CLIFFWATER LLC

Recommendation Zephyrus Aviation Partners I, L.P.

To:	RISIC
Prepared:	January 17, 2019
From:	Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Zephyrus Aviation Partners I, L.P. ("Zephyrus" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

Summary of Zephyrus Aviation Partners I

Fund Overview: Zephyrus is a private credit fund focused on commercial aircraft leasing. The Fund is an "overflow" fund investing along side Virgo Societas Partnership IV ("Virgo IV") in the aircraft leasing space which is one of five strategy categories for Virgo IV. The manager of Virgo IV has more potential investment opportunities for aircraft leasing than allowed by Virgo IV's diversification plan and therefore is offering this dedicated Fund.

People and Organization: Virgo Investment Group LLC ("Virgo" or the "Firm") is the investment manager of the Fund. The Firm was founded in 2009 by Jesse Watson and is currently led by six investment partners, namely Watson, Mark Perez, Chris MacDonald, Mack McNair, Eli Aheto, and Jonathan Goodman. Jesse Watson was formerly of R6/Eton Park and Silver Point Capital ("Silver Point"). Shortly after the Firm's founding, Watson was joined by his college friend Mark Perez, formerly of Goldman Sachs' global natural resources group. In 2010, Watson's former Silver Point colleagues, Chris MacDonald and Mack McNair, joined Virgo as partners. MacDonald was formerly the co-head of the Principal Finance Group at Silver Point and McNair focused on a range of credit and equity investments within the Principal Finance Group at Silver Point. Eli Aheto joined the Firm as a partner in 2015 from Anchorage Capital. Jonathan Goodman originally founded Hudson Place Financial.

Virgo will utilize one of its operating partners, Zephyrus Aviation Partners I ("ZAP"), for direct management of the Fund strategy. The aviation platform, now called ZAP, was originally formed in 2009 during Virgo Fund II and has been overseen by Gary Krauthamer and Mark Perez, two partners of Virgo. In 2017, Virgo added a senior management team to ZAP with the hiring of Tony Diaz, Chairman, and Damon D'Agostino, President and CEO. Diaz had previously co-founded CIT Aerospace and led the operation for 30 years until its sale to Avalon in 2017. D'Agostino joined Diaz at CIT Aerospace in 1994 and was its Chief Commercial Officer. Two other senior professionals of ZAP worked for Diaz and D'Agostino at CIT Aerospace. During the team's tenure at CIT Aerospace, the firm grew its portfolio to 467 commercial aircraft valued at approximately $10 billion. Over the past decade, the ZAC management team managed over 850 aircraft sales and leases, had relationships with 150 airlines in 50 countries, completed 65 sale/leaseback transactions with airlines, purchased 120 new aircraft from OEMs, and maintained an asset utilization rate in excess of 99%

Investment Strategy and Process: The aircraft leasing industry is segmented by aircraft type and aircraft life. The Fund is targeting segments that it believes are less competitive and provide better downside risk protection. Specifically, the Fund will target acquisitions of aircraft that are 10 years or older (defined as mid-life or later-life aircraft). The Fund will also focus its acquisitions on in-production, narrowbody, Airbus and Boeing aircraft (A320 or B737 family). These aircrafts are currently in broad demand with less 0.5% of industry capacity available for sale. The Fund will seek to acquire portfolios of five or more aircraft and build out the overall

Fund to be diversified by geography, airline (lessee), and aircraft type. In addition to aircraft, the Fund will also target the acquisition of airplane engines, generally suitable for the same targeted aircraft type. Engines and other parts will be leased on a stand-alone or as part of a broader leasing service to an airline. The Fund will target unlevered cash-on cash yields of 12% or higher and utilize moderate leverage to achieve gross IRRs of 15% or higher. The average duration of investments (acquisition to full realization) is expected to be three to four years.

Performance: Virgo established its aviation finance platform in 2009 with its first aviation investments as part of Virgo Fund II. Virgo has regularly invested in the space in Virgo Fund II and Virgo Fund III. Virgo has invested $88 million in eight aircraft lease transactions. The investments are all realized generating a gross IRR of 24%.

Investment Terms: Cliffwater finds the terms, taken as a whole, to be in accordance with industry standards. The Fund is being offered to existing Virgo IV limited partners on a "no fee, no carry" basis. The Fund has a one and a half year investment period and a five year term plus two one-year extensions. The general partner will commit at least 1% of the Fund.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $20 million to Zephyrus Aviation Partners I, L.P.. as part of ERSRI's private credit allocation.