



STATE OF RHODE ISLAND  
OFFICE OF THE GENERAL TREASURER

## Staff Recommendation: L Squared Capital Partners Fund V | February 2026

### RECOMMENDATION:

- [Rhode Island Employees' Retirement System Pooled Trust \(ERSRI\)](#): Approve a commitment of up to \$50 million to L Squared Capital Partners Fund V ("Fund V").
- [Rhode Island OPEB System Trust \(OPEB\)](#): Approve a commitment of up to \$3 million to Fund V.

**ASSET CLASS:** Private Equity | Buyout

### ALLOCATION:

- [ERSRI](#): As of December 31, 2025, the Private Equity allocation is 16.2% versus a strategic target of 12.5%. The 2026 pacing plan anticipates \$320 million in commitments across 5 to 10 funds, ranging from \$20 to \$75 million. ERSRI's 2026 commitments will total \$50 million pending approval of this recommendation.
- [OPEB](#): As of December 31, 2025, the Private Growth allocation is 2.1%, versus a strategic allocation target of 5.0%. The 2026 pacing plan anticipates \$8 million in commitments across 5 to 10 funds, ranging from \$1 to \$3 million. OPEB's 2026 commitments will total \$3 million pending approval of this recommendation.

### PORTFOLIO FIT:

ERSRI is currently underweight both small buyout funds and the Information Technology sector within its Private Equity allocation. A commitment to Fund V addresses both gaps through a control-oriented strategy targeting tech-enabled services, education technology, and industrial technology in the lower middle market. L Squared offers differentiated access to founder-owned businesses in fragmented sectors where the firm is often the first institutional capital provider, complementing ERSRI's existing larger-cap buyout exposure. The fund's emphasis on contracted revenue streams, mission-critical services, and acquisition playbook further diversifies the portfolio, which currently concentrates 76% of PE sub-strategy exposure to buyout.

### FIRM AND FUND STRATEGY OVERVIEW:

L Squared Capital Partners is a Newport Beach, California-based lower middle market buyout manager founded in 2014 by Robert Healy and Jeff Farrero following their tenure at Chicago Growth Partners. The firm is led by four Managing Partners—Healy, Sean Barrette, Randall Hunt, and Adam Kimura—who have invested together for over a decade. L Squared employs a growth-oriented control buyout strategy targeting founder-owned and family-operated businesses across three core sectors: tech-enabled services and software, education technology, and industrial technology and services. The firm has raised four prior funds and invested across 23 platform companies to date.

Fund V will target a portfolio of eight to ten platform investments in companies generating \$5 to \$30 million of EBITDA, with equity checks of \$100 to \$200 million. The firm pursues a buy-and-build approach, completing multiple add-on acquisitions per platform to broaden product capabilities, expand geographic reach, and increase market share. With the step-up in fund size, L Squared expects to maintain a similar target company profile as prior vintages while modestly increasing portfolio diversification and reducing single-asset concentration.

### MERITS:

- **Experienced, Aligned Team with High Continuity:** L Squared's Managing Partners have invested together since the firm's founding and share a prior working history at Chicago Growth Partners. Carry is broadly distributed across the partnership, reinforcing alignment and reducing key-person risk. The GP commitment exceeds the market median for

comparable small buyout funds. No senior professional has departed since the firm's inception, and the next generation of partners has been developed internally over the past decade.

- **Disciplined Downside Protection:** The firm has maintained a zero realized loss ratio across all funds to date, comparing favorably to small buyout peers. Conservative underwriting, disciplined use of leverage, and an active portfolio management approach have consistently preserved capital through market cycles. The firm's focus on businesses with recurring revenue and mission-critical services contributes to structural downside resilience.
- **Repeatable Buy-and-Build Execution:** L Squared has an established track record of completing accretive add-on acquisitions per platform, which have historically reduced blended entry multiples and driven strong revenue and EBITDA growth. The firm's sector mapping capabilities, proprietary intermediary relationships, and network of repeat board members and operating advisors support a consistent pipeline of acquisition targets for each portfolio company.
- **Top-Quartile Performance Across Vintages:** L Squared's funds have consistently ranked in the top quartile on both a net multiple and net IRR basis relative to industry benchmarks. The mature funds are substantially or fully realized, with public market equivalent analysis demonstrating meaningful alpha generation above relevant indices. Realized exits have been achieved through diversified pathways, including sales to strategic acquirers and sponsor-backed buyers.

#### CONCERNS:

- **Fund Size Step-Up:** Fund V represents a meaningful increase in target fund size relative to the prior vintage. The larger fund will require the firm to deploy larger equity checks and manage a broader portfolio across a competitive lower middle market environment.
  - *Mitigants:* L Squared has proactively expanded its team from 4 to 6 partners and grown the investment team to support the increased deployment pace. The target company profile remains consistent with prior funds, and the firm has demonstrated efficient deployment across each vintage within its stated investment period. The step-up in portfolio count from 7 to 8-10 platforms also provides additional diversification.
- **Near-Term DPI Uncertainty in Newer Vintages:** The more recent funds have not yet generated significant realized distributions, and DPI remains limited relative to the level of value creation reflected in unrealized marks.
  - *Mitigants:* The firm's mature funds demonstrate strong realization trajectories, and several near-term exit candidates in the current portfolio are expected to generate meaningful liquidity over the next 12-18 months, materially increasing distributions.
- **Portfolio Concentration:** The fund's concentrated portfolio of 8 to 10 platforms heightens outcome dependency on a limited number of investments and increases the impact of any single underperformer on fund-level returns.
  - *Mitigants:* The firm's conservative underwriting approach and zero historical loss ratio mitigate concentration risk. Fund V increases the number of target platforms relative to prior funds, and the active add-on strategy further diversifies revenue sources and end-market exposure at the portfolio company level.
- **Lack of Dedicated In-House Operating Team:** Unlike similarly sized peers, L Squared does not employ dedicated operating professionals, instead relying on deal team members and external resources for portfolio company value creation initiatives.
  - *Mitigants:* The firm leverages a network of repeat board members, operating executives, and specialized third-party partners across key functional areas. The model has been consistent since inception and has supported strong operating outcomes across the portfolio, as evidenced by sustained revenue and EBITDA growth across portfolio companies. The lean structure also contributes to lower fund-level expenses.

