CLIFFWATER LLC

**Recommendation for Parthenon Investors VI, L.P.**

To: RISIC
Prepared: November 14, 2019
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Parthenon Investors VI, L.P. ("Parthenon VI" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Private Equity allocation

<u>Summary of Odyssey VI</u>

*Fund Overview:* Parthenon VI is a middle-market buyout fund targeting growth oriented investments in health care services, financial services and business/technology services businesses.

*People and Organization:* The general partner of Parthenon VI, Parthenon Capital ("Parthenon" or the "Firm") was established as a generalist investor in 1998 by John Rutherford and Ernest Jacquet. After weak performance in Fund I and Fund II, the second generation of partners including. David Ament, William Kessinger, and Brian Golson, purchased the Firm in 2003. The Firm has successfully executed on its strategy since the acquisition. The Firm continues to be led by David Ament and Brian Golson, co-Chief Executive Officers. Ament leads the Boston office and focuses on investments primarily in healthcare services, healthcare technology, and areas of business services. Golson leads the San Francisco office and focuses on the financial services and business & technology services sectors. Both Ament and Golson are actively involved in all areas of investment management and lead the investment committee. William Kessinger is the Firm's CIO. In total, the Firm has 30 employees including 23 investment professionals.

*Investment Strategy and Process:* Parthenon employs a thesis-driven investment strategy to invest in high-growth middle market companies. The Firm targets investments in the healthcare services, financial services, and business & technology services sectors. Parthenon develops a transformational strategy for each prospective acquisition. The Firm seeks to accelerate earnings growth, transform companies into market leaders, and potentially redefine the market in which the company participates. The Fund will target portfolio companies with enterprise values ranging from $50 million to $500 million, EBITDA greater than $7.5 million, and requiring approximately $40 million to $200 million of equity capital. The Fund will be diversified across three core sectors. Parthenon expects to complete between 13 to 17 investments in Fund VI over a three- to six-year period.

*Performance:* As of June 30, 2019, Parthenon III through Parthenon V have generated a net return of 2.2 times invested capital, a 15.8% net IRR, and 1.3 times DPI in aggregate. Fund III generated second quartile on a net TVPI basis versus its respective vintage year benchmark. Fund IV, a 2012 vintage, has generated impressive top decile performance of 3.7 times net invested capital, 41.4% net IRR, and 1.8 times DPI. Fund V is still early in its life but has gotten off to a strong start. The performance of Fund V is driven by two investments valued at greater than 3.0 times invested capital and no investments valued below cost.

I*nvestment Terms:* Cliffwater finds the investment terms, taken as a whole, to not be in accordance with industry standards due to the high carried interest and longer term. The management fee is 2%

of commitments during the five year investment period; 1.5% of invested capital until the end of year ten. After year ten, no fee will be charged. The Fund has a 13-year term plus two one-year extensions. The Fund charges a 20% carried interest on a deal-by-deal basis up to a 2.0 times return and an 8% preferred return. After the 8% preferred return and limited partner capital accounts are valued at 2.0 times invested capital, the carried interest increases to 25%.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $50 million to Parthenon Investors VI, L.P. as part of ERSRI's Private Equity allocation.