

## Recommendation for Nautic Partners X, L.P.

To: RISIC  
Prepared: June 21, 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 Nautic Partners X, L.P. ("Nautic X" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Private Equity allocation.

### Summary of Nautic X

*Fund Overview:* Nautic X will make control-oriented investments in U.S. middle-market companies in North America with a focus on health care, outsourced services, and industrial products and distribution.

*People and Organization:* Nautic Partners ("Nautic" or the "Firm") was formed in 2000, when the Firm completed a spin-out from Fleet Financial Group ("Fleet"). The investment vehicles prior to the establishment of Nautic were managed primarily on behalf of Fleet entities. Habib Gorgi, Bernie Buonanno, and Scott Hilinski were previously members of Fleet Equity Partners ("FEP"). Nautic raised its first independent fund in 2000. Since 2000, the Firm has raised five funds totaling over \$4 billion. Nautic is currently led by an executive committee comprised of managing directors Bernie Buonanno, Scott Hilinski, Chris Corey, and Chris Crosby. Buonanno will step down from the executive committee at the launch of Fund X, but will remain on the investment committee. Hilinski will assume more of the firm's management responsibilities, supported by the other members of the executive committee. Two other managing directors that are currently part of the investment committee, Chris Pierce and Mark Perlberg, will join the executive committee at the start of Fund X. The managing directors are supported by five principals, one vice president, and four senior associates who are specialists across the three core sectors. Five of these individuals are dedicated to healthcare, three to outsourced services, and two to industrial-related investments. Five associates are generalists and provide support across the portfolio as needed. Including 23 investment professionals, the Firm has a total of 47 employees.

*Investment Strategy and Process:* Nautic targets leveraged buyouts, growth equity, and consolidation strategies in small and middle market companies based in North America. The Firm's core sectors include healthcare, outsourced services, and industrial products & distribution. The Fund will invest up to \$250 million of equity in companies with EBITDA of \$10 million to \$75 million. Nautic expects Fund X to complete between 12 to 20 portfolio companies. Similar to the previous three funds, healthcare is expected to comprise approximately 50% of Fund X's portfolio. Industrial-related and outsourced services investments will be more opportunistic and are expected to each comprise approximately 25% of Fund X's portfolio. Nautic drives portfolio company performance through active monitoring and involvement in value creation initiatives. The Firm also utilizes its operating advisor and executive network to assist portfolio company management in maximizing value. The primary areas where Nautic has been most effective include enhancing management teams, upgrading systems, improving operations & processes, initiating cost savings, and identifying and executing strategic add-on acquisitions. The value creation initiatives have resulted in strong revenue and EBITDA growth under Nautic's ownership.

---

*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.*

*Performance:* Nautic has managed five vehicles since the Firm's founding in 2000, Nautic V through Nautic IX. As of December 31, 2020, the funds have generated a net return of 1.96 times invested capital, 18.4% net IRR, and 1.57 times DPI in aggregate. Since 2000, Nautic has exited 44 investments, generating a realized return of 3.3 times invested capital and 31.9% gross IRR in aggregate. As of December 31, 2020, Nautic has generated a net IRR of 18.4% across funds since 2000. Investing in the Russell 2000 Index during the same period would have generated a return of 8.9%. Nautic has outperformed the index by 9.5% in aggregate. Four of the five prior funds rank in the first quartile of the Cambridge US Buyout Universe for similar vintage years and one fund ranks in the second quartile.

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a six-year investment period and a ten-year term. The Fund will charge a management fee equal to 2.0% of total commitments during the Fund's investment period and 2.0% of net invested capital thereafter. The management fee will be offset by 100% of all directors', consulting, break-up, and equivalent fees. The Fund will charge a 20% carried interest with a preferred return of 8%.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million Nautic Partners X, L.P. as part of ERSRI's Private Equity allocation.