### ESG & DIVERSITY:

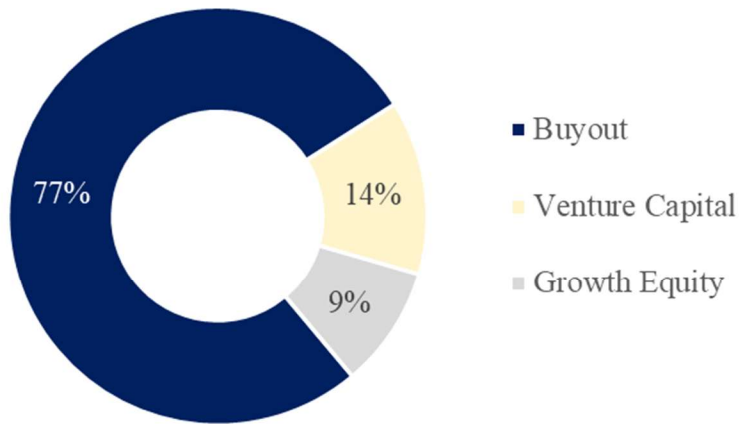
- L Squared is classified as an ESG integrator. The firm adopted a standalone Responsible Investment policy in 2019, aligned with American Investment Council guidelines, and integrates ESG considerations during both due diligence and post-investment monitoring through direct engagement with portfolio company management teams and third-party experts. A third-party software provider collects and reports ESG-related metrics across the portfolio. While the firm is not a signatory to the UN Principles for Responsible Investing, it has applied for membership in the ESG Data Convergence Initiative.
- The firm's workforce diversity metrics trail industry averages as benchmarked against comparable firms. However, L Squared has emphasized internal development and promotion of diverse talent and has grown the team meaningfully since inception. Notably, all investment professionals participate in the carry pool, supporting retention and long-term alignment across the organization.

### FEES: Fees are aligned with market standards.

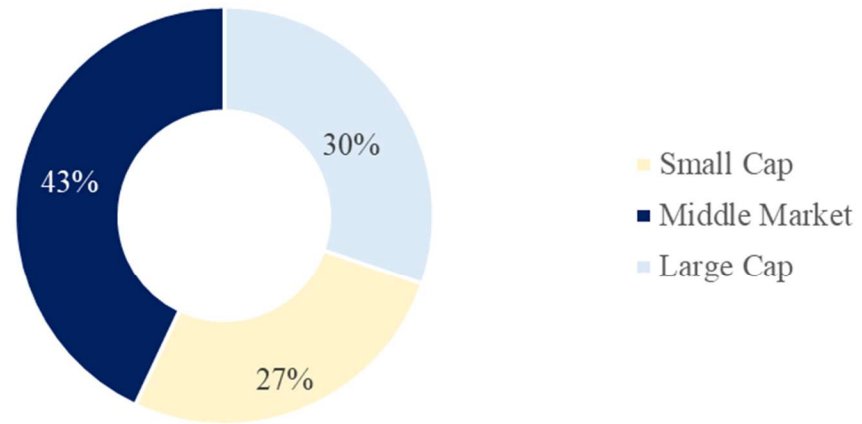
- **Management Fee:** 2.0% on committed capital during the management fee period (first 5.5 years); thereafter, 2.0% on net invested capital. Management fee reduced by 100% of fee income (breakup, monitoring, and transaction fees).
- **Carried Interest:** 20% with an 8% preferred return, compounded annually; American-style waterfall with 100% GP catch-up.

**APPENDIX A: PRO FORMA PRIVATE EQUITY EXPOSURE**

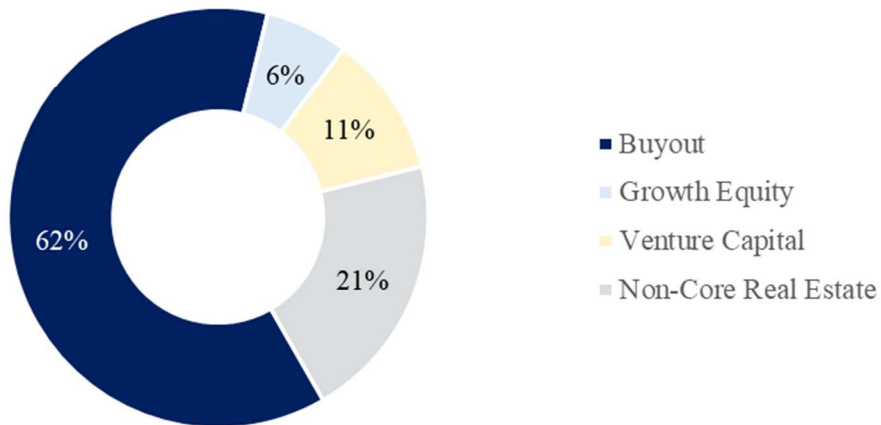
**ERSRI | Private Equity Exposure**



**ERSRI | Buyout Stage**



**OPEB | Private Growth Exposure**



**OPEB | Private Equity Exposure**

