

## Recommendation Clearlake Flagship Plus Partners, L.P.

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

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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Clearlake Flagship Plus Partners, L.P. ("CFPP" 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 COP II

*Fund Overview:* ERSRI committed \$30 million to Clearlake Opportunities Fund II, L.P. ("COP II") as part of ERSRI's Opportunistic Credit allocation in 2019. Clearlake Capital Partners, the general partner, is now raising a CFPP that will co-invest in investments in COP II that require more capital as well as other investment opportunities that have a lower expected return than their equity focused fund, Clearlake VI. Investors in COP II can commit up to 30% of their commitment to COP II without a management fee.

*People and Organization:* Headquartered in Santa Monica, CA, Clearlake Capital Partners ("Clearlake", or the "Firm") was established in 2006 with funding from Reservoir Capital. There were three founders, one of whom was an investor at TPG Capital, a large buyout firm, and the other two who were at Tennenbaum Capital Partners, a credit-oriented investment firm. Today, the Firm is led by Jose Feliciano and Behdad Eghbali, two of the three founders. The third founder retired in early 2015 prior to the inception of Clearlake Capital Partners IV. Feliciano and Eghbali bought out Reservoir Capital in 2016 with financing from Landmark Partners, a secondary focused private equity firm that continues to own a portion of the management company. Clearlake sold a minority interest to two outside firms in May 2018. Dyal Capital Partners, a fund strategy managed by Neuberger Berman, and Petershill Capital Partners, a fund strategy managed by Goldman Sachs. The Firm began as a sector focused buyout investor having raised five buyout funds (Clearlake Capital Partners I-V) and began making opportunistic credit investments with the same sector focus in 2015 when it raised COP I. The Firm has 60 professionals including 24 investment professionals.

*Investment Strategy and Process:* CFPP will pursue control and non-control equity and debt investments in technology and industrial businesses based in the United States and Canada. For control-oriented opportunities, the Fund will invest alongside Clearlake VI. For non-control structured equity and credit investments, the Fund will invest alongside Clearlake Opportunities II. Flagship Plus will also make credit and equity investments that fall outside the mandates of the Firm's current funds. The General Partner intends to deploy the fund opportunistically making it difficult to predict the Fund's portfolio construction. Control buyout transactions are expected to represent at least 25% of Fund capital with up to 70% overlap with the Firm's active fund strategies, Capital Partners and Opportunity Partners

*Performance:* As of March 2020, Clearlake's previous five Capital Partners funds have generated an aggregate net IRR of 24.8%, while their two Opportunities Partners funds have generated an aggregate net IRR 5.1%. The Capital Partners funds have outperformed the Russell 3000 by 16.7% while the Opportunities funds have outperformed the Russell 3000 by 2.8%. CCP V and COP II began investing in 2018 and 2019, respectively, making the funds too early in development for an accurate comparison.

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*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a three-year investment period, subject to two one-year extensions. 10-year term plus 2 one-year extensions with the consent of the limited partner advisory board. The Fund will charge no management fee for commitments up to 30% of an investor's commitment to COP II. Commitments above that level will be charged a management fee of 1.25% on net asset value. The management fee will be offset by 100% of all directors', transaction, investment banking, break-up, advisory, monitoring, or similar fees and 100% of all placement agent fees and excess organizational expenses. The Fund charges a 20% carried interest subject to an 8% preferred return. The minimum commitment to the Fund is \$10 million. If ERSRI commits \$10 million, 90% of the commitment will have no management fee and 10% will be charged 1.25% on invested capital. The entire commitment will be subject to a carried interest of 20% with a preferred return of 8%.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$10 million to Clearlake Flagship Plus Partners, L.P. as part of ERSRI's Opportunistic Credit allocation.