

Recommendation on Southvest VII, L.P.

To: RISIC
Prepared: March 14, 2016
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Southvest VII, L.P. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

Summary of Southvest VII, L.P.

Fund Overview: Southvest VII, L.P. ("Fund VII" or the "Fund") will be comprised of control-oriented investments in small to mid-sized companies based in the United States. Target companies will be in the manufacturing, distribution and service industries. The Fund is expected to consist of a portfolio of 25 investments ranging in size from \$5 million to \$20 million. The Fund's investment in each deal is expected to consist of sub debt and equity. The Fund will have the flexibility to invest up to 10% of commitments outside of North America. The Fund's investment period is six years.

People and Organization: Gen Cap America, Inc. ("Gen Cap" or the "Firm") was founded in 1988 by Barney Byrd. Gen Cap has an investment team of eight professionals, including five managing directors, an operating partner, a principal and an associate. The Firm operates out of a single office in Nashville, Tennessee. Byrd and Don Napier are the Firm's senior investment partners, but neither has been active in leading deals for over a decade. However, Byrd and Napier's main contributions are their experience and ability to connect with management teams. The three younger partners were attributed with deal lead responsibility for Fund V and Fund VI. Gen Cap's investment team has grown and matured since the last fundraise in 2009. Gen Cap has not had a managing director departure in the last five years. There are no subsector divisions within the team.

Investment Strategy and Process: Gen Cap is a Nashville-based small buyout manager focused on mature businesses with consistent earnings, strong cash flow generation and existing management teams. Target companies are expected to have revenue between \$5 million and \$100 million and enterprise values of \$10 million to \$30 million. Gen Cap may consider investing in larger companies with enterprise values up to \$50 million. Gen Cap is distinguished from other small buyout managers in both its approach to deal structuring as well as its geographic focus. Gen Cap is unique in deal structuring by providing both the sub debt and equity to portfolio companies. This helps lower overall financing risk, accelerates cash flow to the Fund and can improve the overall IRR.

Performance: As of September 30, 2015, Gen Cap's prior two institutional funds have generated a net IRR of 16.5% since 2005. Investing in Russell 2000 Index¹ during the same period would have generated a return of 7.8%. Gen Cap has outperformed the Index by 7.6%. Since inception in 1988, Gen Cap has called \$277 million from limited partners, distributed \$338 million and generated a net return of 1.8 times invested capital. Fund V is a first quartile fund on both a net IRR and a net DPI basis relative to the Cambridge Associates U.S. Buyout benchmarks, but Fund VI ranks in the third quartile due to a slower investment pace and Gen Cap's conservative valuation approach. The Firm's realized track record as of September 30, 2015 generated a total return of 4.1 times invested capital. Gen Cap's worst returning realized investment generated a

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return of 1.6 times invested capital. Gen Cap conservatively values its investments. The realized portfolio achieved a 32 percent increase in value from the prior quarter's holding value at exit.

Investment Terms: Cliffwater finds the proposed terms to be in accordance with industry standards. The fund will charge a management fee of 2.0% of commitments during the first six year investment period, and 2.0% of invested capital thereafter. Management fees will be offset 100% of all directors' and break-up fees and 50% of all monitoring, commitment, acquisition, transaction, advisory, consulting and other similar fees until the amount of such fees to be applied against the management fee equals \$18,750,000 in the aggregate, and 100% of such fees thereafter. The General Partner will receive 20% of the partnership profits on a fund-wide basis, which is subject to a Clawback provision. There is an 8% preferred return for investors. The General Partner's commitment will be at least 2.0% of commitments.

Cliffwater Recommendation

Cliffwater recommends an investment of \$30 million in Southvest VII, L.P.

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