

Recommendation for Endeavour Capital Fund VIII, L.P.

To: RISIC
Prepared: May 27, 2020
From: Thomas Lynch, CFA, Senior Managing Director

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

Summary of Endeavour VIII

Fund Overview: Endeavour VIII will make control buyout investments of lower middle-market companies with a focus on the Western United States.

People and Organization: Endeavour Capital was founded in 1991 by John von Schlegell and Rocky Dixon. Prior to forming Endeavour, von Schlegell was one of five general partners at GTCR, a U.S. middle market buyout firm. Rocky Dixon previously served as the West Coast director for Earl Kinship Capital, a diversified equity investment company focused on real estate, technology start-ups and oil and gas exploration. John von Schlegell continues to be active in leading the Firm, sourcing new investments, and working with individual portfolio companies. Dixon formally transitioned to co-founder emeritus and acts as a mentor to team members. The management company is owned by the Firm's executive committee members. The executive committee consists of six managing directors and one managing partner, John von Schlegell. Endeavour's investment team is comprised of 17 professionals, including the 10 senior professionals who have an average tenure of 16 years. The investment team is located in the Firm's Western United States regional offices in Portland, Seattle, Los Angeles, and Denver

Investment Strategy and Process: Endeavour targets growing founder and family-owned companies in the lower end of the middle market with enterprise values between \$50 million and \$250 million. The Firm has been a value-oriented investor over time and employed a variety of strategies including buy-and-build, structured (minority) equity, and partnering with successful entrepreneurs to execute an acquisition strategy. The Firm is focused on companies based in the Western United States and sourcing deal leads through its regional network of contacts. Although the Firm pursues a generalist strategy, it has invested successfully and continues to focus on the areas of healthcare, business services, food and consumer, industrial products and services, and transportation and logistics. Proprietary sourcing is a key aspect of Endeavour's strategy. The Firm is continuously building relationships with company owners and third-party company advisors. During the past three funds, the team has had a relationship with the company owners and/or management teams for an average of 7.0 years prior to acquisition (Fund V), 5.4 years (Fund VI), and 9.7 years (Fund VII).

Performance: Endeavour has made a total investment of \$1.9 billion in 62 investments since inception. The Firm has generated a total net return of 2.0 times invested capital, a 21% net IRR, and 1.3 times DPI in its current lower middle market strategy. The Firm's 17 active investments were valued at 1.69 times invested capital as of September 30, 2019 excluding three businesses that were sold during the fourth quarter. The Firm's 45 realized investments generated a gross return of 3.1 times invested capital and a 32.4% gross IRR. As of September 30, 2019, Endeavour's funds have generated a net IRR of 21.0% since 1991, exceeding the Russell 2000 by 11.6%. Investing in the Russell 2000 Index during the same period would have generated a return of

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9.3%. Endeavour funds have mixed performance compared to Cambridge Associates' benchmarks for buyout funds formed in the same vintage years. Fund III and Fund IV compare favorably, ranking in the first decile by most metrics. Fund V and Fund VI do not compare as well, ranking primarily in the second and third quartile. It is early to judge the performance of Fund VII but it ranks in the first quartile for TVPI and in the second quartile for net IRR and net DPI.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund will charge a management fee of 2% of aggregate commitments during the six year investment period; 1.75% of invested capital for the first year after the investment period, and 1.5% of invested capital for each year thereafter until the expiration of the initial term. The Fund charges a 20% carried interest on a deal-by-deal basis with an 8% preferred return.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million Endeavour Capital Partners VIII, L.P. as part of ERSRI's Private Equity allocation.