

Recommendation for Charlesbank X, L.P. and Charlesbank X Overage, L.P.

To: RISIC
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From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Charlesbank X, L.P. ("Charlesbank X" or the "Fund") and Charlesbank X Overage, L.P. ("Charlesbank Overage 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 Charlesbank X

Fund Overview: Charlesbank X will make control-oriented investments in U.S. middle-market companies in the business services, consumer, industrial, healthcare and technology sectors. Charlesbank Overage Fund will invest along with Charlesbank X in companies that require equity investments greater than \$300 million. Charlesbank Overage Fund will charge a carried interest but will not charge a management fee.

People and Organization: Charlesbank Capital Partners ("Charlesbank" or the "Firm") was formed in 1998 by five partners who had previously worked together, executing the same investment strategy, at Harvard Private Capital Group. The Firm manages in excess of \$7.4 billion of capital across its three strategies (private equity, credit, and technology) and is headquartered in Boston, with an additional office in New York. Two of the five founders, Michael Eisenson and Kim Davis, will remain active in Fund X as the Firm's Co-Chairmen. The two started transitioning to Co-Chairmen in March 2014. Michael Choe was formally elected CEO in 2017 by his fellow managing directors. Eisenson and Davis have assumed more of an advisory role but will remain on the Firm's investment committee, while Choe manages the Firm on a day-to-day basis. Choe is supported in managing the Firm by COO & general counsel, Stephanie Paré Sullivan, nine managing directors, and CFO John Fiyod. The Firm's executive committee consists of investment professionals Choe, Eisenson, Davis, Janower, and White. The Firm has 93 employees including 34 private equity investment professionals. The Firm's nine managing directors average 22 years at Charlesbank.

Investment Strategy and Process: Charlesbank will continue to pursue control-oriented buyout investments in middle market companies across its core sectors. The Firm will also make minority equity investments on occasion in similar sized companies where there is a compelling opportunity, strong alignment of interest amongst the shareholders, and sufficient governance rights. The Firm takes a research-driven approach to investing in its core sectors of business services, consumer, industrial, healthcare, and technology & tech infrastructure. Charlesbank focuses on opportunities where the investment team can capitalize on situational confusion or take a contrarian view. The Firm has a thematic approach and targets more complex situations such as corporate carve-outs, founder transitions, bankruptcies, turnarounds and operational complexities. The Fund expects to have 15 to 20 investments in companies with enterprise values between \$150 million and \$3 billion.

Performance: As of June 2020, Charlesbank's previous institutional Flagship funds, Charlesbank V through IX, have generated an aggregate net return of 1.75 times invested capital, 17.9% net IRR, and 1.2 times net DPI. The Firm has generated a gross return of 2.8 times invested capital and 30.4% gross IRR across 52 realized investments. Funds V through VIII have all generated first and second quartile performance on a net IRR, net TVPI, and net DPI basis. Two of the mature funds,

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Fund V and Fund VII, have generated net TVPIs of greater than 2.2 times invested capital and net IRRs greater than 20%. Fund IX, a 2018 vintage, is too early in its life to generate meaningful benchmark comparisons. As of June 30, 2020, Charlesbank's five flagship funds have generated a net IRR of 17.9% since 2000. Investing in the Russell 2000 Index during the same period would have generated a return of 9.9%. Charlesbank has outperformed the Index by 8.0% in aggregate.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a six-year investment period and a ten-year term. The Fund will charge a management fee equal to 2.0% of total commitments during the Fund's investment period and 2.0% of net invested capital thereafter. The management fee will be offset by 100% of all directors', consulting, break-up, and equivalent fees. The Fund will charge a 20% carried interest with a preferred return of 8%. The general partner will contribute at \$130 million to the Fund. Charlesbank Overage Fund will charge a carried interest but will not charge a management fee.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$30 million Charlesbank X, L.P. and up to \$10 million in Charlesbank X Overage Fund, L.P. as part of ERSRI's Private Equity allocation.