

## Recommendation on Deerpath Capital Fund VI

To: RISIC  
Prepared: July 27, 2022  
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 Deerpath Capital Fund VI. ("Deerpath VI" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Private Credit allocation.

### Summary of Deerpath Fund VI

**Fund Overview:** Deerpath Fund VI will make direct, senior loans to lower middle market companies in the U.S.

**People and Organization:** Deerpath Capital Management ("Deerpath" or the "Firm") was founded in 2007 by Gary Wendt, James Kirby, and John Fitzgibbons to provide senior secured loans to U.S. lower middle market companies. Gary Wendt, was the former head of GE Capital. The Firm has grown from having one office and seven employees to having five offices and 55 employees including 20 investment professionals. Today, Deerpath is headquartered in New York and has additional offices in Fort Lauderdale, Chicago, Boston, and Los Angeles. Deerpath is led by its four partners – Gary Wendt, James Kirby, John Fitzgibbons, and Tas Hasan – who sit on the Investment Committee along with a rotating Managing Director member. Under this leadership, Deerpath operates three key functional areas of (i) investment team which consists of origination, underwriting, investment approval, and portfolio management professionals, (ii) finance & operations team which consists of accounting, portfolio reporting, treasury, and compliance professionals, and (iii) investor relations team which consists of fundraising professionals. The Firm is 100% owned by its senior professionals.

**Investment Strategy and Process:** Fund VI will provide senior secured loans to sponsor-backed lower middle market companies with \$5 million to \$20 million of EBITDA and \$50 million to \$100 million of enterprise value. Fund VI may invest in non-sponsored companies on an opportunistic basis. The Fund will invest predominantly in first lien loans with selective exposure to unitranche and second lien securities. Deerpath employs a "safety first" investment approach which prioritizes the preservation of capital over incremental yield. The Firm seeks to limit credit risk by originating loans in companies with low leverage levels ranging from 3.5 times to 4.0 times net debt-to-EBITDA and/or loan-to-value ratio below 45%. Since the Firm's inception in 2007, weighted average portfolio company leverage through its investment has been 3.3 times net debt-to-EBITDA at an average LTV of 40%. The Firm is planning to offer Fund VI through an unlevered sleeve with a target net return of 5% to 8% and a levered sleeve with a target net return of 10% to 15%. The levered vehicle will likely use approximately two turns of leverage to achieve the target net returns. The Fund will seek to construct a portfolio of 40 to 50 investments with an average hold size of 2% to 3% positions. 93% of deals have historically been sponsor-backed transactions while the remaining 7% of deals have been non-sponsored transactions. The Fund expects to construct a portfolio of approximately 90% first lien loans. While there are no specific targets for sector diversification, Deerpath expects to construct a diversified portfolio with no industry accounting for more than 15% of commitments. The target cash yield for the portfolio is between 8% and 10%.

**Performance:** As of March 31, 2022, nine of Deerpath's onshore vehicles have generated a combined net IRR of 10.0%. Investing in the S&P Leveraged Loan Index during the same period would have generated a net return of 4.2%. Deerpath has outperformed the S&P Leveraged Loan Index by 5.9%. Since 2008,

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*This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may not be disclosed except as required by applicable law.*

Deerpath has made 714 investments in 288 individual companies representing \$6.7 billion of invested capital and experienced only 11 payment defaults.

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a 3-year investment period and an 8-year term, subject to two 1-year extensions. The management fees for both the unlevered and the levered vehicles is 1.0% on gross asset value excluding cash. The unlevered fund has a 10% carried interest on a fund-wide basis subject to a 4% preferred return. The levered fund has a 15% carried interest on a fund-wide basis subject to a 7% preferred return. Cliffwater has negotiated a 10% reduction on both the management fee and carried interest for ERSRI.

#### Cliffwater Recommendation

Cliffwater recommends an investment of up to \$30 million to Deerpath Capital Fund VI (levered fund) as part of ERSRI private credit allocation.