



Charlesbank X, L.P. and Charlesbank X Overage, L.P. - Staff Memo

RECOMMENDATION: Approve up to \$30 million to Charlesbank X, L.P. and \$10 million in Charlesbank X Overage Fund, L.P.

ASSET CLASS: Private Equity

SUB-STRATEGY: Middle-market buyout

ALLOCATION: The target allocation for private equity is 11.25% (increased in 2017 from 7%) and the allocation as of 9/30 is 8.5%. The pacing plan for private equity is \$270 million per year committed to 5 - 10 primary funds per year at \$20 - \$60 million per primary fund.

PORTFOLIO FIT: ERSRI has emphasized deploying into middle and lower middle-market buyout strategies with a sector focus and/or operational value-add strategy. Charlesbank targets middle market companies in business services, consumer, industrial healthcare and technology sectors. The firm uses a relative value focus to capitalize on situations where they see a “confusion to clarity” story or mispriced business value. The team is organized by sector and develops thematic research within their focus group. This deep sector knowledge allows them to form contrarian views and deploy capital nimbly to complicated or mispriced situations. This strategy is complementary to ERSRI’s substantial growth exposure within the private equity portfolio.

MERITS: Charlesbank has a differentiated investment approach and flexible strategy to execute on relative value opportunities. The senior investment team is well tenured and led by seven managing directors who are all actively leading deals and two additional managing directors (the co-founders) that remain on the investment committee. The team places a heavy emphasis on limiting losses and has maintained a strong track record. The firm has generated first and second quartile returns across net IRR, TVPI and DPI metrics through their history.

CONCERNS: The firm has seen growth in AUM with an increased fund size in the flagship fund and additional fund strategies. The firm has demonstrated the ability to find opportunities and generate target returns across deal sizes. The two additional fund strategies have separate and dedicated teams outside the flagship fund. The flagship fund is able to leverage those resources as well.

ESG: Charlesbank ranks as an integrator on ESG. The firm has a dedicated ESG team which includes the CEO and an outside advisor. The firm currently incorporates an ESG review on new deals as part of diligence and is working to formalize more monitoring functions on existing portfolio companies. There is a strong culture of emphasizing diversity and inclusion.

FEES: The fees are in accordance with industry standards. There is a 2% management fee and a 20% carry with an 8% preferred return. The Overage Fund does not have a management fee.