



Hastings Equity IV Co-investment, L.P. SPV - Staff Memo

RECOMMENDATION: Approve a commitment up to \$7.5 million to the Hastings Equity IV Co-investment, L.P. SPV. ERSRI committed \$25 million to Hastings Equity IV, a 2019 vintage fund.

ASSET CLASS: Private Equity

SUB-STRATEGY: Lower middle-market buyout

ALLOCATION: Target allocation for private equity is 11.25% (increased in 2017 from 7%) and the allocation as of 8/31 is 8%. The pacing plan for private equity is \$270 million per year committed to 5 - 10 primary funds per year at \$20 - \$60 million per primary fund. Achieving the increased allocation target will require ERSRI to make larger fund commitments or commit to an increased number of GPs. Small funds or capacity constrained funds make it difficult to deploy increased commitment sizes and ERSRI does not want to over diversify with the number of managers either. To solve this ERSRI is employing a strategy of setting up co-investment SPVs with current GPs for additional exposure at fee reduced arrangements and investing in secondaries of existing GPs to form deeper partnerships. Secondaries and co-investment vehicles may be part of the \$270 million annual pacing with a target of \$5 - \$60 million per fund. It is not anticipated that secondaries or co-investment will be more than 20% of the private equity allocation.

PORTFOLIO FIT: ERSRI has emphasized deploying into middle and lower middle-market buyout strategies with a sector focus and/or operational value-add strategy. Hastings's strategy encompasses each of these focus areas as the firm invests in lower middle-market energy and infrastructure services and equipment-based companies where they execute an operationally intensive value-add strategy.

MERITS: Hastings has expertise in the energy and infrastructure services and equipment market. The firm deploys a direct sourcing effort, as opposed to going through intermediaries, which has been historically successful in acquiring businesses at attractive valuations. The focus on the lower middle market presents opportunities where the firm can partner with management and drive value-add operational improvements and M&A initiatives.

CONCERNS: Hastings has historically invested in oilfield service companies which can suffer from cyclical volatility. However, Hastings has taken their proven playbook of investing in those companies to service and equipment-based companies operating in the more stable downstream and infrastructure markets.

FEES: Fees are attractive at 0% management fee and 0% carry.