



State of Rhode Island
Office of the General Treasurer

Atalaya Asset Income Fund Evergreen, L.P. - Staff Recommendation
February-2022

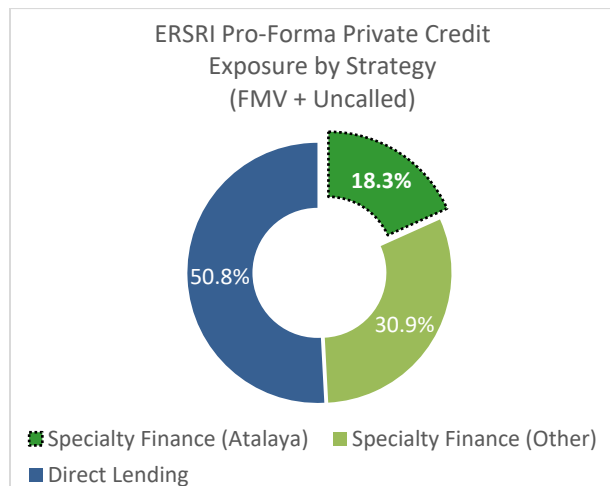
RECOMMENDATION: Approve a commitment of up to \$50 million to Atalaya Income Fund Evergreen, L.P. (“AIF Evergreen”). ERSRI committed \$30 million to Atalaya Asset Income Fund V, L.P. (“AIF V”), a 2021 vintage fund. AIF Evergreen is the successor fund to the AIF V which has drawn 69% of committed capital and distributed 13% through Q3 2021. Including recycled capital, AIF V has invested 141% of committed capital and is projecting a 9.6% net IRR. Atalaya is transitioning from a closed end structure to an evergreen/open end structure.

ASSET CLASS: Private Credit

SUB-STRATEGY: Specialty Finance

ALLOCATION: The target allocation for Private Credit allocation is 3.0%. As of 1/31/2022 the allocation is 2.5%. The pacing plan for private credit is \$180 million per year committed to 2-4 funds per year at \$30 - \$50 million per fund.

PORTFOLIO FIT: ERSRI’s Private Credit portfolio is primarily comprised of a core of direct lending strategies complemented by a set of specialty finance strategies that provide additional diversification. As with prior AIF funds, AIF Evergreen will primarily originate short duration senior secured loans to specialty finance borrowers in the consumer and commercial sectors. AIF Evergreen may also opportunistically purchase performing loans in these sectors and deploy capital to select real estate-backed opportunities. AIF Evergreen’s loans will be backed primarily by collateral such as credit card receivables and consumer installment loans in the consumer sector as well as small business loans and merchant cash advances in the commercial sector. Atalaya’s AIF Funds would provide the bulk of the Private Credit portfolio’s exposure to these sectors. Pending approval of the above recommendation, Atalaya would represent 18.3% of the Private Credit portfolio exposure (NAV + uncalled) and Specialty Finance would represent 49.2% of the portfolio’s exposure as of 1/31/2022.



MERITS: Atalaya is a leading participant in a niche market that has been mostly vacated by traditional bank lenders and sees little competition in its core markets. Many of the underlying specialty finance companies that Atalaya finances through its AIF strategy are new and growing businesses with innovative business models. Atalaya has proven the ability to source and underwrite these opportunities. Given the growing nature of the underlying companies and Atalaya's relationships with them, Atalaya is able to scale its lending through repeat business. In doing so Atalaya is scaling up with its best performing borrowers. Atalaya AIF strategies manage credit risk through two key structural mechanisms: (1) loans are self-amortizing leading with a rapid return of capital that mitigates risk to principal, and (2) investments primarily take the form of rediscount lending, a highly structured asset-backed facility that requires borrowers to contribute equity capital and take first losses on underlying collateral.

The prior five Asset Income Funds have performed in-line with expectations and experienced very low realized losses (virtually no realized losses in the last 3 funds). Atalaya has recycled a meaningful amount of called capital, contributing to performance and setting itself up well for the new evergreen structure.

CONCERNS: The AIF strategy is transitioning to an open-ended structure in this iteration, which is a departure from the previous five funds that were all close-ended vehicles. Open-ended private credit strategies that do not manage their underlying investments well relative to redemption schedules can run into trouble if forced to liquidate assets during inopportune times. This risk is mitigated for AIF Evergreen due to the short-duration profile of its underlying investments and its well-structured liquidity schedule. Investors in AIF Evergreen will choose either a 3-year or 5-year initial lock-up after which they will have the option to fully or partially roll capital for another 3 or 5 years with 1-year notice. Furthermore, the transition to an evergreen structure provides the additional benefit of reducing the requirement for Atalaya to return to the market frequently to raise its next AIF fund, allowing the investment team to focus on portfolio management.

ESG: Atalaya ranks as an **Integrator** on ESG. COO Drew Phillips oversees ESG as part of his role chairing the risk management committee and the firm utilizes an outside advisor. The firm has a formal ESG policy and investment professionals at the firm are trained to consider ESG factors throughout the investment process. Atalaya avoids investing in financial products that create a 'debt trap' that could cause consumers or small businesses to fall into worse financial health such as payday lending, title lending, or pawnshop lending. Additionally, Atalaya avoids real estate opportunities that are harmful to the environment or have adverse impacts on local communities.

Atalaya is committed to maintaining an open and inclusive work environment. It has implemented several DEI initiatives, including holding trainings on unconscious bias, launching a post-MBA internship exclusively focused on recruiting diverse talent, and contributing to charitable organizations that promote social inclusion. These organizations include Toigo Foundation, the Opportunity Network, the Association of Asian American Investment Managers, the Investment Diversity Exchange, Excellence in Investing, Back on My Feed, and Breakthrough New York.

FEES: The fees are in accordance with industry standards. Given ERSRI's relationship with Cliffwater, ERSRI will be granted the lower-fee Series B LP interest. Under a Series B interest, there is a 1.5% management fee and a 15% incentive fee (17.5% for Series A) over a 5% preferred return.