6 Years
Fund Term	10 Years
GP Commitment	2%
Target Return (Gross)	2.5x – 3.0x ROI; 25% - 30%+ IRR
Management Fee – Investment Period	2% on committed
Management Fee – Post-Investment Period	2% on net invested
Carry / Waterfall	20% / European
Catch Up(%) / Hurdle	100% / 8%

WPM RESEARCH REPORT RADAR



Key: 5 = Top Decile; 4 = Top Quartile; 3 = Average; 2 = Bottom Half; 1 = Bottom Decile; 0 = No Information

Past performance is not indicative of future results.

FIRM OVERVIEW

MiddleGround Capital ("MiddleGround", "MGC", or the "Firm") was founded in 2018 by John Stewart, Lauren Mulholland, and Scot Duncan (collectively the "Founding Partners") following its spin-out from Monomoy Capital Partners ("Monomoy") to pursue investments into middle-market industrial and specialty distribution companies in North America. MiddleGround targets control investments in operationally underperforming companies with a heavy emphasis on value creation through the operational engagement of its Founding Partners and dedicated operations team. Importantly, two of the Firm's founders along with the Firm's operating partners have extensive careers working within automotive OEMs and other related companies. In addition to the Partners, MiddleGround has a nine-member investment team based in New York, NY and a 13-member operations team based in Lexington, KY.

INVESTMENT STRATEGY

MiddleGround Partners II (the "Fund") seeks to make control-oriented buyout investments in profitable, lower middle-market companies operating predominantly in the North American business to business industrial and specialty distribution sectors (recent focus on mobility & auto infrastructure is noteworthy). The Firm will pursue family and founder-owned businesses, management buyouts, corporate divestitures, spin-outs, and sponsor-backed companies that while relatively healthy, are operationally underperforming and will benefit from MiddleGround's operationally intensive investment approach. Typical companies will have sustainable business models, be well positioned for strong revenue growth, and have a cost structure that can be further optimized. The Firm expects the majority of each investment's growth to be generated by bolstering the cash flow of the business and enhancing organic growth capabilities. Furthermore, MiddleGround must believe its portfolio companies have a path to healthy free cash flow margins.

TRACK RECORD

MiddleGround Fund I closed on $459.5 million in total commitments in 2019. As of September 2020, the Fund has six portfolio companies representing approximately $243 million in invested capital and has completed one additional acquisition in Q4 2020.

Fund	Vintage	Size ($M)	Net ROI	Net IRR
Fund I	2018	460	1.1x	11%
Pre-Fund*	2008-2017	500**	1.9x***	56%*+

*Source: Source: MiddleGround. As of September 30, 2020. *Pre-Fund track record as of December 31, 2017. ** Total invested capital. ***Gross ROI. *+Weighted average gross IRR.*

Investment Merits	Investment Concerns
• Single strategy firm led by a strong, highly aligned and motivated team at an attractive stage of its lifecycle • Depth and pedigree of dedicated operations team • Differentiated industry focus and operationally oriented value creation • Enhanced engagement with portfolio companies throughout the investment process	• Organizational dynamics with Archean anchor investment • Key person risk with John Stewart • Faster than expected investment pacing for Fund I

KENTUCKY RETIREMENT SYSTEMS

INVESTMENTS

To: Investment Committee – Kentucky Retirement Systems

From: Anthony Chiu, Director

Date: March 18, 2021

Subject: Investment Recommendation – New State Capital Partners Fund III

KRS staff and Wilshire are proposing a commitment to New State Capital Partners Fund III, a $425 million leveraged buyout fund that invests in small US companies primarily in the business services and industrial sectors. New State has a disciplined and differentiated sourcing process that has historically resulted in purchase multiples of 5-7x EBITDA.

KRS currently has exposure to New State's first fund through Bay Hills, which committed $16 million in 2015. A commitment of up to $25 million in New State's $255 million Fund II was approved by the Investment Committee in February 2018, but KRS's allocation was cut back to $20 million as a result of investor demand that exceeded the fund's hard cap. Subsequently, KRS was unable to close on its $20 million allocation due to legal documentation issues.

