

Recommendation on RLH Investors IV, L.P.

To: RISIC
Prepared: February 22, 2017
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on RLH Investors IV, L.P. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

Summary of RLH Investors IV, L.P.

Fund Overview: RLH Investors IV, L.P. ("Fund IV" or the "Fund") is a lower middle-market, control buyout firm with a focus on healthy, growth-oriented companies operating within the government services, healthcare services, and business services sectors. The Firm will continue to target founder or family-owned companies in which they are able to back strong incumbent management teams.

People and Organization: Riordan, Lewis & Haden (the "Firm") was founded in 1982 by Richard Riordan, Christopher Lewis, and Patrick Haden. Both Riordan and Haden have retired. In the early to mid-1980s, the team focused on minority investments in venture or growth-oriented companies based in California. In 1987, the Firm's strategy transitioned to growth buyouts. The Firm's investment team has been stable over time and expanded incrementally. The Firm's seven managing directors are supported by three directors and two vice presidents, the Firm's CFO, and four operating professionals. The seven managing directors have worked together at RLH for an average of over 16 years. The team is based out of three offices, a Los Angeles office (headquarters) which has eight investment professionals and one operating professional, an Orange County, CA office which has 2 investment professionals and the CFO, and a Chicago office with one business development-focused investment professional.

Investment Strategy and Process: The Firm will seek to invest in companies that have the capability to accelerate their growth as a result of strategic and operational improvements. The Firm will primarily target majority recap opportunities in which the management team will continue to hold a meaningful position of the company's equity usually within the range of 30% to 40%. The Firm is typically a control investor with majority ownership in approximately 75% of its portfolio companies, but will selectively consider minority investments if there is a strong alignment of interest and adequate governance rights. Post-acquisition, the Firm will seek to professionalize businesses, provide strategic direction, and help the organizations scale. RLH IV will target approximately 12 investments with equity checks averaging approximately \$20 million to \$40 million and enterprise values typically ranging from \$15 million to \$150 million

Performance: As of September 30, 2016, the Firm's three prior funds have generated a total net return of 1.92 times paid-in capital, distributed 1.3 times paid-in capital to limited partners, and generated a combined net IRR of 16.2% since inception. The Firm's 17 realized investments have generated a gross return of 3.2 times invested capital and a gross IRR of 23.2%. Investing in the Russell 2000 Index during the same period would have generated a return of 8.4%. RLH has outperformed the index by 7.9% as of September 30, 2016. RLH Investors II (2007 vintage) and RLH Investors III (2011 vintage) have generated first or second quartile performance on a net IRR basis.

The views expressed herein are the views of Cliffwater only through the date of this report and are subject to change based on market or other conditions. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This report is being distributed for informational purposes only and should not be considered investment advice. The information we provide does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. Past performance does not guarantee future performance.

Investment Terms: The Fund is targeting \$500 million in commitments. The Fund will charge a management fee of 2.0% of commitments during the first six year investment period, and 2.0% of invested capital thereafter. The Fund has a 12 year term. Management fees will be offset 100% of all directors' and break-up fees and all monitoring, commitment, acquisition, transaction, advisory, consulting and other similar fees. The General Partner will receive 20% of the partnership profits on a fund-wide basis, which is subject to a Clawback provision. There is an 8% preferred return for investors. The General Partner's commitment will be at least \$20 million.

Cliffwater Recommendation

Cliffwater recommends an investment of \$40 million in RLH Investor IV, L.P