

## Recommendation on Carlyle Asia Partners V, L.P.

To: RISIC  
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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 Carlyle Asia Partners V, L.P. ("Carlyle Asia V" or "the Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as a private equity investment in ERSRI's Growth Class.

### Summary of Carlyle Asia Partners V

*Fund Overview:* Carlyle Asia Partners V will make minority equity and buyout investments in large-cap companies based in Asia, with a primary focus on China, Taiwan, Hong Kong, India, Australia and New Zealand, Southeast Asia, Korea, and Japan.

*People and Organization:* The Carlyle Group ("Carlyle" or the "Firm") was founded in 1987 by William Conway, Daniel D'Aniello, and David Rubenstein (the "Founders"). The three Founders continue to be active in various leadership roles. Effective January 1, 2018, Kewsong Lee and Glenn Youngkin will become Co-Chief Executive Officers. Peter Clare will join Bill Conway as Co-Chief Investment Officers and Co-Chairman of the investment committee for Carlyle Asia funds. The Firm employs more than 625 investment professionals and over 1,550 total employees located in offices throughout the globe. Carlyle manages 31 active private equity funds and has approximately \$170 billion of assets under management across private equity, real assets, and other alternatives products. In May 2012, Carlyle completed an initial public offering on the NASDAQ. Today, public investors own approximately 28% of the Firm and the three Founders continue to own 41%. The Firm started investing in Asia in 1998 with the establishment of Carlyle Asia Partners ("CAP"). CAP is led by co-heads X.D. Yang and Gregory Zeluck with Janine Feng leading the China investment effort. Yang, Zeluck and Feng are the CAP team's key management and investment professionals. They are supported by 10 additional operations and investment-focused managing directors. The CAP team has expanded significantly since inception and currently has a deep bench of investment professionals throughout its target regions. CAP is headquartered in Hong Kong, with 28 investment professionals based in Greater China, including offices in Beijing, Shanghai, and Hong Kong; seven investment professionals in Mumbai, four investment professionals split between Jakarta and Singapore, three investment professionals in Seoul, and three investment professionals in Sydney. Each of CAP's country teams is staffed by local professionals and headed by one or two managing directors..

*Investment Strategy and Process:* Carlyle Asia Partners V will continue CAP's established strategy of targeting minority equity and control buyout investments in companies based in Asia. The Firm will target equity investments of \$150 million to \$350 million each to build a portfolio of approximately 15 to 20 companies. CAP anticipates investing CAP V over four to six years with an investment pace of three to six investments per year. The Fund will target a gross IRR of 20% to 25%. The Fund will target investments across Asia, with a focus on China, Taiwan, Hong Kong, India, Australia and New Zealand, Southeast Asia, Korea, and Japan. While the Fund will not have predetermined allocations across the target geographies, the Fund is expected to deploy at least half of total invested capital in Greater China. CAP V will be diversified by sector and will target a subset of verticals pursued by Carlyle's U.S. and European buyout strategies, namely consumer and retail, TMT, financial institutions, healthcare, and industrial.

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Carlyle Asia will seek to acquire controlling ownership stakes in its portfolio companies when possible, either by itself or in partnership with other investors. The Fund will also pursue significant minority investments, particularly in geographies such as China, India and Southeast Asia where control buyout opportunities are less widely available. Post-investment, the CAP team focuses on working closely with management teams to drive value creation initiatives, including in areas such as strategy development, corporate governance upgrades, operational improvements, M&A and strategic partnership development, executive recruitment, and capital markets.

*Performance:* Since 1999, Carlyle has managed four dedicated Asia-focused funds, totaling \$9.0 billion of total commitments, which generated a net return of 1.55 times invested capital, a net DPI of 0.97 times invested capital, and a net IRR of 12.9%. Realized investments represent 50.1% of total invested capital and generated a gross return of 1.81 times invested capital and a gross IRR of 14.3%. As of March 31, 2017, Carlyle's four previous funds have generated a net IRR of 12.9% since 1999. Investing in the MSCI Asia Index<sup>1</sup> during the same period would have generated a return of 2.7%. Carlyle has outperformed the Index by 10.2%. Of the Firm's three mature Carlyle Asia funds, one fund ranks in the first quartile, one ranks in the second quartile and one ranks in the third quartile on a net IRR and TVPI basis when compared to other Asia private equity and venture capital funds in the Cambridge Associates index that were formed in the same vintage years.

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. For investors committing \$25 million to \$100 million, the Fund will charge a management fee equal to 1.55% on commitments during the six year investment period. After the investment period, the fee will be reduced to 1.30% on invested capital. The management fee will be offset by 100% of all transaction, breakup, origination, and other similar fees. The Fund charges a 20% carried interest after an 8% preferred return. The Fund has a 10-year term. The general partner is contributing at least \$150 million to the Fund.

#### Cliffwater Recommendation

Cliffwater recommends a commitment up to \$50 million to Carlyle Asia V as part of ERSRI's private equity allocation in the Growth Class.

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