IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Gregory S. Samorajski, CFA
Chief Executive Officer

Kim Reynolds
Governor

Adam Gregg
Lt. Governor

Investment Board Meeting Agenda

Thursday, August 5, 2021
Conference Telephone #: 646-558-8656
Meeting ID: 884 6790 4880
11:00 a.m. – 11:30 a.m.

11:00 a.m. **Call to Order / Roll Call of Members**

11:05 a.m. **Investment Consultant Hiring Recommendation**
Karl Koch, IPERS

11:15 a.m. **Opportunistic Private Credit Manager Hiring Recommendations**
Pat Reinhardt, IPERS

11:25 a.m. **Confirm Next Meeting Dates**
Wednesday, September 15, 2021 – 1:30 p.m.
Thursday, September 16, 2021 – 8:30 a.m.

11:30 a.m. **Adjourn**

IPERS®
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RFP I-2021-4
Investment Consulting Services
Evaluation Committee Recommendation
August 5, 2021

The Evaluation Committee recommends the Investment Board authorize the hiring of Wilshire Associates to provide investment consulting services to IPERS, subject to final negotiation of fees and contract terms.

IPERS issued RFP I-2021-4 for investment consulting services on April 16, 2021, and received seven proposals, all of which met the minimum qualifications listed in the RFP. An Evaluation Committee made up of Board members Lisa Stange, Justin Kirchoff and Kris Rowley and staff members Greg Samorajski, Karl Koch and Sriram Lakshminarayanan evaluated and scored the seven proposals based on the criteria stated in the RFP.

Each criteria category was scored on a 1 through 5-point scale, with 1 being poor, 3 being average and 5 being excellent. The Cost Proposal category was scored by formula and considered the total annual fees and costs for an assumed number of manager searches during the contract period. (The lowest cost proposal received a score of 5 and the other proposals' fee scores were scaled off the lowest cost proposal.) Below are the Evaluation Committee's combined scores for each firm by category:

	Max Points	Aon	Callan	Meketa	NEPC	RVK	Verus	Wilshire
Organization, Independence & Ethics	5	2.67	3.25	3.25	3.67	3.50	3.25	2.83
Experience	5	3.67	3.17	3.08	3.58	3.42	3.00	3.92
Philosophy & Process	5	3.50	3.00	3.58	3.00	3.33	3.50	3.67
Research & Technology	5	3.58	3.33	3.50	3.67	3.00	2.67	3.50
Cost Proposal	5	3.89	4.74	4.04	4.47	4.24	5.00	4.46
Total	**25**	**17.31**	**17.49**	**17.46**	**18.39**	**17.49**	**17.42**	**18.38**

The Committee agreed to interview the top 4 firms based on scores: NEPC, Wilshire, Callan and RVK. Virtual interviews were held with each firm in July. Once the interviews were concluded, each Committee member provided their ranking of each firm (1 being the highest, 4 being the lowest). Wilshire Associates received the top ranking from 4 committee members (Stange, Kirchoff, Koch and Lakshminarayanan) and NEPC received 2 top rankings (from Rowley and Samorajski). Based on this, the Committee recommends the Investment Board hire Wilshire Associates to provide investment consulting services, subject to final negotiation of fees and terms.

