



STATE OF RHODE ISLAND
OFFICE OF THE GENERAL TREASURER

STAFF RECOMMENDATION: NAUTIC PARTNERS XI, L.P.
JUNE 2024

RECOMMENDATION:

- **Rhode Island Employees Retirement Systems Pooled Trust (“ERSRI”): Approve a commitment of up to \$40 million to Nautic Partners XI, L.P. (“Fund XI”).** ERSRI previously committed i) \$50 million to Nautic Partners X, L.P. (“Fund X”), a 2021 vintage fund, ii) \$25 million to Nautic Partners IX, L.P. (“Fund IX”), a 2019 vintage fund, iii) \$20 million to Nautic Partners VIII, L.P. (“Fund VIII”), a 2016 vintage fund, iv) \$20 million to Nautic Partners VII, L.P. (“Fund VII”), a 2014 vintage fund, v) \$20 million to Nautic Partners VI, L.P. (“Fund VI”), a 2007 vintage fund, and vi) \$20 million to Nautic Partners V, L.P. (“Fund V”), a 2000 vintage fund.
- **Rhode Island OPEB System Trust (“OPEB”): Approve a commitment of up to \$2 million to Fund XI.**

ASSET CLASS: Private Equity (ERSRI), Private Growth (OPEB)

SUB-STRATEGY: Middle-Market Buyout

ALLOCATION:

- **ERSRI:** The Private Equity allocation as of May 31, 2024, is 16.9%, compared to the target of 12.5%. The current pacing plan for the 2024 vintage is \$240 million, committed to 5-10 funds at \$20-50 million per fund. ERSRI’s 2024 vintage commitments will total \$188 million, pending approval of this recommendation.
- **OPEB:** The Private Equity allocation as of May 31, 2024, is 0.9%, compared to the target of 4.0%. The current pacing plan for 2024 is \$9 million, committed to 5-10 funds at \$1-2 million per fund. OPEB’s 2024 vintage commitments will total \$7.25 million, pending approval of this recommendation.

PORTFOLIO FIT:

- **ERSRI:** The Private Equity allocation is composed of a core of buyout strategies, complemented by venture capital, growth equity, and opportunistic credit investments. ERSRI targets 60-80% of the allocation to be in buyout strategies and aims to build a portfolio diversified by geography, sector and company size. Nautic's strategy aligns with ERSRI's focus on middle-market buyout strategies emphasizing sector specialization and operational value add capabilities. The firm targets middle-market businesses in the healthcare, industrials, and business services sectors, employing a thematic approach to identify attractive sub-sectors within these markets. Funds managed by Nautic would represent 5.3% of ERSRI’s Private Equity exposure and 7.3% of the buyout exposure pending approval of this proposed recommendation (see Appendix C).
- **OPEB:** The Private Growth portfolio allocates to Private Equity and Non-Core Real Estate strategies and is currently ramping up to its target allocation through commitments made in conjunction with ERSRI. Funds managed by Nautic would represent 7.4% of its Private Growth exposure and 9.3% of OPEB’s Private Equity exposure pending approval of this proposed recommendation (see Appendix C).

MERITS:

- **Industry Vertical Expertise:** Nautic's specialized approach to investing across the healthcare, industrials and services sectors allows it to effectuate a more thorough due diligence process and recognize underlying value drivers in situations of heightened complexity. The firm's domain focus also supports greater pricing discipline and identification of risk/reward parameters, which have been instrumental in executing accretive add-on acquisitions for many of its portfolio companies.

- **Strong and Durable Track Record:** Since its spin-out from Fleet Financial Group in 2000, Nautic has consistently generated strong returns through multiple market cycles, with fund performance generally ranking in the first quartile or higher (Fund X is still under its investment period but is performing in-line with plan). Performance has been achieved under a core leadership team with an average firm tenure of 19 years, during which it has refined its playbook-driven approach while expanding its network of industry executives and advisors.

