CLIFFWATER LLC

Recommendation Eureka III, L.P. Secondary Purchase

To:	RISIC
Prepared:	May 20, 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 a secondary purchase of a limited partnership interest in Eureka III, L.P. ("Eureka III" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the secondary purchase as part of ERSRI's Private Equity allocation

Summary of Eureka III Secondary Purchase

ERSRI was approached by Eureka Growth Equity Capital, the general partner of Eureka III, and by an intermediary, Greenhill, with a secondary transaction in Eureka III in March of 2019. Greenhill is representing the seller, an insurance company, in the transaction. The seller acquired the original limited partner and is selling certain holdings of the limited partner including a $25 million commitment amount in Eureka III. After due diligence and in accordance with ERSRI investment process, ERSRI made an offer for the seller's limited partnership interest as of the December 31, 2018 net asset value. The offer was made subject to SIC approval. The contingent offer was accepted.

Eureka III is a 2012 vintage year US buyout fund. The Fund has completed six investments over a five-year period. Two of the companies have been exited, generating a return of 5.2 times invested capital in aggregate. The four active companies are valued at 1.9 times cost in total. Two companies are in the early stages of a sale process and are expected to be sold prior to year-end. The last two remaining companies are managing through various value enhancement initiatives. The companies may require additional capital to invest in the businesses or to complete add-on acquisitions.

The secondary transaction involves the acquisition of the seller's entire limited partnership interest in the Fund. As of December 31, 2018, the capital account includes a commitment of $25,000,000, net asset value of $13,455,633 and unfunded amount of $11,765,412. The Fund is beyond its investment period and uncalled capital will be used for fees or selective add-ons.

Cliffwater's due diligence included a review of Eureka's organization and strategy, a review of the portfolio holdings of Eureka III, and discussions with the general partner about expectations for cash flows. Based on this analysis, the proposed purchase price would yield an expected net IRR and TVPI of 16% and 2.02 times.

Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund is past the investment period and will charge a management fee equal to 2% invested capital. The Fund charges a 20% carried interest subject to an 8% preferred return. .

Cliffwater Recommendation

Cliffwater recommends the purchase of the seller's limited partnership interest in Eureka III, L.P.