

Recommendation on German Equity Partners V

To: RISIC
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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on German Equity Partners V. ("GEP5"). Cliffwater has completed its investment due diligence and operational due diligence and recommends GEP5 as a private equity investment in ERSRI's Growth Class.

Summary of German Equity Partners V

Fund Overview: ECM Equity Capital Management (the "Firm" or "ECM") is raising German Equity Partners V (the "Fund" or "GEP5"). GEP5 is a lower middle-market buyout fund targeting investments in German-speaking countries of Europe.

People and Organization: ECM was established by Chris Peisch in 1999. Prior to forming ECM, Peisch was an executive director and manager of European investments at Morgan Stanley from 1987 to 1994. In 1995, Peisch raised the predecessor fund to GEP, H&P (referred to as Fund I). ECM is located in Frankfurt, Germany and has 13 employees including 11 investment professionals. The Firm is led by four partners. Axel Eichmeyer has functioned as the managing partner since 2009, when Peisch began transitioning to more of a chairman role. Peisch plans on being involved with the Firm at least through the investment period of Fund V. Peisch resides in the U.S., but travels to Frankfurt once a month. Eichmeyer will continue to manage the Firm and its investment activities. Eichmeyer is supported by two additional partners, two directors, three investment managers, and three associates. The investment team is supported by a senior advisory board of eight functional experts. The primary purpose of the board is to assist with due diligence, serve as potential portfolio company board members, assist in the formation and implementation of the 180-day plan, and to assist in sourcing and networking.

Investment Strategy and Process: ECM pursues companies in the DACH region (Germany, Austria and Switzerland). The Firm's target is lower middle market companies. This is a large universe of private companies generally referred to as the German Mittelstand. The Firm is relationship-oriented, and stresses building relationships and partnerships with families, entrepreneurs and smaller intermediaries. The Firm pursues control buyouts of companies with enterprise values of up to €150 million. ECM seeks companies that are fundamentally solid but involve some complexity. Equity investments are expected to range between €10 million to €40 million and ECM typically uses low to moderate levels of debt, averaging 3.3 times debt/EBITDA across transactions. The three key aspects of ECM's investments include a level of complexity, less intermediated processes, and strong fundamentals. A target company's complexity usually involves recurring themes such as ownership succession issues, corporate carve-out issues, and lack of transparency in financials and performance measurement. ECM targets five core sectors including industrials, business services, consumer, healthcare, and TMT. Historically, the Firm has been most successful in originating deals in the industrials, business services and consumer-related sectors. ECM drives value in portfolio companies primarily through professionalization and growth. ECM's value creation levers include improving management and governance, strengthening operating efficiency, devising and assisting with the execution of the corporate strategy, and driving sales and EBITDA growth organically and through acquisition. Overall, value has been delivered through EBITDA growth, multiple expansion, and deleveraging. The primary methods of exit for ECM are sales to strategic investors and sales to financial buyers. These two

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paths to exit are expected to continue to be the most profitable for ECM going forward. The Firm benefits from targeting investments in the lower middle market, which provides more options on exit.

Performance: Including the predecessor fund, ECM has raised and managed four funds totaling €635 million. As of September 30, 2017 (valued in EUR), ECM's funds have generated an overall net TVPI of 1.98 times, DPI of 1.5 times, and net IRR of 22.1%. Across realized investments, ECM's funds have generated a gross return of 3.25 times invested capital and 32.7% gross IRR. As of September 30, 2017, ECM's funds have generated a net IRR of 22.1% in aggregate (EUR). Investing in the MSCI Europe (EUR) during the same period would have generated a return of 1.2%. ECM has outperformed the Index by 20.9%. Relative to the Cambridge Private Equity Benchmark of European Buyout Funds, Funds II, III, and IV have generated top quartile results on an IRR and DPI basis. On a TVPI basis, Fund II ranks in the top decile and Funds III and IV rank in the second quartile.

Investment Terms: The Fund is targeting €300 million in commitments and will have a 10 year term. The General Partner will charge a management fee of 2.0% of committed capital during the investment period (the first five years). After the investment period, the management fee is 2.0% on net invested capital. After investors have received back their contributed capital and a preferred return of 8%, the General Partner will receive a carried interest of 20%. The management fee will be offset by 100% of directors, consulting, advisory, and transaction fees. The General Partner is committing at least 2% of capital commitments.

Cliffwater Recommendation

Cliffwater recommends a commitment up to €35 million to German Equity Partners V as part of ERSRI's private equity allocation in the Growth Class.