CONCERNS:

- **Healthcare Reform/Headline Risk:** Healthcare investments face legislative and regulatory risks, such as changes to payor reimbursement rates, and are subject to increased public scrutiny of the sector.
 - *Mitigant:* Nautic has avoided exploitative business models that have recently attracted negative attention from regulators and the media. The firm adheres to a disciplined healthcare investing framework focused on the “quadruple aim”: improving outcomes, lowering costs, and enhancing the experiences of both patients and providers.
- **Growth in Fund Size:** Fund XI is targeting \$3.75 billion of commitments for Fund XI, a step-up from \$3.265 billion for Fund X, \$1.569 billion for Fund IX, and \$900 million for Fund VIII.
 - *Mitigant:* Nautic expects its investment strategy to remain consistent with its historical funds, continuing to invest between \$50 million and over \$500 million across 15-20 platforms. The firm is also expanding its sourcing capabilities and increasing its mid-to-junior level investment team capacity.

ESG: Nautic is classified as an ESG Integrator.

- **ESG:** Nautic has an ESG policy and considers ESG in their sourcing and due diligence process. ESG progress for each portfolio company is documented in the ESG monitoring process which is completed annually in conjunction with a third-party ESG consultant. The firm’s Executive Committee maintains oversight of its ESG policy which is led by a committee of three senior members of its investor relations, compliance and investing teams.
- **DEI:** Nautic has a Diversity and Inclusion (“D&I”) policy which is codified in its employee handbook. The firm also aims to include diverse candidates in job searches and works alongside organizations focused on assisting diverse candidates to broaden its candidate pool. Nautic also tracks the diversity of its employee base as well as the composition of its candidate pool. The firm’s Executive Committee maintains oversight of its D&I policy which is led by a committee of three senior members of its investor relations, compliance and investing teams.

FEES: Fees for Fund XI are in-line with industry standards.

- **Management Fee:** Fund XI will charge a 2% management fee during the investment period and 2% of invested capital thereafter. The management fee will be offset by 100% of transaction fees excluding closing and commitment fees.
- **Carried Interest:** 20% carried interest on a fund-wide basis, 8% preferred return, 100% GP catch-up.

APPENDIX A: ERSRI PRIOR FUND EXPOSURE AND PERFORMANCE

Nautic Fund Exposure by Vintage

Fund	Vintage	Type	Amount Committed	Current NAV	Amount Unfunded	Total Exposure	Capital Called	Capital Distributed
Nautic Partners X, L.P.	2021	Buyout	\$50,000,000	\$30,362,852	\$25,455,540	\$55,818,392	\$25,224,266	\$679,767
Nautic Partners IX, L.P.	2019	Buyout	\$25,000,000	\$22,854,778	\$5,216,325	\$28,071,103	\$22,532,763	\$14,582,353
Nautic Partners VIII, L.P.	2016	Buyout	\$20,000,000	\$12,556,163	\$1,999,797	\$14,555,960	\$21,582,555	\$25,727,327
Nautic Partners VII, L.P.	2014	Buyout	\$20,000,000	\$5,462,329	\$1,546,013	\$7,008,342	\$20,453,988	\$43,936,066
Nautic Partners VI, L.P.	2007	Buyout	\$20,000,000	\$1,518,425	\$518,351	\$2,036,776	\$21,299,700	\$49,863,490
Nautic Partners V, L.P.	2000	Buyout	\$20,000,000	\$1,215,965	\$629,968	\$1,845,933	\$19,368,646	\$39,823,308