Business / People:

New State was formed in 2013 by David Blechman in New York City and targets deep value buyout investments in US companies with EBITDA of $8 to $25 million. The team has grown to 18 people, including 10 investment team members and 6 operating resources. The investment team is led by four principals that have been successful and worked together at larger value-oriented private equity firms such as HIG and Sun Capital.

Carry and economic ownership are shared among 11 team members. New State also utilizes a group of 10 senior industry partners for sourcing, due diligence, and advising portfolio companies. The firm also has 3 full-time employees in India dedicated mainly to CRM management as well as other tasks typically performed by analysts.

Investment Process and Portfolio:

Despite frothy public and private equity markets in recent years, New State has demonstrated a differentiated sourcing process which primarily targets broken sale processes. This has yielded companies with attractive growth prospects that New State has been able to acquire at below-market multiples. New State's first two funds feature companies that provide IT services, payment processing, construction services, and executive search – all of which were acquired at valuations between 5x and 7x EBITDA.

Since 2013, New State has closed three platform investments before an institutional fund was raised ("Pre-Fund"), six platform investments in Fund I, and four in Fund II. The firm plans to make one more platform investment before starting to deploy Fund III. In addition to these 13 platform transactions, the firm has also closed 13 add-on acquisitions at attractive multiples.

For Fund III, New State expects to continue its deliberate sourcing and diligence process that typically yields 2 to 3 platform investments per year, ultimately resulting in a portfolio of 10-12 companies. However, there are two notable process changes for Fund III. First is a transition away from healthcare deals, which have produced one write-off and mixed results overall. New State is not a specialist and given the idiosyncrasies and risks of the space (e.g. reimbursement), they have determined their skills are better utilized in industrial and business services deals.

Additionally, New State hired Dan Han from Strategic Value Partners in 2020 as Head of Special Strategies. While acquiring companies through debt has not historically been a sourcing strategy for New State, they believe this could be a small, additive piece to Fund III's portfolio. The ability to acquire discounted but well-covered debt provides two potential paths to attractive return - either being refinanced or eventually owning equity through a restructuring at typical New State valuations (mid-single digit EBITDA multiples).

To date, New State has made one such investment, buying senior debt in an IT training company at less than 60 cents on the dollar in July/August 2020. Subsequently, in October a SPAC announced it would purchase the company and merge it with a competitor. If this deal closes, Fund II will receive par plus accrued interest in the form of cash and new debt and realize a sizable gain in under a year.

Performance:

Fund	Vintage	Size ($MM)	Gross IRR	Gross Multiple	Net IRR	Net Multiple
Pre-Fund Investments	2014	$100	28%	2.3x	21%	1.8x
New State I	2015	$131	64%	4.2x	52%	3.2x
New State II	2018	$255	24%	1.2x	5%	1.0x

Source: Wilshire, New State as of 12/31/20

Conclusion: Staff is recommending an investment of $35 million (depending on allocation) in New State's Fund III to be shared among all plans. Like Fund II, this fund is expected to have a single close.

<u>Investment and Terms Summary</u>

Type of Investment: Private Equity – Small Buyout

Structure: GP / LP

Management Fee: Years 1-5: 2% on committed capital

Years 5+: 2% on invested capital net of write-offs, plus unfunded capital commitments reserved for follow-on investments

Performance Fee: 20% over an 8% preferred return, with a European waterfall

Purpose: Capture the value created by New State's differentiated sourcing, acquisition price discipline, and operational improvements.

