

## Recommendation Nautic Partners IX, L.P.

To: RISIC  
Prepared: November 29, 2018  
From: Thomas Lynch, CFA, Senior Managing Director

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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Nautic Partners IX, L.P. ("Nautic IX" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund subject to a review of legal documents associated with the Fund. (The general partner has provided a summary of terms but has yet to distribute final legal documents.)

### Summary of Nautic IX, L.P.

*Fund Overview:* Nautic IX is a buyout fund seeking to acquire North American middle-market companies in the healthcare, industrial products and outsourced services sector.

*People and Organization:* Nautic Partners ("Nautic" or the "Firm") was formed in 2000, when the Firm spun-out from Fleet Financial Group ("Fleet"). The investment vehicles prior to the establishment of Nautic were managed primarily on behalf of Fleet entities. Nautic raised its first independent fund, Nautic V, in 2000. Nautic is led by an executive committee that will initially be comprised of managing directors Bernie Buonanno, Scott Hilinski, Chris Corey, and Chris Crosby. Including the executive committee, the Firm's eight managing directors have an average tenure of 16 years, including their respective experience as part of Fleet. The managing directors are supported by 13 other investment professionals including three principals, four vice presidents, and six associates. The Firm plans on adding six additional investment professionals to the team. The investment team is also supported by four operating advisors that assist with deal sourcing, due diligence and post-acquisition management. The Firm also has a team of 22 back-office professionals.

*Investment Strategy and Process:* Nautic will seek to make control-oriented investments in proven middle-market companies across the healthcare, industrial products, and outsourced services sectors. The Firm invests in North American companies with stable market positions and earnings visibility. The Firm typically invests between \$25 million to \$100 million of equity per investment in companies with EBITDA of \$10 million to \$50 million. Post-acquisition, the Firm focuses on executing value-creation initiatives designed to grow earnings, upgrading management teams, and sourcing and executing add-on acquisitions. Add-on acquisitions have become more critical over the past few years, and Nautic expects this trend to continue for the near future. Nautic anticipates that healthcare will represent up to 50% of the fund's exposure, with industrial products and outsourced services investments being completed more opportunistically. In addition to Nautic's own sourcing team and investment team, the Firm utilizes its operating advisors and a network of over 400 business executives for sourcing transactions and management talent. The operating advisors also assist in due diligence and post-acquisition management.

*Performance:* As of June 30, 2018, Nautic's four prior funds have generated a net annualized IRR of 19.3% outperforming the Russell 2000 Index by 10.2% per year. The prior four funds have drawn \$2.5 billion from investors, distributed \$4.6 billion, and have generated a net multiple of total value to invested capital of 2.15x. Three of the last four funds rank in the first decile of the Cambridge US Buyout Universe and one ranks in the second quartile.

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*Investment Terms:* As stated previously, Nautic has yet to release the limited partnership agreement for the Fund; however, based on the summary of terms provided, Cliffwater finds the terms, taken as a whole, to be in accordance with industry standards. The Fund will charge a 2.0% management fee on committed capital during the six-year investment period and a 2.0% management fee on invested capital thereafter. The management fee will be offset by 100% of all transaction, investment banking, break-up, advisory, monitoring, and other such fees. The Fund has a 20% carried-interest after all limited partners' invested capital has been returned and they have received an 8% preferred return. The General Partner will commit at least \$50 million to the Fund.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million to Nautic Partners IX, L.P. as part of ERSRI's private equity allocation.