

## Recommendation Clearlake Opportunities Partners II, L.P.

To: RISIC  
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From: Thomas Lynch, CFA, Senior Managing Director

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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Clearlake Opportunities Partners II, L.P. ("COP II" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Opportunistic Credit allocation

### Summary of COP II

*Fund Overview:* COP II 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 five buyout funds (Clearlake Capital Partners I-V) and began making opportunistic credit investments with the same sector focus in 2015 when it raised COP I. The Firm has 60 professionals including 23 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 II 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 II 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 million. COP II will target middle market companies in its target industries of software, technology-enabled services and industrial. The Fund will use a capital call facility that needs to be paid back within 90 to 120 days.

*Performance:* Clearlake has raised five buyout funds and one credit opportunities fund totaling \$6.9 billion. These funds have invested \$5.2 billion and returned \$3.8 billion fund generating a cumulative net IRR of 25.8%. COP I has generated net IRR of 12.1% exceeding the return on the Bloomberg Barclays US Corporate High Yield Return by 8.0% per year.

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. 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 banking, break-up, advisory, monitoring or

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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 II, L.P. as part of ERSRI's Opportunistic Credit allocation.