Risks: Equity, Leverage, Liquidity, Concentration, Key Person

Exp. Net Return: 15% - 20%

Wilshire Private Markets

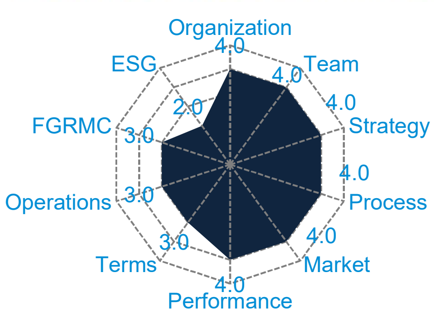
NEW STATE CAPITAL FUND III

($425 million)

REQUEST DECISION

Key Highlights	
Target Size / Hardcap	USD 425 / 425
First Close (M)	NA
First Close Date	April 2021
Expected Close Date	April 2021
Geographic Focus	North America
Sector	Buyout
Investment Focus	Generalist
Investment Size (M)	$10 - $45
Number of Investments	Est. 8 – 12
Investment Period	5 Years
Fund Term	10 Years
GP Commitment	Min. 2% of commitments
Target Return	5.0x ROI
Management Fee – Investment Period	2% of committed capital
Management Fee Structure	2% of reduced cost basis
Carry / Waterfall	20% / European
Catch Up(%) / Hurdle	100% / 8%

WPM RESEARCH REPORT RADAR



Key: 5 = Top Decile; 4 = Top Quartile; 3 = Average; 2 = Bottom Half; 1 = Bottom Decile; 0 = No Information

FIRM OVERVIEW

New State Capital Partners ("New State" or the "Firm") is a New York-based private equity firm focused on small-cap, deep value investing primarily within the industrial, business services, and consumer sectors. New State was founded by David Blechman in 2013 following his tenure as a Managing Director at H.I.G. Capital and is now joined by several other Senior Principals and former colleagues. New State employs 18 individuals today, including ten investment professionals and six operating resources.

INVESTMENT STRATEGY

New State Capital Partners Fund III ("Fund III" or the "Fund") will continue to execute upon the investment strategy employed across the Firm's prior two commingled funds and Pre-Fund track record, making control investments in companies primarily operating in the industrial, business services, and consumer sectors with significant growth potential. New State focuses on small-cap companies and emphasizes a deep value approach, targeting businesses with EBITDA ranging from $8 million to $25 million at below-market valuations (4x to 5x EV/EBITDA). Notably, the Fund may also seek to invest in companies by purchasing secondary debt at a discount to par and either receiving a repayment of principal or restructuring to an equity position.

Post-investment, New State has numerous value creation levers to drive growth in its portfolio companies including strategic pivots, talent upgrades, financial and operating improvements, and add-on acquisitions. Overall, New State strives to turn "good" companies into "great" companies. New State has developed a differentiated sourcing process that is critical to the strategy's success. The result is a robust pipeline and an extremely selective deal funnel that has generated an average entry point of 5.5x EV/EBITDA across 13 platform investments.

TRACK RECORD

In total, New State has invested approximately $375 million (including co-investment) across 13 platform investments and 13 add-ons. The Firm has demonstrated the ability to generate outperformance at the deal-level, evidenced by one Pre-Fund exit at a 10.3x gross ROI and a partially realized Fund I investment marked at 14.7x gross ROI. New State's portfolio is attractive from both an absolute and relative basis and has generated a 2.6x gross ROI in aggregate as of December 31, 2020.

Fund	Year	Size ($M)	Net ROI	Net IRR
Fund II	2018	255	1.0x	5%
Fund I	2015	131	3.2x	52%
Pre-Fund*	2014	100	1.8x	21%

*Source: New State Capital as of December 31, 2020. *Pre-Fund net performance estimated by WPM assuming a 2% management fee on committed capital and 20% carried interest; fund size for Pre-Fund reflects total invested capital.*

Investment Merits

- Optimal point in manager lifecycle with minimal succession risk and track record of multiple funds
- Deep value, small-cap buyout strategy, which is particularly attractive in the current environment
- Disciplined, differentiated sourcing approach focused on less competitive deals at below-market valuations
- Compelling absolute and relative performance

Investment Concerns

- Generalist approach targeting various sectors where domain expertise may be critical to success
- Increase in fund size
- Small number of fully realized investments to-date

Past performance is not indicative of future results.

