
Recommendation on Riverside Micro-Cap Fund V, L.P.

To: RISIC
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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Riverside Micro-Cap Fund V, L.P. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

Summary of Riverside Micro-Cap Fund V, L.P.

Fund Overview: Riverside Micro-Cap Fund V, L.P. ("Fund V" or the "Fund") will pursue acquisitions of lower middle-market companies with good growth potential in the U.S. and Canada. The strategy entails active involvement in each company to accelerate growth. The Fund will invest across a diverse set of industry sectors.

People and Organization: The general partner of Fund V is the Riverside Company. The Riverside Company ("Riverside" or the "Firm") was formed in 1988 and is owned by its founders, Stewart Kohl and Bela Szigethy, as well as an affiliate of Parkwood LLC, a Cleveland-based asset management firm. Firm-wide, Riverside has seven private equity strategies, has raised 19 funds with \$7.6 billion of commitments, and has 128 professionals. The Micro-Cap fund strategy ("RMCF") was established in 2005 by Loren Schlachet, the current fund manager. RMCF has 42 dedicated professionals and a group of 17 operating professionals who are third-party contractors to the Firm. Each RMCF investment is supported by a deal team of two senior investment professionals, two junior investment professionals, an operating partner and a finance director.

Investment Strategy and Process: RMCF acquires lower middle-market companies generating less than \$10 million of LTM EBITDA and operating in diverse sectors. Riverside tends to invest in business services, consumer goods, education & training, healthcare, software and IT services, specialty manufacturing and distribution, as well as franchise businesses. RMCF invests in healthy companies, growing sales at more than 10% annually where there is an opportunity to double or triple EBITDA during the ownership period. The Firm has a history of selling portfolio companies to both financial and strategic buyers. Riverside's presence in the middle market and the Firm's dedicated origination team results in a high number of investment opportunities for the RMCF team to review. During 2017, there were 1,430 investment opportunities originated for RMCF. Fund V is expected to have 15 to 18 portfolio companies. Post-investment, RMCF focuses on establishing the appropriate infrastructure so the company can utilize investment for new product development, additional sales and marketing resources, and to further expansion plans. Operating partners are in regular, weekly communication with portfolio company CEOs and finance directors meet weekly or every other week with portfolio company CFOs.

Operating efficiency initiatives are a priority and they often include pricing optimization, working capital improvements, and better procurement. RMCF companies often have an add-on acquisition strategy as they pursue organic growth. The RMCF deal team works with management to evaluate acquisition opportunities and prioritize this work. Company improvements have resulted in outsized returns for RMCF investments.

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Performance: As of March 31, 2018, RMCF had called \$955 million from limited partners across its four funds, generated \$840 million of proceeds, and its funds had \$1.37 billion of fair value. The RMCF funds have performed well on an absolute basis and relative to public and private benchmarks. Each of RMCF funds has outperformed the Russell 2000 index by at least 6.0%. As of December 31, 2017, each of the first three RMCF funds rank in the first quartile or first decile of the Cambridge Associates Universe of US Buyout Funds on a net IRR and TVPI basis. It is too early to benchmark RMCF IV performance. The DPI rankings for the two mature RMCF funds are strong.

Investment Terms: Cliffwater finds the terms outlined in the Limited Partnership Agreement, taken as a whole, to be in accordance with industry standards. The Fund has a 10 year term and a five year investment period. The management fee is 2.0% of commitments during the investment period; thereafter, the same fee percentage will be applied to invested capital. Management fees will be reduced by 100% of all directors', transaction, investment banking, break-up, advisory, monitoring, and other similar fees. The General Partner will receive 20% of the partnership profits after a preferred return of 8%. The General Partner will commit at least 5% of aggregate commitments to the Fund.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$40 million in Riverside Micro-Cap Fund V, L.P.