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## Recommendation Paine Schwartz Food Chain Fund IV, L.P. Secondary Purchase

To: RISIC  
Prepared: September 27, 2019  
From: Thomas Lynch, CFA, Senior Managing Director

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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on a secondary purchase of a limited partnership interest in Paine Schwartz Food Chain Fund IV, L.P. ("Paine IV" or the "Fund"). Cliffwater recommends the secondary purchase as part of ERSRI's Private Equity allocation.

### Summary of Paine IV Secondary Purchase

ERSRI committed \$30 million to Paine IV in 2014 after investment and operational due diligence by Cliffwater. (ERSRI also committed \$50 million to Paine V in 2018.) The general partner of Paine IV, Paine Schwartz Partners ("PSP"), is a middle market buyout firm focused on control buyouts and growth equity investments in the food and agriculture sector. PSP contacted ERSRI that a limited partner in Paine IV was a potential seller. After due diligence and in accordance with ERSRI investment process, ERSRI made an offer for the entire seller's limited partnership interest as of the June 30, 2018 net asset value. The offer was made subject to SIC approval. The contingent offer was accepted.

Paine IV is a 2015 vintage year fund. As of June 30, 2019, the Fund has called 75% of commitments and completed eight investments over a four-year period. One investment has been realized and the Fund has returned 28% of invested capital. Including unrealized market value, the Fund has generated a net total value to paid-in capital of 1.26 times. The active investments are performing well and are expected to be realized in the next one to four years.

The secondary transaction involves the acquisition of seller's entire limited partnership interest in the Fund as of June 30, 2019 net asset value. The capital account includes a commitment of \$30,000,000, net asset value of \$21,755,545 and unfunded amount of \$8,343,367. The Fund is beyond its investment period and uncalled capital will be used for fees or selective add-ons.

Cliffwater's due diligence included a review of PSP's organization and strategy, a review of the portfolio holdings of Paine IV, and discussions with the general partner about expectations for cash flows. Based on this analysis, the proposed purchase price would yield an expected net IRR and TVPI of 25% and 1.89 times.

Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund is past the investment period and will charge a management fee equal to 2% invested capital. The Fund charges a 20% carried interest subject to an 8% preferred return.

### Cliffwater Recommendation

Cliffwater recommends the purchase of the seller's limited partnership interest in Paine Schwartz Food Chain Fund IV, L.P.

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