CLIFFWATER

Recommendation for Tenex Capital Partners IV, L.P.

To:	RISIC
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From:	George Bumeder, Managing Director

The purpose of this memo is to provide the RISIC with a summary of Cliffwater's recommendation on Tenex Capital Partners IV, L.P. ("Tenex IV" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's and OPEB's Private Equity allocations.

<u>Summary of Tenex Capital Partners IV</u>

Fund Overview: The Fund will pursue control buyouts of stable but operationally challenged businesses in small and middle market companies based in North America, with a post-acquisition strategy of operational improvements. ERSRI previously committed $25 million to Tenex II (2016 vintage) and $30 million to Tenex III (2021 vintage).

People and Organization: Tenex Capital Management ("Tenex" or the "Firm") was formed in 2009 to continue its predecessor firm's operationally focused strategy investing in small and middle-market companies in need of operational improvements. The predecessor firm, TenX Capital Partners ("TenX"), was founded in 1999 by Michael Green as a pledge fund to invest in underperforming middle-market companies. TenX was acquired by Cerberus in 2003, and the firm added Varun Bedi, Joe Cottone, J.P. Bretl, and Chad Spooner as senior professionals. While at Cerberus, the team completed nine investments that generated an aggregate gross return of 2.8 times invested capital. The team established Tenex as an independent firm in 2009. Currently, Tenex is led by managing partner Michael Green and six additional managing directors. Three of the five founding members of the Firm remain, including Green, Cottone, and Bedi.

Investment Strategy and Process: Tenex IV will continue the Firm's value-oriented, control buyout strategy targeting small and lower middle market companies in the United States. Historically, Tenex has focused on companies underperforming in their respective market primarily due to inefficient management of their operating assets. During the later part of the Fund II investment period, the Firm blended more stable, higher priced, and higher growth assets into their acquisition strategy, resembling more traditional buyouts. Tenex seeks to leverage its combination of experience in operations and investment management to improve operating performance to at least market averages. The Firm primarily drives improvements through implementing a three-stage approach, focusing on rationalizing and reinvesting fixed costs, optimizing variable cost productivity, and capitalizing on accretive organic and inorganic growth opportunities. Tenex targets companies that are family owned, private equity owned, or corporate carve-outs. The Firm has refined its strategy to target opportunities across diversified industrials, business and tech services, and healthcare. Tenex targets companies with up to $400 million in enterprise value, revenue between $50 million to $350 million, and EBITDA up to $40 million.

Performance: Tenex has managed three funds since inception. As of September 2023, the funds have generated an aggregate net return of 1.98 times invested capital, 22% net IRR, and 1.1 times net DPI. Fund I was a third and fourth quartile fund across metrics, generating a net return of 1.65 times invested capital and 14% net IRR. Performance improved with Fund II, which has generated a net return of 2.2 times invested capital, 24.7% net IRR, and 1.36 times net DPI. The fund ranks in the first quartile on a net DPI basis and second quartile on a net TVPI and net IRR basis. Fund III, a 2021 vintage got off to a fast start driven by a strong early exit. The fund is generating a net return of 1.9 times invested capital and 0.6 net DPI. The fund has generated top decile performance across all metrics, but is still early in its development. Fund III's active unrealized portfolio is valued at 1.3 times gross invested capital.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund will charge a 2.0% management fee during the investment period and 1.75% of net invested capital thereafter. The management fee will be offset by 100% of fees. The Fund will have a five-year investment period, ten-year term, and two one-year extensions subject to LPAC consent. Carry will be 20% on a deal-by-deal basis, with an 8% preferred return, a catchup (80% GP / 20% LP), and a clawback. The GP commitment will be at least 3% of total capital commitments.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $30 million to Tenex Capital Partners IV, L.P. as part of ERSRI's Private Equity allocation and an investment of up to $1 million as part of OPEB's Private Equity Asset allocation.