



Atalaya Asset Income Fund V, L.P. - Staff Memo

RECOMMENDATION: Approve a commitment of up to \$30 million to Atalaya Income Fund V, L.P. (AIF V).

ASSET CLASS: Private Credit

SUB-STRATEGY: Specialty Finance

ALLOCATION: The private credit allocation was established in 2017 with a target allocation of 3.2%. As of 12/31/2020 the allocation is 1.6%. The pacing plan for private credit is \$150 million per year committed to 2-3 funds per year at \$30 - \$70 million per fund.

PORTFOLIO FIT: The ERSRI's private credit portfolio is primarily comprised of direct lending strategies and augmented with specialty finance strategies that provide additional diversification. Atalaya primarily originates short duration senior secured loans to specialty finance borrowers in the consumer, commercial, and real estate sectors. Atalaya may also opportunistically purchase performing loans in these sectors. Atalaya's loans are backed by receivables such as credit cards in the consumer sector or equipment leases in the commercial sector. The private credit portfolio currently has very little exposure to these types of credits.

MERITS: Atalaya lends to markets that have been vacated by banks. Many of the underlying specialty finance companies that Atalaya finances are new and growing businesses with sometimes innovative business models. Atalaya has proven the ability to source and underwrite these opportunities. Given the growing nature of the underlying companies and the relationships with them, Atalaya is able to scale its lending through repeat business. In doing so Atalaya is scaling up with its best performing borrowers. Structurally, loans in Atalaya's portfolio are self-amortizing, leading to a rapid return of capital that mitigates risk to principal. Given the short duration of the assets the term of the fund is five years with a two year investment period. The prior four asset income funds are performing in line with expectations and have recycled a meaningful amount of called capital.

CONCERNS: Increased competition in the space has lowered spreads and increased advance rates. Atalaya has a strong brand in the market and continues to be able to source and underwrite unique opportunities. These relationships have led to scalable repeat business with underlying companies. Additionally, the strong underwriting and high amortization nature of these investments reduces impairment risk.

ESG: Atalaya ranks as an integrator on ESG. COO Drew Phillips oversees ESG as part of his role chairing the risk management committee and the firm utilizes an outside advisor. The firm has an ESG policy where it highlights that Atalaya seeks to invest in financial products that serve a productive and positive purpose while avoiding products that create a 'debt trap' where consumers or small businesses are likely to fall into worse financial health. Mr. Phillips will flag ESG concerns for investments under consideration and investment professionals at the firm.

are trained to consider ESG factors throughout the investment process. The firm is working to formalize more monitoring functions on existing portfolio companies

FEES: The fees are in accordance with industry standards. Given ERSRI's relationship to Cliffwater, ERSRI will be granted the lower-fee Series B LP interest, which typically requires an investment of over \$75 million. Under a Series B interest, there is a 1.5% management fee, 15% carry (17.5% for Series A), and 5% preferred return.