



State of Rhode Island
Office of the General Treasurer

Nautic Partners Fund X, L.P. - Staff Recommendation

June -2021

RECOMMENDATION: Approve a commitment of up to \$50 million to Nautic Partners X, L.P. ERSRI committed \$20 million to Fund V (2000 vintage), \$20 million to Fund VI (2007 vintage), \$20 million to Fund VII (2014 vintage), \$20 million to Fund VIII (2016 vintage), and \$25 million to Fund IX (2019 vintage).

ASSET CLASS: Private Equity

SUB-STRATEGY: Middle-market buyout

ALLOCATION: The target allocation for private equity will be 12.5% effective July 1, 2021 (increasing from 11.25% previously but now including opportunistic distressed debt investments) and the actual allocation as of 5/31 is 10.4%. The pacing plan for private equity is \$300 million per year committed to 5 - 10 primary funds per year at \$20 - \$60 million per primary fund.

PORTFOLIO FIT: ERSRI has emphasized deploying into middle-market buyout and growth strategies with a sector focus and/or operational value-add approach. Nautic targets control-orientated growth buyouts in middle-market and lower middle-market firms in the healthcare, industrial and outsourced services sectors. The firm uses a hands-on approach to create value through using their executive network within these sectors to assess companies and upgrade management, performing add-on acquisitions, and using their industry experience to execute value-add initiatives that increase earnings, which may include, growth strategies, business development, pricing assessments, cost management, corporate infrastructure, and IT/systems upgrades.

MERITS: Nautic is an established private equity firm that has a strong and experienced team including eight managing directors with an average tenure of approximately 17 years. The team is organized by its three target sectors and has developed deep sector knowledge and extensive networks of industry executives and operating partners in those sectors. The firm has built a dedicated business development team that proactively sources deals within the sector themes and identifies, builds, and manages the executive network. The firm has continued to invest in the middle-market and lower middle-market and has been able to generate strong consistent performance since the firm's first institutional fund in 2000. Based on December 31, 2020 performance relative to the Cambridge Associates benchmarks, Funds V through VII have generated net returns of 2.1X TVPI or greater, with Funds VI and VII falling within the first quartile or better across all metrics and Fund VIII generating first decile performance on a net IRR and net DPI basis.

CONCERNS: Nautic is targeting \$2.5 billion in commitments for Fund X. This is a continued step up in fund size following an increase from \$900 million of commitments in Fund VIII to \$1.5 billion of commitments in Fund IX. However, Nautic will largely continue to invest in the same market segment, deploying the additional capital through more add-on acquisitions for its platforms. Additionally, given the firm's expanded resources in Fund X, Nautic will be able to make two to five more platform investments than in its prior funds.

ESG: Nautic is categorized as an **Integrator** on ESG. Nautic has a formal ESG policy and dedicated staff resources to oversee the ESG implementation. Currently the firm uses a third party to do a full ESG review of all new investment opportunities. Issues raised by this review or the deal team's review must be part of the operating improvement plan to move forward. The firm is also working with the third party on existing portfolio companies to establish meaningful KPIs

and initiatives for each active company that will be reviewed regularly. The firm will continue to monitor best practices and work to incorporate them into their ESG review and monitoring framework.

FEES: The fees are in accordance with industry standards. There is a 2% management fee during the investment period, followed by a 2% annual fee on net invested capital thereafter. Carry is 20% with an 8% preferred return.