

Recommendation on Paine Schwartz Partners Food Chain Fund V, L.P.

To: RISIC
Prepared: May 10, 2018
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Paine Schwartz Partners Food Chain Fund V. Cliffwater has completed its investment due diligence and operational due diligence and recommends Paine Schwartz Partners Food Chain Fund V as a private equity investment in ERSRI's Growth Class.

Summary of Paine Schwartz Partners Food Chain Fund V

Fund Overview: Paine Schwartz Partners Food Chain Fund V ("Fund V" or the "Fund") will invest in businesses providing products and services to the food and agriculture sector

People and Organization: The Fund is managed by Paine Schwartz Partners ("PSP" or the "Firm"). The Firm was founded in 2007 by Dexter Paine and Kevin Schwartz. Prior to forming the Firm, both Paine and Schwartz were partners at Fox Paine, a firm co-founded by Saul Fox and Paine in 1997. During their tenure at Fox Paine, the PSP founders, along with Fox, raised and managed two generalist mid-market private equity buyout funds. Today, the Firm is owned by four partners, Paine and Schwartz, David Buckeridge and Angelos Dassios. The four partners are supported by 16 investment professionals, 6 operating professionals, and four firm administration professionals. The operating professionals work on each company post-acquisition to create value around the company's business functions. The Firm also has an Advisory Board of six former senior executives of major food and agriculture companies providing intellectual capital and industry expertise to the Firm. The Firm has major offices in New York City and San Mateo, CA.

Investment Strategy and Process: The Firm is solely focused on lower middle-market food and agriculture companies globally. In an effort to capitalize on the macroeconomic growth trend in the food and agriculture sectors and to create a differentiated investment strategy, the Firm shifted to a strategy dedicated to food and agriculture investments during the investment period of Fund III. Within the food and agriculture sectors, the Firm will develop sub-sector investment theses and will conduct research analysis used to acquire portfolio companies. The Firm has identified several sub-sectors expected to generate substantial growth including companies focusing on crop yield enhancement, businesses producing human consumable high protein foods, and health and nutrition businesses servicing developed markets. The Fund will target negotiated transactions where it can obtain control positions in companies meeting the Fund's investment criteria. The Fund will invest in established businesses that require financial and strategic support to achieve growth potential. The Firm will also follow a roll-up strategy where it will create a platform company driven by an investment thesis. The Fund will acquire multiple small companies to build a larger agribusiness with unique products and services that are attractive to potential buyers including major agribusinesses. Fund V will seek diversification across sectors and companies. Fund V will consist of 10 to 12 platform investments ranging in equity investment from \$50 million to \$150 million.

Performance: Since 1998, the PSP team has raised \$3.1 billion through three generalist mid-market buyout partnerships and one dedicated agriculture and food chain buyout partnership (Fund IV). PSP has drawn \$3.2 billion from limited partners, distributed \$3.5 billion, and has generated a total net return of 1.45 times paid-in capital. The Firm has generated a net IRR of 12.7% across all the Firm's investments.

The views expressed herein are the views of Cliffwater only through the date of this report and are subject to change based on market or other conditions. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This report is being distributed for informational purposes only and should not be considered investment advice. The information we provide does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. Past performance does not guarantee future performance.

Fund IV, with the same strategy as Fund V, is near fully invested. The Fund has invested in seven companies and has had no realizations. Of the seven companies, one is in a sale process, three were valued above cost and four were valued at cost as of December 31, 2017. In addition to the current sales process, PSP is finalizing road show plans for another European based company for a potential IPO 2018. As of December 31, 2017, Fund IV has generated a net IRR of 8.9%.

Investment Terms: The Fund has a five year investment period and a ten year term. The Fund will charge a 2.0% management fee during the investment period and 2.0% of net invested capital thereafter. The management fee will be offset by 100% of all directors, transaction, monitoring, and other such fees. Excluded from the offsets are fees paid to operating partners who act as officers or directors of, or serve in operational or management roles at, portfolio, as well as any stock options and other equity awards pursuant to equity incentive plans of public companies. The Fund charges a 20% carried interest after an 8% preferred return. The general partner is committing at least 2% of the Fund's total commitments.

Cliffwater Recommendation

Cliffwater recommends a commitment up to \$50 million to Paine Schwartz Partners Food Chain Fund V, L.P. as part of ERSRI's private equity allocation in the Growth Class.