KENTUCKY RETIREMENT SYSTEMS

INVESTMENTS

To: Investment Committee – Kentucky Retirement Systems

From: Anthony Chiu, Director

Date: March 16, 2021

Subject: Investment Recommendation – Strategic Value Special Situations Fund V

KRS staff and Wilshire are proposing a commitment to Strategic Value Situations Fund V, a $5 billion distressed debt fund that will invest in North America and Europe. The Strategic Value Partners (SVP) team has produced attractive, consistent returns over its first four drawdown funds which date back to 2008. SVP has an operationally intensive investment process that focuses on 30-40 companies that they can influence over a multi-year holding period. Discounted fees and an opportunity set that has widened as a result of the pandemic are also favorable.

KRS is a current investor in Fund IV. A commitment of up to $75 million was approved by the Investment Committee in February 2018, but KRS's allocation was cut back to $65 million as a result of investor demand that exceeded the fund's $2.85 billion hard cap.

Business / People:

SVP was formed in 2001 by Victor Khosla in Greenwich, CT and makes distressed and restructuring investments through a hedge fund vehicle (~$2 billion of assets) and drawdown funds (~$9 billion of assets). The firm has 128 employees, 49 of which are investment professionals. This is notable growth from 103 employees and 39 investment professionals three years ago when KRS was underwriting Fund IV. Khosla still owns 100% of the firm, but has increasingly allocated more carried interest in each fund to key members of the Deal Underwriting, Deal Operating, and Global Sourcing teams.

Investment Process and Portfolio:

SVP typically invests in the corporate senior debt of 30-40 companies, often buying from European banks who are stressed sellers. For Funds II, III, and IV, 65-70% of investments were initially senior debt, but the proportion of equity in each portfolio has grown as reorganizations occur and SVP gains a significant equity stake in (and sometimes control of) the companies it chooses. As of 3Q 2020, equity comprised 60% of Fund II's portfolio, 56% of Fund III, and 42% of Fund IV.

The firm focuses on certain key industries, many of which are industrial or old epconomy businesses like packaging or building products. They have also developed some expertise on power and infrastructure, with toll roads, waste management, and power plant investments having produced several of the firm's most profitable deals to date.

Two of SVP's largest deals in 2020 seem to fit the above profile. Using their sourcing and restructuring experience, SVP was able to secure control of building products company OmniMax and an influential ownership position at aviation services company Swissport. Both companies and their equity sponsors were distressed, and SVP was able to obtain its stake in the company cheaply through debt that eventually became equity through restructuring.

However, along with many distressed peers, SVP has taken some sizable losses from investments in the energy and shipping sectors over the past 5-10 years. Fortunately, to date these have been far outweighed by some of the winners mentioned above.

In 2020, SVP started to make investments in real estate as the sector became dislocated during the pandemic. The firm also hired Sujan Patel from Colony / NorthStar as head of real estate in late 2020 to lead efforts in that sector, which has so far produced a couple positions of note in stressed hotel and retail assets.

Performance:

Fund	Vintage	Size ($MM)	Gross IRR	Gross Multiple	Net IRR	Net Multiple
SVSS I	2008	$346	18%	2.4x	16%	2.0x
SVSS II	2010	$918	16%	2.0x	14%	1.9x
SVSS III	2013	$1,560	17%	2.2x	14%	1.9x
SVSS IV	2017	$2,850	32%	1.4x	24%	1.3x

Source: SVP as of 12/31/20

Conclusion: Staff is recommending an investment of $100 million (depending on allocation) in Strategic Value Special Situations Fund V to be shared among all plans. First close is being targeted to secure discounted fees and investment capacity.

Investment and Terms Summary

Type of Investment: Private Equity - Distressed Debt

Structure: GP / LP

Management Fee: Years 1-4: 0.725% on committed capital until 50% of capital is drawn, then 1.45% on committed capital. This is discounted from 0.875% and 1.75% as a result of commitment size and participation in the fund's first close.

Years 5+: 1.45% on the lesser of committed capital or cost basis of remaining investments

Performance Fee: 20% over an 8% preferred return, with a European waterfall

Purpose: Position KRS to take advantage of opportunities arising from the pandemic and any further downturns in the medium term. Capture the value created by SVP's restructuring activities as well as an illiquidity premium.

