

Recommendation on Level Equity Growth Partners V and Opportunities Fund 2021

To: RISIC
Prepared: June 11, 2021
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Level Equity Growth Partners V, L.P. and Level Equity Opportunities Fund 2021, L.P. ("Fund V" and "Opportunities Fund" or collectively as the "Funds"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Funds.

Summary of Level Equity Growth Partners V and Level Equity Opportunities Fund 2021

Fund Overview: Fund V will make growth equity investments in small-cap software and technology-enabled services companies. Investors in Fund V will also be making a commitment to the Opportunities Fund which will make follow-on investments in Fund V companies where more capital is required than available in Fund V.

People and Organization: The general partner of the Funds is Level Equity Management, LLC ("Level" or the "Firm"). Level was founded in 2009 by Ben Levin and George McCulloch (the "Founders") who were joined by Sarah Sommer. McCulloch and Sommer previously worked together at Insight Venture Partners ("IVP"), where Levin and McCulloch were managing directors and Sommer was a senior associate. The three professionals joined IVP in 2003 and currently serve as Level Equity's private equity partners, along with Charles Chen, who was promoted to partner for Fund IV. Chen was previously a member of the infrastructure investment team at Technology Crossover Ventures and was a member of Morgan Stanley's Technology Investment Banking Group. A fifth partner, Barry Osterow, is responsible for the Firm's credit business. The four private equity partners have an average of 20 years of total experience, an average of 16 years of private equity experience and an average of ten years at Level Equity. The senior team has invested together for the majority of their professional careers creating a consistency and common understanding of the profile of ideal target investments in small, fast growing companies. The partners are supported by two principals, three vice presidents, four senior associate, three analysts and a chief technology officer.

Investment Strategy and Process: Level is a lower middle-market growth equity investor with a primary focus on North American software and technology-enabled service companies. The Firm invests in rapidly growing, privately held companies with enterprise values typically below \$300 million and revenue below \$50 million. The Firm may opportunistically pursue larger investments. The Firm focuses on companies that are growing by over 50% per annum and have capital efficient business models. Target companies are asset light businesses and have no customer concentration. Level Equity is often the first institutional investor identified through an outbound origination team of associates modeled after larger growth equity firms where the team members have previously worked. Level Equity invests in the software, Internet, media, and technology-enabled services sectors. The Fund will target a portfolio of 15 to 25 investments ranging from \$10 million to \$50 million, with a sweet spot of \$15 million to \$35 million. Fund V can invest up to 25% of capital outside of North America. Level Equity has invested companies based in Europe and Australia, in addition to the United States. The Fund will pursue both minority and majority deals. Minority positions will include significant structuring to help preserve downside protection, including features such as preferred securities and liquidation preferences.

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.

The Opportunities Fund will pursue follow-on investments in existing Fund V portfolio companies which are seeking further capital to fund growth. The allocation policy will provide preference to Fund V for growth equity transactions, and allocation will overflow to the Opportunities Fund once Fund V has determined that the flagship fund is adequately allocated to a given deal, typically between 10% to 15% of the fund. Level anticipates that the Opportunities Fund 2021 will invest in eight to 12 companies, and deploy 75% of capital in follow-on investments of existing Fund V portfolio companies and 25% of capital in simultaneous platform investments alongside the flagship funds, typically in the case of a large initial investment.

Performance: As of March 31, 2021, Level Equity has generated a total net return of 1.95 times paid-in capital, distributed 0.50 times paid-in capital to limited partners, and generated a combined net IRR of 24.9% since inception. Investing in the Russell 2000 Growth Index¹ during the same period would have generated a return of 17.5%. Level Equity has outperformed the Index by 7.4%. Five of the Firm's seven prior funds are generating second quartile or better performance on a net IRR and net TVPI basis relative to Cambridge Associates' U.S. growth equity benchmarks.

Investment Terms: Cliffwater finds the terms outlined in the Limited Partnership Agreement, taken as a whole, to be in accordance with industry standards. Fund V has a ten-year term with a six year investment period. Fund V will charge a 2.5% management fee on committed capital during the investment period and a 2.0% management fee on invested capital thereafter. The management fee will be offset by 100% of all transaction, investment banking, break-up, advisory, monitoring, and other such fees. Fund V has a 20% carried-interest subject to an 8% preferred return. The Opportunities Fund terms differ from Fund V with a management fee of 1.0% on invested capital and a 15% carried interest until the limited partners receive a 20% annualized IRR, then carried interest will be equal to 20%. The general partner will commit at least 2% to each of the two funds.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$30 million to Level Equity Growth Partners V, L.P. and up to \$20 million to Level Equity Opportunities Fund 2021, L.P. as part of ERSRI's Private Equity allocation.

¹ Frank Russell Company ("FRC") is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The Russell Index data may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Cliffwater LLC. FRC is not responsible for the formatting or configuration of this material or for any inaccuracy in the presentation thereof. The Russell 2000[®] Index is a trademark/service mark of the Frank Russell Company. Russell[®] is a trademark of the Frank Russell Company.