

## Recommendation on Garrison Opportunity Fund IV, L.P.

To: RISIC  
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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 Garrison Opportunity Fund IV, L.P. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

### Summary of Garrison Opportunity Fund IV, L.P.

*Fund Overview:* Garrison Opportunity Fund IV ("GOF IV" or the "Fund") will consist of investments in distressed financial assets and corporate securities. The General Partner expects that 75% to 85% of the Fund will be invested in financial assets, which includes investments in performing, sub-performing, and non-performing commercial & industrial ("C&I") loans, consumer-related assets, such as installment loans, and other assets, including ships and residential mortgages. The remainder of the Fund is expected to be invested in corporate debt securities of distressed lower-middle market companies and commercial real estate with each representing 10% to 15% of the portfolio. The Fund is expected to invest in 30 to 40 positions during the two year investment period. The Fund will be predominantly invested in U.S. assets, but may deploy up to 25% in European investments.

*People and Organization:* Garrison was formed in 2007 by Steven Stuart and Joseph Tansey, who were both previously senior investment professionals at Fortress beginning in 2002. Garrison operates out of a single office in New York and currently has 75 employees, including 45 investment professionals. The Fund will be managed by 26 investment professionals that are dedicated to investments in financial assets and corporate debt securities. The investment team includes six dedicated asset management professionals that are responsible for conducting the special servicing for the acquired loans. Garrison also utilizes outside servicers to assist with accounting related functions, including issuing statements and collecting payments. The combination of internal and external servicers provides Garrison with control over the management process while also increasing investment management capacity.

*Investment Strategy and Process:* Garrison is differentiated through its focus on smaller loan pools and companies, scope of its investment strategy, and its ability to identify and pursue market dislocations. There are few distressed managers with dedicated funds pursuing similar financial assets. The Fund has a flexible investment mandate that allows it to allocate capital to the strategies that present the most attractive opportunities. Garrison focuses on three core strategies – financial assets, corporate securities, and commercial real estate. In terms of the composition of Fund IV, the General partner currently expects that 25% to 30% will be allocated to originated consumer loans, 30% to 35% to commercial loans, primarily newly originated, and 20% to 30% to other assets, including residential mortgages and shipping. The remainder of the fund will be invested in corporate securities and commercial real estate. The commercial real estate investments will primarily be co-investments with Garrison's dedicated real estate team. Although these are the allocations that Garrison anticipates based on its current pipeline, the opportunity set could change during investment period and the allocations could be materially different.

*Performance:* As of September 30, 2014, GOF I, GOF II, and GOF III have generated a combined net IRR of 15.8% since 2009. Investing in the Barclays High Yield Index during the same period would have generated a return of 8.9%. Garrison has outperformed the Index by

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6.8%. Since 2009, Garrison has invested \$2.2 billion and generated a net total return of 1.36 times paid-in capital. GOF I ranks in the first quartile on a net IRR basis relative to Cambridge Associates<sup>1</sup> global distressed benchmarks as of June 30, 2014, while GOF II and III rank in the second quartile.

*Investment Terms:* Cliffwater finds the terms outlined in the Limited Partnership Agreement, taken as a whole, to be in accordance with industry standards. The management fee is 1.75% of invested capital during the life of the Fund. Additionally, the Fund will be charged asset management fees, which are capped at 0.25% of invested capital. The General Partner will receive 20% of the partnership profits after an 8% preferred return. The General Partner is committing at least 1% of committed capital to the Fund.

#### Cliffwater Recommendation

Cliffwater recommends an investment of \$30 million in Garrison Opportunity Fund IV, L.P.

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<sup>1</sup> Thomson Financial Inc. is the owner and/or licensor of the Cambridge Associates data contained or reflected in this material.