

Recommendation Clearlake Opportunities Partners III, L.P.

To: RISIC
Prepared: October 13, 2021
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Clearlake Opportunities Partners III, L.P. ("COP III" or the "Fund"). ERSRI previously committed \$30 million to the prior fund, COP II. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's as an opportunistic credit strategy within the Private Equity allocation.

Summary of COP III

Fund Overview: COP III will make opportunistic credit and structured equity investments primarily in technology-enabled businesses. The Fund is targeting a net IRR of 15%.

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 six buyout funds (Clearlake Capital Partners I-VI) and began making opportunistic credit investments with the same sector focus in 2015 when it raised COP I. The Firm has 70 professionals including 24 investment professionals.

Investment Strategy and Process: Clearlake Capital Partners will pursue non-control opportunistic credit and structured equity investments. There will be a bias towards software and other technology-enabled businesses. COP III will target investments that are senior in the capital structure and have a contractual return. Investments may generate a cash yield during the investment period. COP III will take an opportunistic approach to making investments in credit, structured equity, and distressed businesses. The Fund will have approximately 20 core positions with an average investment of \$50-\$100 million. COP III will target middle market companies in its target industries of software, technology-enabled services and industrial.

Performance: Clearlake has raised two prior credit opportunity funds totaling \$1.9 billion. As of June 30, 2021, these funds have invested \$0.9 billion, returned \$0.2 billion and have a remaining fair value of \$1.0 billion. The two funds have generated a cumulative net IRR of 20.1%. The funds have generated a return that exceeds the Bloomberg Barclays US Corporate High Yield Return by 21.2% per year. Both funds rank above the median of the Cambridge universe of private credit funds.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a 10-year term. The Fund will charge a management fee equal to 1% of total commitments during the 18-month investment period and 1.5% of invested capital thereafter. The management fee will be offset by 100% of all directors', transaction, investment

The views expressed herein are the views of Cliffwater only through the date of this report and are subject to change based on market or other conditions. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This report is being distributed for informational purposes only and should not be considered investment advice. The information we provide does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. Past performance does not guarantee future performance.

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.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$30 million to Clearlake Opportunities Fund III, L.P. as part of ERSRI's Private Equity allocation.