Opportunistic Private Credit Update

IPERS Investment Board

Pat Reinhardt, SIO - Alternatives

August 5, 2021

IPERS

IPERS Private Credit Proposed Structure

	Target Position ($M)	Private Credit (%)	Total Fund (%)	Status
Multi-Strategy				
KKR Goldfinch[1]	*$175*	*5.2%*	*0.4%*	Investing
Crestline Investors	*$250*	*7.4%*	*0.6%*	Contracting
Marathon Asset Mgmt.	*$250*	*7.4%*	*0.6%*	Contracting
Sub-total	**$675**	**20.0%**	**1.6%**	
Mezzanine				
Audax Mezzanine Fund V	*$100*	*3.0%*	*0.2%*	Investing
Audax V Co-Investment Fund	*$25*	*0.7%*	*0.1%*	Contracting
Ares Private Credit Solutions II	*$100*	*3.0%*	*0.2%*	Investing
Ares PCS II Co-Investment Fund	*$25*	*0.7%*	*0.1%*	Contracting
Sub-total	**$250**	**7.4%**	**0.6%**	
Special Situations				
Kartesia	*$150*	*4.4%*	*0.4%*	Recommended
Sub-total	**$150**	**4.4%**	**0.4%**	
Specialty Finance				
CapitalSpring	*$50*	*1.5%*	*0.1%*	Recommended
ArrowMark	*$100*	*3.0%*	*0.2%*	ODD
Sub-total	**$150**	**4.5%**	**0.4%**	
Total Opportunistic Private Credit	**$1,225**	**36.3%**	**2.9%**	
Direct Lending				
Monroe Capital Management	*$527*	*15.6%*	*1.3%*	Investing
BlackRock / TCP VIII	*$400*	*11.8%*	*1.0%*	Investing
KKR Goldfinch[1]	*$175*	*5.2%*	*0.4%*	Investing
Sub-total	**$1,102**	**32.6%**	**2.6%**	
Real Assets / Other				
PGIM Global Real Estate Debt	*$250*	*7.4%*	*0.6%*	Investing
ITE Management	*$100*	*3.0%*	*0.2%*	Recommended
HPS Investment Partners	*$100*	*3.0%*	*0.2%*	ODD
Open (multiple mandates expected)	*$600*	*17.8%*	*1.4%*	Search Pending
Sub-total	**$1,050**	**31.1%**	**2.5%**	
Total Portfolio	$3,377	100%	8.0%	

At the June Board meeting, the Investment Board noted concerns around the stated fee structures for the highlighted managers and requested that further work be completed around this issue. Wilshire and staff were able to negotiate discounted fees in all three cases. Our revised recommendations for these managers are provided on the following slides.

[1]KKR Goldfinch's mandate invests in both opportunistic and direct lending strategies. Assumes 50/50 split.

ITE Rail Fund Recommendation

- ***ITE Management Fee Discussions:***
  - Option 1 provides for a 17% discount to the original base management fee and the elimination of the one-time commitment fee to the main fund. It also reduces the carry by 25% with the same hurdle rate. The entire commitment would be made to the main fund.
  - Option 2 provides for a blended fee structure. 65% of the proposed commitment would be invested in the main fund at the full management fee rate and the elimination of the one-time commitment fee. This portion of the commitment would receive a slight discount on the incentive fee carry as well. The remaining 35% of the proposed commitment would be invested in a SMA on a parallel basis with the main fund but at a discounted rate. The blended fee structure achieves a 33% discounted management fee and the elimination of the one-time commitment fee. It also reduces the carry by 25% with the same hurdle rate.

- ***ITE Management Investment Merits:***
  - ITE is a top 10 industry participant with over 35,000 rail cars in its fleet and has built a well-established organization focused exclusively on the transportation industry.
  - ITE's team is supported by the Fund's internal repair and maintenance company, AITX, with over 500 employees and 15 locations nationwide, which provide important resources to the Fund's strategy and operations.
  - Rail car leasing strategy that offers low volatility and stable cash yields with limited dedicated competition.
  - Risk mitigation through portfolio diversification across commodities, lessees, expirations, and types and ages of rail cars.
  - Freight railway system spans throughout North America and is a critical part of the supply chain for industrial transportation.
  - The strategy has provided consistent performance through several commodity-related events and the COVID-19 induced dislocation.

- **ITE Management is being recommended for a commitment of $100 million for the real assets credit allocation.**

Kartesia Credit Opportunities SMA Recommendation

- ***Kartesia Fee Discussions:***
  - Proposed reduction of all-in fees at a $100 million, $125 million and $150 million commitment levels.
  - Most attractive fee concessions were at $150 million inclusive of a 10% management fee discount, reduced carry and slightly higher hurdle rate.

- ***Kartesia Investment Merits:***
  - Kartesia's senior investment team has been running this strategy together since 2008.
  - Provides highly structured debt investments in lower middle market companies through loan origination and secondary purchases in Europe.
  - European banks have continued to further reduce their appetite for holding middle-market loans and, therefore, increasing the opportunities for groups such as Kartesia.
  - Kartesia's physical presence in localized, target markets across seven countries provides for significant sourcing advantages, translating to 90% of all deals stemming from off-market sources (unauctioned or without any meaningful competition).
  - Performance since inception has seen consistent returns generating a realized gross IRR of 16.4% and gross ROI of 1.4x since inception. In addition, Kartesia has experienced lower loss ratios in their more recent funds through the pandemic.

