
Recommendation for Benefit Street Partners Senior Opportunities Fund II, L.P.

To: RISIC
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From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Benefit Street Partners Senior Opportunities Fund II, L.P. ("BSSOF II" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Private Credit allocation

Summary of Benefit Street Partners Senior Opportunities Fund II

Fund Overview: BSSOF II is a direct lending fund that will make private senior loans to middle-market companies.

People and Organization: Benefit Street Partners ("Benefit Street", "BSP" or the "Firm") was established in 2008 as an affiliate of Providence Equity Partners. Thomas Gahan, CEO, was hired by Providence in 2008 to build a credit business on the Providence platform. In February 2019, BSP closed an agreement to sell all of its equity interests to a wholly owned subsidiary of Franklin Templeton (NYSE: BEN). Following the transaction, BSP expects to remain unchanged in terms of processes, control, and employee compensation. Since inception, the Firm has raised five commingled debt funds and eight separately managed accounts across a variety of credit-oriented strategies. BSP has 194 employees including 109 investment professionals.

Investment Strategy and Process: The Fund seeks to invest in senior secured credit to middle market companies with \$20 million to \$100 million in EBITDA and loan-to values ("LTVs") between 40-60%. BSP may opportunistically invest in larger syndicated credits if the Firm sees dislocation or a strong relative value opportunity. The companies in BSSOF I, the prior fund, had a median EBITDA of \$86 million at entry. BSP will target a combination of private equity sponsor-backed companies and non-sponsored companies. The Firm is agnostic to ownership type but will focus more on sponsor-backed companies that are less competitive or there is some angle where BSP believes they can get above market terms and/or pricing. While other BSP funds have flexibility to invest across the capital structure including first lien loans and subordinated bonds, the Fund has a more specific mandate that will not invest in unsecured investments and limit second lien exposure to 20%. The portfolio will consist of 75 to 100 loans with core positions ranging from 2% to 5%. The target cash yield for the portfolio is 10%. Industry concentration is expected to be diversified with most sector exposures below 15%. BSP anticipates holding most loans for three to five years. The strategy will be North American focused. BSP will emphasize less competitive "strategic capital" opportunities where BSP has a differentiating attribute that positions the Firm to have more influence over terms, governance, and covenants.

Performance: Since 2008, Benefit Street has raised \$6.7 billion of committed capital and deployed \$20.3 billion. Within the senior secured composite, BSP has invested \$11.7 billion since 2010 and a cumulative realized loss ratio of 0.13% or 1.7 basis points annualized as of March 31, 2019. Since 2008, all of BSP's prior debt funds have generated a net IRR of 11.2% as of March 31, 2019. Investing in the S&P Leveraged Loan Index would have returned 6.1%. BSP has outperformed the index by 5.0%.

Investment Terms: The Fund has two participating funds that invest in the same assets on a pro-rata basis. The Fund has an unlevered vehicle and a leveraged vehicle that is levered up to one

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times. The management fee for the unlevered fund is 1.0% of gross assets. The management fee for the levered fund is 0.65% on gross assets, including leverage. Investors committing more than \$75 million will have reduced fees of 0.75% and 0.50% for the unlevered and levered fund, respectively. BSP will aggregate Cliffwater clients. The investment period is four years. The Fund's term is 7 years plus two one-year extensions. The Fund charges a carried interest of 10% with a preferred return of 4% on the unlevered fund and 6% on the levered fund.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$40 million to Benefit Street Partners Senior Opportunities Fund II, L.P. as part of ERSRI's Private Credit allocation