



## Clearlake Flagship Plus Partners, L.P. - Staff Memo

**RECOMMENDATION:** Approve up to a \$10 million commitment to Clearlake Flagship Plus Partners. ERSRI committed \$30 million to Clearlake Opportunity Partners II, a 2019 vintage fund. Flagship Plus Partners will co-invest alongside our existing commitment to Clearlake Opportunity Partners II, although not exclusively.

**ASSET CLASS:** Opportunistic Private Credit

**SUB-STRATEGY:** N/A

**ALLOCATION:** The opportunistic private credit allocation was established in 2017 with a target allocation of 1.5%. As of 9/30 the allocation is 0.8%. The pacing plan consists of committing an average of \$35 million per year to 2 - 3 funds per year at \$20 - \$35 million per fund. This co-investment opportunity allows ERSRI to deploy additional capital with an existing manager and help achieve the target allocation in a fee reduced arrangement.

**PORTFOLIO FIT:** The private credit portfolio is housed in the income bucket and focuses on performing credits with a current yield. This investment would reside in the *opportunistic* private credit allocation, which is a sub-group of the growth bucket focusing on total return and may include non-performing credit investments. Flagship Plus Partners will co-invest alongside our existing commitment to Clearlake Opportunity Partners II which is in the opportunistic private credit portfolio and focuses on non-control structured equity and credit investments, and Clearlake VI which focuses on control equity investments. The fund may also invest in credit or equity opportunities outside of either of these “main fund” mandates. Moreover, this strategy fits the opportunistic nature of the allocation.

**MERITS:** Given the opportunistic nature of the strategy across equity and debt markets the firm is positioned to be able to deploy capital in attractive opportunities regardless of the environment, including short windows of distress that may arise. The firm focuses on the software and industrial sectors where each sector team tracks prospective companies. This familiarity can allow them to react quickly to opportunities. The firm has demonstrated a strong track record and the founders remain heavily involved in the investment process.

**CONCERNS:** The firm has gone through AUM and strategy growth while maintaining a similar sized senior and mid-level team. Mitigating this concern is the co-investment nature of this new strategy and general tendency to have cross fund deals. The recent WhiteStar acquisition added credit analysts to the Clearlake investing platform without demanding substantial time from the Clearlake management team. The founders continue to remain actively involved on new deals and portfolio company boards and have add resources to the firm management team.

**FEES:** Fees are attractive at 0% management fee for 30% of ERSRI’s COP II commitment and 1.25% above that. There is a carried interest of 20% with a preferred return of 8%. ERSRI’s priority allocation is \$9mm, not subject to the management fee.