- **Based on the substantial fee concession and diversification benefits, Kartesia is being recommended for a commitment of $150 million, a $50 million increase from the original recommendation.**

CapitalSpring Investment Partners VI Recommendation

- ***CapitalSpring Fee Discussions:***
  - 80% of commitment to CSIP VI and 20% to Wilshire client-specific co-investment vehicle:
    - Standard fees would apply on the 80% commitment to CSIP VI like all other LPs, including largest investors.
    - For the 20% commitment to the Wilshire client-specific co-investment vehicle, there will be no management fee on invested or committed capital and no carried interest.
  - Blended fees would reduce the overall fee base by 15-20%.

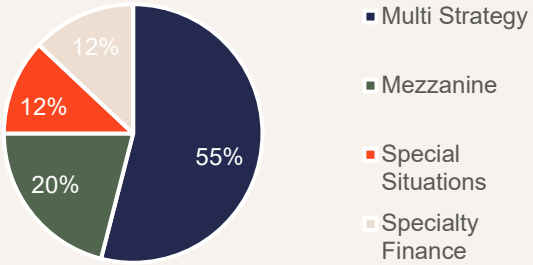
- ***CapitalSpring Investment Merits:***
  - Provides sourcing advantage leading to proprietary deal flow with strong structuring characteristics, reducing risk.
  - Unlevered strategy providing for an attractive risk-adjusted return profile.
  - Specialized and resilient strategy focused on a niche, fundamentally less efficient market. Repeatable results vis-à-vis focus on businesses with simple, formulaic, and proven business models.
  - Large team with extensive, relevant industry experience, including operating insight, is unusual for a credit strategy.
  - Attractive market dynamics supported by secular growth and cyclical resiliency; performance throughout COVID-19 period has remained consistent – if not stronger – than pre-pandemic levels.
  - Investment provides diversification within the franchised restaurant industry not found elsewhere in the portfolio, inclusive of exposure to specialized team with restaurant and franchise-specific operational expertise.
  - Smaller commitment size provides for equal portfolio exposure to specialty finance and special situations, while also allowing for the possibility to grow commitments over time as CapitalSpring grows and performs as expected.

- **Based on the attractive unlevered risk-return targets and potential to reduce fees through the co-investment vehicle, a $50 million commitment size to CapitalSpring is considered a highly attractive, alpha-generating opportunity that fits within the overall opportunistic private credit portfolio.**

Opportunistic Private Credit – Potential Portfolio Construction

	Target Position ($M)	Allocation (%)	Allocation Range	
			Low %	High %
Multi-Strategy				
Crestline Investors	*$250*	*20.4%*		
Marathon Asset Mgmt.	*$250*	*20.4%*		
KKR Goldfinch	*$175*	*14.3%*		
Sub-total	**$675**	**55.1%**	**50%**	**60%**
Mezzanine				
Audax Mezz V	*$100*	*8.2%*		
Audax V Co-Invest	*$25*	*2.0%*		
Ares Management	*$100*	*8.2%*		
Ares PCS II Co-Invest	*$25*	*2.0%*		
Sub-total	**$250**	**20.4%**	**0%**	**30%**
Special Situations				
Kartesia	*$150*	*12.2%*		
Sub-total	**$150**	**12.2%**	**0%**	**20%**
Specialty Finance				
Arrowmark	*$100*	*8.2%*		
CapitalSpring	*$50*	*4.1%*		
Sub-total	**$150**	**12.2%**	**0%**	**20%**
Total Opportunistic Credit Portfolio	$1,225	100%		

Current Recommended Allocation



- Core allocation to multi-strategy managers allows for significant diversification across opportunistic private credit investments, while providing an attractive risk adjusted return profile.
- The market environment for mezzanine investments has the potential to be favorable as a new credit cycle begins following the Covid-19 dislocation.
- Special situations and specialty finance are complementary to the multi-strategy and mezzanine managers added to the portfolio during the first segment of the search process and will help to further diversify and enhance return potential of the private credit program.

