CLIFFWATER LLC

Recommendation for CapitalSpring Investment Partners VI, L.P.

To:	RISIC
Prepared:	January 10, 2020
From:	Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on CapitalSpring Investment Partners VI, L.P. ("CapitalSpring 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 Credit allocation.

<u>Summary of CapitalSpring VI</u>

Fund Overview: CapitalSpring VI will make private direct loans to U.S. operators of quick service, fast casual, and family dining/casual restaurants.

People and Organization: CapitalSpring (the "Firm") was formed in 2005 by Richard Fitzgerald and Chris Unrath, who were previously investment professionals at Ardshiel, a generalist U.S. middle market buyout firm. The Firm employs 30 professionals, including 16 investment professionals, two senior operations professionals, and is led by Mr. Fitzgerald who serves as the managing partner. Mr. Unrath had to leave the Firm in 2017 due to health reasons. Todd Foust and Erik Herrmann are the other partners at the Firm. Mr. Foust was brought in from Goldman Sachs where he was co-head of specialty lending to help mentor the younger members of the investment team. Mr. Herrmann has been with the Firm for 10 years and leads the Restaurant Investment Group and leads transaction execution and manages the overall administration of the restaurant investment business, including originations, investing and portfolio management.

Investment Strategy and Process: CapitalSpring IV will directly originate loans to operators of U.S. franchises of fast casual, family dining/casual restaurants and quick services restaurants. CapitalSpring seeks to creatively structure transactions that provide capital for operators acquiring new stores, pursuing developments, or going through control changes. CapitalSpring prefers to be the only lender in the capital structure and will invest in senior, unitranche, subordinate debt, mezzanine / preferred capital, and, to a lesser extent, common equity. The General Partner is targeting a portfolio of 20 to 30 portfolio companies by restaurant type, brand, and geography. The Firm has developed expertise in the franchise space and has built a proprietary benchmarking database to evaluate new investment opportunities and monitor the existing portfolio. CapitalSpring will not invest more than 15% of total commitments in any one operator. Typical operators in CapitalSpring's portfolio will have a system of 20 to 40 Tier 1 franchises and an established track record from an existing system

Performance: Since 2009, CapitalSpring has raised just over a $1.0 billion from three commingled credit funds. The commingled funds have generated a combined net IRR of 9.8% as of September 30, 2019. Investing in the Barclays High Yield Index during the same period would have generated a return of 6.2%. CapitalSpring has outperformed the index by 3.6%.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The annual management fee will be 0.5% of unfunded commitments plus 1.5% of invested capital, including fund-level indebtedness, during the four-year investment period and 1.5% of invested capital plus fund-level indebtedness thereafter. The management fee on invested capital including levered assets will not exceed 1.5% of commitments throughout the term. The Fund charges a 20% carried interest with a 7% preferred return.

Cliffwater Recommendation
Cliffwater recommends an investment of up to $40 million Capital Spring Investment Partners VI. as part of ERSRI's Private Credit allocation.