Risks: Key Person, Credit, Equity, Leverage, International, Liquidity

Exp. Net Return: 12% - 15%

Wilshire Private Markets

SVSS FUND V

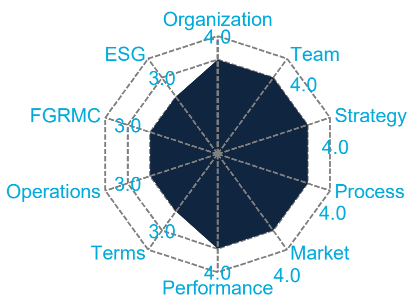
($5 billion)

REQUEST DECISION

Target Size / Hardcap	$4.0 billion / $5.0* billion
First Close	$3.2** billion
First Close Date	April 2021
Expected Close Date	TBD
Geographic Focus	Global
Sector	Special Situations
Investment Focus	Generalist
Investment Size (M)	Various
Number of Investments	20 – 40 core positions
Investment Period	4 years
Fund Term	7 years
GP Commitment	$80 million
Target Return	20% gross IRR
Management Fee – Investment Period	0.725%-0.875% on committed until 50% of capital is called; 1.45%-1.75% thereafter***
Management Fee-Post-Investment Period	1.45%-1.75% on invested***
Carry / Waterfall	20% / European
Catch Up(%) / Hurdle	100% / 8%

**Excluding GP commitments. **Stated by SVP. ***Discounts for first closers and based on a commitment size are available.*

WPM RESEARCH REPORT RADAR



Key: 5 = Top Decile; 4 = Top Quartile; 3 = Average; 2 = Bottom Half; 1 = Bottom Decile; 0 = No Information

Past performance is not indicative of future results.

FIRM OVERVIEW

Founded in 2001 by Victor Khosla, Strategic Value Partners ("SVP" or the "Firm") is a global alternative investment manager focused on distressed credit through restructurings, event-driven deals, special situations, and trading-oriented opportunities. Today, SVP manages $10.7 billion in assets across its hedge fund, Special Situations Funds structured as drawdown vehicles and SMAs. With offices in Greenwich (CT), New York, London, and Tokyo, SVP employs 127 professionals including a 49-person global investment and operating team.

INVESTMENT STRATEGY

Strategic Value Special Situations Fund V ("SVSS V", "Fund V" or the "Fund") will continue to execute on the same successful investment strategy as its predecessor funds, focusing on distressed, stressed and deep-value debt investments in middle-market companies with enterprise values of less than $1.5 billion. The Fund will seek to invest in companies with strong fundamentals but that are facing financial stress or distress as a result of their capital structures.

The Fund will typically invest initially through distressed debt and senior parts of the capital structure. SVP will target investments, where it can acquire or build over time a meaningful position with an intent to lead or influence financial restructurings through active involvement on creditor's committees and board of directors. Post-close, the Fund will leverage its in-house team of operating partners and actively engage with portfolio companies, where it holds an influence or control position, to drive operational performance. SVP will focus on asset-heavy, old-economy companies with predictable cashflows and low technology risk. The Fund will primarily target investments in North America and Europe but may opportunistically invest globally.

TRACK RECORD

Since the strategy's inception in 2008, SVP has raised approximately $5.1 billion in total commitments across four Strategic Value Special Situations Funds ("SVSS"). Funds I-III have generated strong returns, and Fund IV, while still early, is tracking well.

Fund	Vintage	Size ($M)	Net ROI	Net IRR
SVSS IV	2017	2,500	1.2x	19%
SVSS III	2013	1,310	1.7x	13%
SVSS II	2010	918	1.8x	13%
SVSS I	2008	346	2.0x	15%

Source: SVP as of September 30, 2020.

Investment Merits	Investment Concerns Items
• Global platform with a deep bench of investment and operating professionals • Large team of in-house operating partners • Dual-geographic focus and superior sourcing capabilities through regional coverage • Market opportunity • Strong absolute and relative performance	• Key person and succession risk with Mr. Khosla • Recent senior leadership turnover • Lack of formal IC approval process