Summary of Hiring Recommendations

- Hire ITE Management for a $100 million allocation in the real assets credit mandate, subject to operational due diligence and successful contract negotiations.

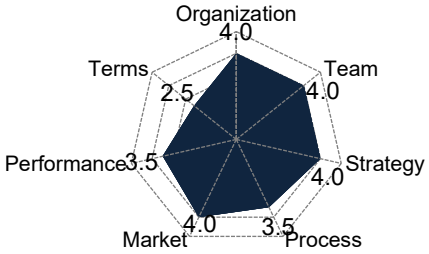
- Hire Kartesia for a $150 million allocation to special situations credit, subject to operational due diligence and successful contract negotiations. (*Note: This recommendation is $50 million greater than the original recommendation in order to achieve the most favorable fee discounts.)*

- Hire CapitalSpring for a $50 million allocation in the specialty finance credit mandate, subject to operational due diligence and successful contract negotiations.

Recommended Managers

ITE Rail Fund

Key Highlights	
Currency / Current Size (B) / Hard Cap (B)	USD / $1.4 / NA
First Close Amount	NA
First Close Date	October 2014
Final Close Date	NA
Geographic Focus	North America & Europe
Sector	Real Assets Credit
Industry	Rail
Investment Size (M)	Various
Number of Investments	Currently 35,000 railcars
Commitment Period	2 years from closing date at year-end
Fund Term	Open-ended
GP Commitment (%)	TBD
Target Return	Annualized 10-12% net IRR (levered); Unlevered cash yield of 6%-9%
Management Fee – Investment Period	0.5% one-time fee on committed
Management Fee – Post-Investment Period	1.5% on NAV
Carry	20%
Catch Up (%) / Hurdle	50% / 6%



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

FIRM OVERVIEW

Founded in 2014, ITE Management ("ITE" or the "Firm") is an alternative investment firm focused on investing in real assets in the transportation industry, predominantly in rail and air. The Firm manages three separate strategies: ITE Rail, ITE Aviation, and ITE Container. The Firm is led today by the three co-founders: David Smilow, Jason Koenig, and Jim Unger. ITE employs 42 professionals across investment & asset management, asset operations, and back-office operations including ITE Labs (an in-house team dedicated to its data-driven technology platform). The Firm has offices in New York, Chicago, and St Louis.

INVESTMENT STRATEGY

ITE Rail Fund (the "Fund") will manage a portfolio of freight rail cars and related assets. ITE will primarily purchase rail cars that are on-lease and will seek to build a portfolio that is diversified by car type, commodity carried, lessee, length and expiration of leases, and age of car. A broad diversification allows the Fund to mitigate volatility and risks. Currently, the portfolio is comprised of approximately 35,000 rail cars and diversified across 170+ different commodities, 250+ lessees with 700+ leases, railcars ranging from 1 to 50 years old with a weighted average age of 6 years by value, and with approximately 75% of the rated fleet as investment grade. The Fund seeks to generate stable and predictable cash flows through strong lease contracts that are take-or-pay, long-dated, and priced at fixed rates throughout the lease term. To source opportunities, ITE uses its large network of partners including manufacturers, operating lessors, and servicers. In addition, the Fund owns American Industrial Transport's ("AITX") rail car maintenance and servicing network with 15 maintenance facilities and over 540 employees. As the majority of the ITE leases are full-service, the Firm uses AITX to service existing assets by providing ongoing maintenance and fulfilling other repair and servicing needs. The Fund may opportunistically invest up to 15% of its portfolio in non-rail car related assets. The Fund also targets 2:1 leverage on an asset-level and uses asset-backed loans and securitizations on a non-recourse basis to the Fund.

TRACK RECORD

Since inception in 2014, the Firm has purchased over 35,000 railcars totaling over $3.2 billion in asset value. Today, the Firm is a top 10 owner of freight railcars in North America. Currently, ITE manages over $1.4 billion in investor commitments to its Rail strategy. As of June 30, 2020, the Firm has achieved an unlevered gross cash yield of 9%.

