

Recommendation for Shamrock Capital Content Fund II, L.P.

To: RISIC
Prepared: November 26, 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 Shamrock Capital Content Fund II, L.P. ("Shamrock Content 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 Shamrock Content II

Fund Overview: Shamrock Content II will acquire interests in intellectual property of entertainment assets.

People and Organization: The manager of Shamrock Content II is Shamrock Capital Advisors ("Shamrock" or the "Firm"). The predecessor of Shamrock, Shamrock Holdings, was founded in 1978 as the family office of Roy E. Disney, the nephew and son of the co-founders of The Walt Disney Company. In 2001, Shamrock Holdings formed Shamrock Capital Growth Fund, L.P. to invest in U.S.-based media, entertainment and communications assets in the lower middle market. In 2010, after Roy E. Disney passed away, the Shamrock Capital Growth Fund team acquired a majority interest in the private equity business to effectuate a spin out forming the Firm. Since 2001, the Firm's partners have raised four commingled growth equity funds as part of the Firm's flagship buyout series, totaling approximately \$2.2 billion of capital commitments. In 2015, the Firm formed the Shamrock Entertainment IP Fund ("Fund I") with \$250 million of capital commitments to pursue economic interests in the intellectual property of entertainment assets. The Firm consists of 31 total employees and is currently led by six partners, Steve Royer, William Wynperle, Michael LaSalle, Andrew Howard, Alan Resnikoff, and Patrick Russo. The entertainment IP team ("EIP team") consists of five dedicated investment professionals, including Patrick Russo who is the only partner focused exclusively on the strategy. Russo joined the Firm in December 2014 to lead the entertainment IP strategy.

Investment Strategy and Process: The Fund will seek to acquire a diversified portfolio of entertainment IP assets in film, television shows, music publishing catalogs, video games, and other types of entertainment content. Entertainment IP assets may include a range of structures, such as rights to participate in cash flows ("participation rights"), direct equity and equity-related interests in the underlying content, royalty streams, or secondary debt in structured finance vehicles. The Fund will target entertainment IP assets that have passed their initial release window and typically have predictable cash flows. The Fund will seek to generate long-term cash flows through its portfolio investments through distribution fee revenues and royalty streams. The Shamrock team intends to add value to portfolio investments by strategically selecting and engaging with third-party distribution partners and administrators and identifying trends in which to capitalize on. The Fund will seek to build a portfolio of 10 to 20 investments where some investments may be comprised of hundreds of individual assets. However, the Fund may target standalone content where attractive opportunities arise. Target investments will be acquired at their net present values, or NPVs. The EIP team will seek to acquire portfolios using discount rates between 10% and 15%, with a similar cash yield, and an expected hold period of 7 to 10 years. Depending on the type of assets and predictability of cash flows the Fund may seek to apply leverage in the range of 35% to 70%.

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Performance: As of March 31, 2019, Fund I has generated a net IRR of 6.9%. Investing in the Bloomberg Barclays US High Yield Index during the same time-period would have generated a net return of 6.2%. Fund I has outperformed the index by 0.7%.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The management fee is 2% of aggregate commitments during the five year investment period and, thereafter, 2% of the lesser of committed capital, invested capital, or net asset value. The Fund charges a carried interest of 20% with an 8% preferred return.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$30 million Shamrock Capital Content Fund II, L.P. as part of ERSRI's Private Credit allocation.