Source Data as of March 31, 2024

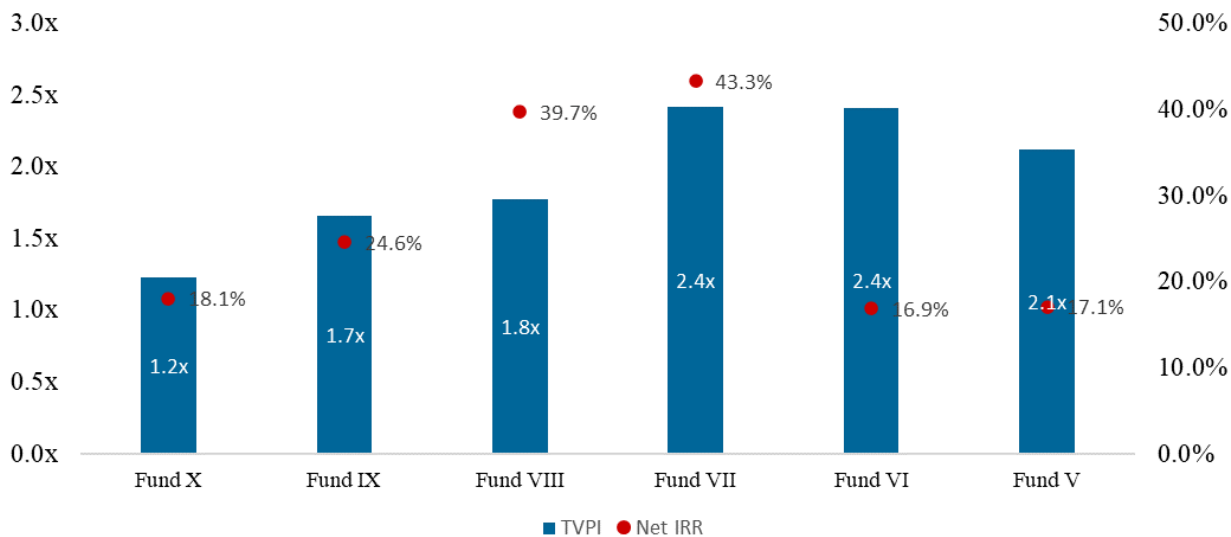
Nautic Fund Performance

Fund	Vintage	DPI	Net IRR	Net Index PME ¹	Excess Return
Nautic Partners X, L.P.	2021	0.03x	18.1%	17.8%	0.3%
Nautic Partners IX, L.P.	2019	0.65x	24.6%	9.7%	14.9%
Nautic Partners VIII, L.P.	2016	1.19x	39.7%	11.2%	28.5%
Nautic Partners VII, L.P.	2014	2.15x	43.3%	9.2%	34.1%
Nautic Partners VI, L.P.	2007	2.34x	16.9%	5.8%	11.1%
Nautic Partners V, L.P.	2000	2.06x	17.1%	7.6%	9.5%