Fund	Vintage	Size ($B)	Levered Net IRR*
Rail Fund	2014	$1.4	11.4%

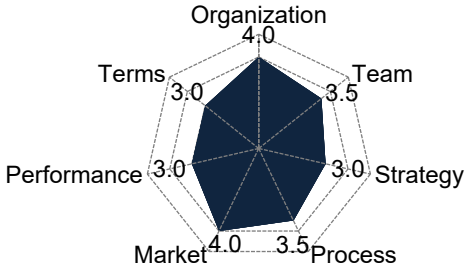
*Source: ITE as of December 31, 2020. *Annualized.*

Investment Merits	Investment Concerns
• Optimal point in manager lifecycle • Differentiated strategy with diversification, uncorrelated return profile, and stable yield • Extensive operational / maintenance capabilities through AITX and in-house, data-driven technology platform • Consistent, attractive absolute returns	• Leverage and inflation risk • Expansion into Europe and potential market opportunity • Sector exposure to oil and gas / fossil fuels • Select terms, including one-time fee on committed capital and low hurdle rate

Past performance is not indicative of future results.

Kartesia Credit Opportunities V

Key Highlights	
Currency / Current Size (B) / Hard Cap (B)	EUR / €1.2 / €1.5
First Close Amount	NA
First Close Date	NA
Final Close Date	NA
Geographic Focus	Europe
Sector	Opportunistic Credit
Industry	Corporate Credit
Investment Size (M)	€25-30 million
Number of Investments	35 - 45
Commitment Period	3 years; two 1-year extensions
Fund Term	8 years; two 1-year extensions
GP Commitment (%)	TBD
Target Return	15% Gross IRR; 1.6x gross ROI
Management Fee – Investment Period	Committed capital based on commitment size: €0-50mm: 1.50% €50-100mm: 1.35% €100-150mm: 1.25% €150-200mm: 1.15%
Management Fee – Post-Investment Period	Invested capital based on above fee breaks
Carry	20%
Catch Up (%) / Hurdle	100% / 6%



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FIRM OVERVIEW

Kartesia Management ("Kartesia" or the "Firm") is a European private credit firm pursuing corporate credit opportunities in the lower mid-market in Europe and is headquartered in Luxembourg, with other offices in the United Kingdom, Belgium, Spain, France and Germany. In 2008, the Altercap Platform was created by Laurent Bouvier, Matthieu Delamaire and Jaime Prieto, with the support of LBO France Gestion. In 2013, the Altercap Team became independent of LBO France and created Kartesia. Currently, the Firm employs 56 experienced professionals across 7 European offices, with an average of 23 years of experience in European private credit.

INVESTMENT STRATEGY

Kartesia Credit Opportunities V ("Fund V" or the "Fund") intends to build upon the strategy employed by KCO III and KCO IV, and the prior Altercap Funds. The Fund will target corporate credit opportunities in the lower mid-market across established markets in Europe. Fund V intends to invest by providing or acquiring senior loans, mezzanine loans, subordinated instruments, and to a lesser extent, minority equity/equity-like instruments to, or to be held against, European companies or securitized investment vehicles. The focus will be on credit worthy, performing companies sourced via the secondary and primary markets. Through a combination of secondary and primary investments in leveraged loans, Kartesia is able to deliver value through capital gains, PIK interest, cash interest and equity and fees. In all of its investments, Kartesia intends to apply a consistent approach in structuring an asymmetric risk/return profile while focusing on downside protection and disciplined credit analysis. The Fund intends to build a portfolio of approximately 35 to 45 quality assets representing an average exposure of approximately €25 to 35 million per investment.

TRACK RECORD

Kartesia has invested approximately €2.7 billion in capital across 145 investments dating back to 2013. The Firm instituted their first investment vehicle, separate from the Altercap Platform, in 2015. In aggregate, the Firm has generated a realized gross IRR of 16.4% and gross ROI of 1.4x, through 86 exits since inception.

