CLIFFWATER

Recommendation on Shamrock Capital Content Fund III and Co-Investment

To: RISIC
Prepared: June 14, 2022
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Shamrock Capital Content Fund III. ("Content III or the "Fund") and an allocation for co-investment to invest along the Fund on a no-fee, no carry basis. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund and co-investment as part of ERSRI's Private Credit allocation.

In 2019, ERSRI committed $20 million to Shamrock Capital Content Fund II and in 2020 ERSRI committed $10 million to Shamrock Capital Content II Co-Investment Fund.

<u>Summary of Content III and Co-Investment</u>
Fund Overview: Content III will acquire royalties from entertainment content and build a diversified portfolio. The co-investment allocation will invest alongside Content III in selected opportunities on a no fee, no carry basis.

People and Organization: The predecessor of Shamrock Capital Advisors, LLC ("Shamrock" or the "Firm"), Shamrock Holdings, was founded in 1978 as the family office of Roy E. Disney. In 2010, the members of the private equity team within Shamrock Holdings acquired a majority interest in the private equity business from the Disney family and subsequently in 2017, acquired the balance of the interests held by the Disney family. The Firm manages a series of growth equity funds which invest exclusively in the media, entertainment, and communications sectors in addition to the Entertainment IP Fund ("Fund I") and Entertainment IP Fund II ("Fund II"), the predecessor to Shamrock Capital Content Fund III, LP. The Firm currently manages $3.9 billion. The Firm has 41 total employees and is currently led by four partners, Steve Royer, Michael LaSalle, Andrew Howard, and Patrick Russo. The entertainment IP team ("EIP team") consists of seven dedicated investment professionals, including Patrick Russo who is the only partner. He is focused exclusively on the Content funds. The Firm is owned by the four partners and is headquartered in Los Angeles.

Investment Strategy and Process: Shamrock Capital Content Fund III, L.P, ("Fund III" or the "Fund") will invest in royalty streams backed by entertainment assets. The strategy will target acquiring film and music rights in well-known, household names. The Fund takes an active approach to improving the asset returns via active management and process improvements. Leverage is also applied at the asset level, usually with a debt-to-equity ratio of 1:1. Shamrock also intends to expand to additional verticals which may include sport rights and video game related assets. Shamrock maintains a very flexible portfolio construction framework. Shamrock will target investments that have an unlevered cash yield profile in the low double-digits with upside through valuation creation initiatives. The Fund is targeting a net return to investors in the mid-double digits.

Shamrock Capital Advisors established a co-investment vehicle for Content II. ERSRI committed $10 million this vehicle and the vehicle is about 40% invested. We are recommending that this co-investment fund be extended for co-investments alongside Content III. The investments will be made at the discretion of the manager and the terms of the co-investment fund will be similar to Content III with the exception that no investment fees or carried interest will be charged to investors in the co-investment fund.

Performance: As of December 31, 2021, Shamrock has raised over $650 million across two prior royalty funds, which have generated a net MOIC of 1.3x and 1.0x for Fund I and Fund II, respectively. Net IRR for Fund I was 18.3% and 1.1% for Fund II. Much of the returns were driven by Fund I as Fund II is young and still working through its J-curve. The strategy requires a longer time horizon to see results given fee structure, deployment, and implementation of leverage at the investment level. Shamrock's historical funds in aggregate have generated a net IRR of 15.7% as of December 31, 2021. Investing in the Barclays High Yield index over the same period generated a return of 6.5%. Shamrock's Royalty Funds outperformed the index by 9.2%. It should be noted that there is no public index that aptly mirrors entertainment royalties' risks and returns.

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 2.0% of commitments during the five-year investment period; thereafter the management fee will be 2.0% on invested capital. The Funds will charge a 20% carried interest, on a fund-wide basis, with an 8% preferred return. The Fund has a 10-year term and the General Partner will commit at least 1.5% of total commitments.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $30 million to Shamrock Capital Content Fund III as part of ERSRI private credit allocation. Cliffwater also recommends extending the ability of ERSRI's existing unused commitment to Shamrock Capital Content II Co-Investment Fund be utilized for co-investments in Content III.