Source Data as of March 31, 2024

¹ PME+ Methodology: MSCI ACWI Net Index PME IRR

Historical Fund Performance



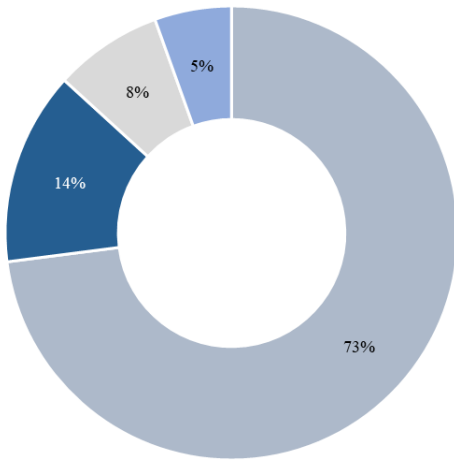
APPENDIX B: ERSRI PRIVATE EQUITY BUYOUT MANAGERS

ERSRI				
Buyout Exposure by Manager				
(\$ millions)		Geographic Focus	Sector Focus	Market Size
Advent International	110	Global	Diversified	Large
Altaris Capital Partners	33	North America	Healthcare & Lifesciences	Middle
Bain Capital	4	North America	Diversified	Large
Baring Private Equity Asia	124	Asia	Diversified	Large
Birch Hill Equity Partners	0	North America	Diversified	Middle
Carlyle Group	60	Asia	Diversified	Large
Centerbridge Partners	29	Global	Diversified	Middle
Charlesbank Capital Partners	42	North America	Diversified	Middle
CVC Capital Partners	150	Europe	Diversified	Large
EnCap Investments	81	North America	Energy	Middle
Endeavor Capital	51	North America	Diversified	Small
Eureka Equity Partners	32	North America	Diversified	Small
ECM Equity Capital Management	24	Europe	Diversified	Middle
Green Equity - Leonard Green & Partners	1	North America	Diversified	Middle
Hastings Equity Partners	39	North America	Energy	Small
Havencrest Capital Management	38	North America	Healthcare & Lifesciences	Small
Nautic Partners	149	North America	Diversified	Middle
Nordic Capital	6	Europe	Diversified	Middle
Oaktree Capital Management	11	Europe	Diversified	Middle
Odyssey Investment Partners	62	North America	Diversified	Middle
Paine Schwartz Partners	131	North America	Diversified	Middle
Parthenon Capital	94	North America	Diversified	Middle
Pollen Street Capital	73	Europe	Business & Financial Services	Middle
Providence Equity Partners	27	North America	Media, Entertainment, & Communication	Middle
Riverside Company	152	North America	Diversified	Middle
RLH	53	North America	Business & Financial Services	Middle
Shamrock Capital Advisors	62	North America	Media, Entertainment, & Communication	Middle
Siris Capital Group	66	North America	Software & IT	Middle
Southvest - Gen Cap America	41	North America	Diversified	Small
Tenex Capital Management	92	North America	Diversified	Middle
Thoma Bravo	154	North America	Software & IT	Middle
TPG Capital	1	Global	Diversified	Large
Trilantic Capital Management	2	Global	Diversified	Middle
Vinci Capital	44	Latin America	Diversified	Middle
Wynnchurch Capital	75	North America	Manufacturing & Industrial	Middle

APPENDIX C: PORTFOLIO FIT

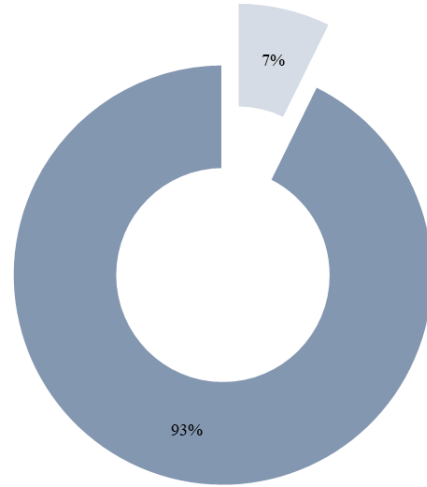
ERSRI Pro Forma Private Equity Exposure

■ Total PF Buyout ■ Venture Capital ■ Growth Equity ■ Opportunistic Credit



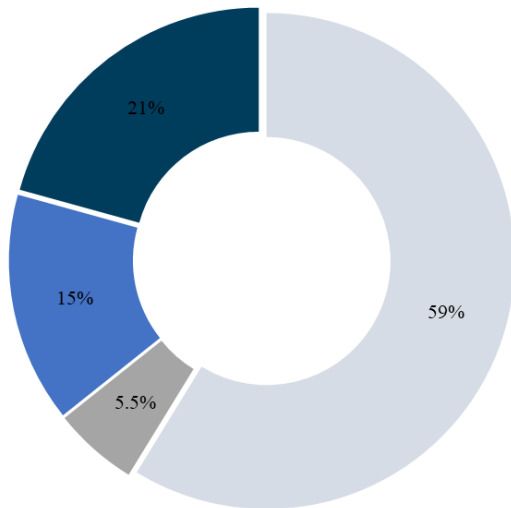
ERSRI Pro Forma Buyout Exposure

■ Nautic ■ Buyout (ex-Nautic)



OPEB Pro Forma Private Growth Exposure

■ Total PF Buyout ■ Growth Equity ■ Venture Capital ■ Non-Core Real Estate



OPEB Pro Forma Private Equity Exposure by Manager