Fund	Vintage	Size (€M)	Gross ROI	Gross IRR
KSO I	2021	636	1.0x	10.8%
KCO IV	2017	870	1.3x	18.6%
KCO III	2015	508	1.8x	16.7%

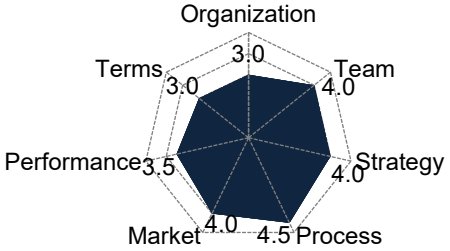
Source: Kartesia as of December 31, 2020

Investment Merits	Investment Concerns
• Strong, tenured senior team with skillsets across credit landscape, including origination, structuring, execution, and turnaround/workouts • Flexible investment strategy with ability to work across capital structure • Strong risk-adjusted return profile with high focus on capital preservation and potential for outsized returns	• Substantial increase in fund size from predecessor vehicles • Recent inclusion of third-party ownership at management company level • Multiple strategies focused across credit spectrum

Past performance is not indicative of future results.

CapitalSpring Investment Partners VI

Key Highlights	
Currency / Target Size (B) / Hard Cap (B)	USD / 750 / 1,200
First Close Amount (B)	~$200
First Close Date	December 2019
Final Close Date	September 2021
Geographic Focus	North America
Sector	Opportunistic Credit
Sector Type	Restaurants
Investment Size (M)	$10-$100
Number of Investments	20-40
Investment Period	4 Years
Fund Term	7 Years
GP Commitment (%)	0.2% of commitments plus 2% co-investment in each deal
Target Return	14%-20% gross IRR
Management Fee – Investment Period	0.5% on unfunded commitments plus 1.5% on invested capital
Management Fee – Post-Investment Period	1.5% on invested capital
Carry/Hurdle	20% / 7%



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FIRM OVERVIEW

CapitalSpring (the "Firm") was founded in 2005 and today is one of the most active institutional lenders focused on the franchised restaurant sector in the U.S. The Firm employs 27 individuals, including 18 investment professionals with restaurant and franchise-specific expertise in the areas of credit, private equity, law, brand management and structuring. The investment team is complemented by two dedicated in-house operations professionals, two origination professionals and a 12-person support team. CapitalSpring has offices in New York City, Nashville, Los Angeles and Atlanta.

INVESTMENT STRATEGY

CapitalSpring Investment Partners VI ("Fund VI" or the "Fund") will continue the Firm's flagship strategy of providing senior secured debt, mezzanine capital, and opportunistic equity to franchised and branded restaurants with an emphasis on the Quick Service Restaurant ("QSR") and Fast Casual Restaurant ("FCR") segments. Franchised restaurant businesses are generally characterized by simple, formulaic, and proven business models operating under established and recognized brands. Consequently, the pattern recognition resulting from the Firm's extensive experience in this space enables a repeatable, data driven approach to analyzing and investing in target businesses with an accuracy and efficiency lacking in generalist firms that consider the franchise sector. The Fund will target a compelling niche within a restaurant sector that is growing, benefits from demographic tailwinds, and has proven remarkably resilient across macroeconomic cycles. Despite these favorable characteristics, however, franchise restaurants remain underbanked and generally out of favor with many investors. By focusing on a sector where capital is scarce, CapitalSpring will benefit from a fundamentally less efficient market which should accrue to the risk-adjusted return potential of the Fund. Fund VI is targeting an unlevered gross IRR of 14% – 20% with an annualized cash yield of 10% – 12%.

TRACK RECORD

CapitalSpring has invested approximately $1.9 billion in its flagship strategy since 2010 across more than 270 investments in over 65 restaurant brands. As of December 31, 2020, the Firm's flagship strategy has generated an aggregate gross ROI of 1.3x.

Fund	Vintage	Size ($M)	Net ROI	Net IRR
Fund V	2016	$725	1.2X	10%
Fund IV	2013	$256	1.3x	9%
Fund III	2009	$65	1.3x	8%

Source: CapitalSpring as of December 31, 2020.

Investment Merits	Investment Concerns
• Specialized and resilient strategy focused on a niche, fundamentally less efficient market • Repeatable results vis-à-vis focus on businesses with simple, formulaic, and proven business models • Large team with extensive, relevant industry experience including operating insight unusual for a credit strategy	• Non-traditional ownership structure and meaningful leverage on Firm's balance sheet • Team alignment given third-party ownership • Fund V portfolio construction and equity exposure

Past performance is not indicative of future results.