CLIFFWATER LLC

Recommendation for Davidson Kempner Long-Term Distressed Opportunities Fund V, L.P.

To: RISIC
Prepared: July 15, 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 Davidson Kempner Long-Term Distressed Opportunities Fund V, L.P. ("Davidson Kempner V" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Opportunistic Credit allocation

Summary of Davidson Kempner V

Fund Overview: Davidson Kempner V will invest in a broad cross-section of distressed and growth opportunities across corporate debt and equity, real estate, structured credit, and hard assets. The Fund is targeting a mid-teens IRR.

People and Organization: Davidson Kempner Capital Management LLC ("DKCM" or the "firm") was founded in 1983 and has been headed by Thomas Kempner since 2003. In 2013, Anthony ("Tony") Yoseloff, Co-head of Distressed Investing, was promoted to Deputy Executive Managing Member. In 2020, Mr. Yoseloff will become head of the Firm with the retirement of Mr. Kempner. The firm's primary business has been managing hedge fund portfolios investing in merger arbitrage and distressed securities. The firm launched its flagship vehicle, Davidson Kempner Partners ("DKP" or (the "flagship hedge fund") in 1987 and currently manages $21.9 billion in the strategy. The firm also manages six distressed debt closed-end vehicles targeting less liquid investments. The Long-Term Distressed Opportunities Funds are designed to invest in a more differentiated portfolio of both small and large investments in longer-dated, higher risk/reward distressed situations, including private equity. DKCM employs 355 individuals, including 243 in its New York headquarters, 77 in London, 18 in Hong Kong and 17 in Dublin. There are 71 investment professionals in the Distressed Investments group (or the "group"). The group is co-headed by Tony Yoseloff, Avram ("Avi") Friedman, and Connor Bastable.

Investment Strategy and Process: Davidson Kempner V will pursue a long-only, opportunistic strategy targeting a mid-teens net IRR through investments in a variety of investments across corporate equity and debt, real estate equity and debt, hard assets and subordinated structured credit. DK believes that the diversity of the Fund's mandate coupled with its ability to invest in longer-dated, less liquid situations, will enable the Firm to achieve its target return despite a benign credit environment. In the current environment, the Fund is likely to tilt toward investments with equity-like risk profiles. As with the prior funds, should the environment change for the worse, the Fund would likely invest preferentially in debt. Some investments in Fund V will be unique to the Fund, but many will be shared with the firm's hedge funds. The Fund will target 20-35 investments across geographies but primarily in developed Europe and North America. Investments may span a wide range of asset types and sizes, though no investment may exceed 20% of fund capital.

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Performance: The first three Long-Term Distressed Funds have achieved a combined net multiple of 1.49 and net IRR of 15.5% as of March 31, 2019. Relative to investing in the Barclays High Yield Index, the prior funds have achieved annualized excess returns between 5% and 16%. Compared with similar vintage credit opportunities funds in the Cambridge Associates benchmark, Fund I and Fund II have delivered first decile performance on a net IRR and net TVPI basis, while Fund III is in the second quartile on both metrics, owing in part to poorly performing energy investments.

I*nvestment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. Fund V has a three-year investment period and five-year fund term. The Fund charges a management fee of 1.50% on committed capital. The management fee will be reduced by 0.50% for the first year for investors in the Fund's first closing (applicable to ERSRI). The management fee will be reduced 100% by all director, transaction, monitoring, and other such fees. The Fund charges a 20% carried interest with an 8% preferred return. The General Partner will invest $100 million in the Fund.

<u>Cliffwater Recommendation</u>
Cliffwater recommends an investment of up to $30 million to Davidson Kempner Long-Term Distressed Opportunities Fund V, L.P. as part of ERSRI's Opportunistic Credit allocation.