



INVESTMENT COMMITTEE

Staff Report

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FROM: Don Pierce, Chief Investment Officer

SUBJECT: Patria Secondary Opportunity Fund V

RECOMMENDATION:

Patria introduction (as successor to Abrdn) and Secondary Opportunity Fund strategy update.

BACKGROUND:

History and Patria Investments:

The program has been led by Patrick Knechtli since inception with SOF I in 2013 and was initially sponsored by Standard Life Capital (SL Capital). Under SL Capital, the SOF program launched two more funds: SOF II in 2014 with \$291.1 million committed, and SOF III in 2016 with \$427.5 million committed. Performance details are outlined in Table 1: SOF Investment Program Net Performance.

Table1: SOF Investment Program Net Performance

Fund Name	Vintage	SBCERA Commitment	TVPI	DPI	IRR
SL Capital SOF I LP	2014	\$25 million	1.3x	1.3x	9.5%
SL Capital SOF II LP	2014	\$25 million	1.3x	1.3x	14.0%
SL Capital SOF III LP	2017	\$25 million	1.8x	1.0x	21.2%
Aberdeen Standard SOF IV LP	2020	\$40 million	1.7x	0.4x	38.5%

In March 2017, SL Capital merged with Aberdeen Asset Management to form Standard Life Aberdeen and launched SOF IV, a \$506 million fund in 2020. In 2021, Standard Life Aberdeen was renamed Abrdn.

In 2022, Abrdn announced a decision to sell the Private Equity (PE) business and sold the U.S. PE business in October 2023 to HighVista Strategies and announced a sale of the European PE business to Patria Investments. Patria, a publicly listed (NASDAQ: PAX) global asset manager, is based in Sao Paulo, Brazil. The firm started in 1988 and manages over \$40 billion in AUM across private and public equities, credit, infrastructure, and real estate. Mr. Knechtli will lead the SOF V at Patria, which is discussed further below.

Private Equity Macro:

The global PE market has been severely impacted by interest rate hikes undertaken by the U.S. Federal Reserve. The new and much higher interest rate environment is impacting profitability and growth in privately held companies resulting in negative valuation adjustments and leading to a wider

than normal spread in bid-ask expectations. As a result, PE market participants anticipating an interest rate cut are holding off transacting at lower valuations and realizing a lower-than-expected return from investments. Investor behavior of doubling down in PE in 2020 and 2021 combined with a lack of realizations has led to a liquidity crunch amongst institutional investors and in many cases an over-allocation to PE.

Secondary transactions in private markets typically offer investors an opportunity to re-balance their asset allocations, tactically adjust vintage year exposure, and raise liquidity to fund other opportunities. In recent years, managers are utilizing secondary markets to optimize fund management decisions and provide investors with exit/liquidity options. Typically, discounts in the secondary market range in 5-15% and are largely driven by the quality of the portfolio and strength of the General Partner. However, these discounts can be substantially greater during dislocations and the current environment is a good example of a poorly functioning private equity market.

Past SOF Performance:

The SOF strategy is focused on investing in US and European PE transactions participating in primary funds, continuation vehicles, fund-of-funds, and other complex transactions trading on the secondary market. SBCERA has committed \$115 million to the SOF program to date (across four SOF funds) and as of December 31, 2023, the investment has generated a net 1.52x TVPI, 23% IRR, and has been a cornerstone investor in the strategy since launch in late 2013. The performance result includes a distribution of \$97.9 million or 1.01x on \$97.3 million of called capital.

The Opportunity:

Secondary market transactions in private equity provide SBCERA's PE program with additional benefits including a reduction of risk by eliminating blind-pool risk and an improved liquidity profile as transactions at the underlying company level are more advanced in their value-creation phase timeline.

Patria SOF V is a \$500 million private equity fund targeting lower and middle market buyout focused on fund-of-funds, continuation vehicles, primary funds, and other complex transactions in the secondary market.

In addition to the macro environment, staff believes that an investment in Patria SOF V is a compelling opportunity for SBCERA for the following reasons:

- Seasoned and stable investment team with an established track-record and performing at a high-level.
- Fund and strategy development has shown measured growth and improved capability with each vintage.
- Patria aligned with the SOF team. Senior leadership at Patria is relocating to the newly established London office and has taken several steps to ensure the European PE team has the resources and compensation necessary to remain focused and motivated as a part of the Patria platform.
- SBCERA negotiated cornerstone investor terms.

NEPC concurs with staff's recommendation.

BUDGET IMPACT:

Investment Costs are deducted from Net Asset Value.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Amit Thanki

ATTACHMENTS:

Exhibit A: NEPC Memo - Patria SOF V (confidential)

Exhibit B: Patria SOF V Presentation