
Recommendation for Riverside Micro-Cap Fund VI, L.P.

To: RISIC
Prepared: July 15, 2021
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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 VI ("RMCF 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 Equity allocation.

Summary of RMCF VI

Fund Overview: RMCF VI will make buyouts of fast growing, lower middle market companies in the U.S.

People and Organization: The Riverside Company ("Riverside" or "the Firm") is the manager of RMCF VI. Riverside was formed in 1988 and focused on acquiring lower middle market companies out of its flagship fund, the Riverside Capital Appreciation Fund. The Firm currently has nine fund families focused by strategy and geography. Within the U.S. and Canada, Riverside has three control-equity oriented fund strategies, the Capital Appreciation Fund ("RCAF"), the Micro-Cap Fund, and the Value Fund. The Firm also has four minority equity and private credit fund strategies investing in U.S. and Canada based businesses. RMCF is distinct from RCAF given its focus on companies generating up to \$10 million of EBITDA at the time of investment. The Firm is led by its co-CEOs, Stewart Kohl and Bela Szigethy, who are active members of the RMCF investment committee. The two co-CEOs originally worked with Loren Schlachet, the RMCF fund manager, to create the fund strategy. Riverside has over 300 professionals located in 16 offices globally. The Firm has over \$11 billion in AUM.

The Riverside team leading RCMF VI is led by Loren Schlachet who joined Riverside in 2000 and has led the Micro-Cap strategy since its beginning. Loren is supported by 29 dedicated investment professionals and 12 dedicated operating partners. The Micro-Cap strategy is also supported by Riverside's 90 professional Shared Global Resources Group which provides deal origination, procurement, legal, human resources, technology and other operational support.

Investment Strategy and Process: RMCF VI will make control investments in the smaller end of the middle-market in companies based in the United States or Canada. The Fund will target profitable companies with EBITDA of less than \$10 million with historical revenue annualized growth rate in excess of 10%. Target companies typically have high levels of recurring revenues with market leadership positions in healthy and growing end markets. RMCF VI will invest in high-growth companies where there is an opportunity to double or triple EBITDA during the ownership period, and which have historically lacked access to institutional capital and other resources. Platform investments will likely be acquired during a four-year period. The Fund will be broadly diversified by industry sector. Historically, RMCF strategy has invested in healthcare, consumer brands, education and training, franchising, software and IT services, and specialty manufacturing & distribution companies. The Fund expects to invest in approximately 20 companies with no one company exceeding 15%. During its ownership, RMCF VI will seek to accelerate growth and enhance its portfolio companies through a robust add-on acquisition strategy. RMCF VI will typically complete at least one add-on per portfolio company with the resources to identify and execute serial strategic and accretive add-on acquisitions.

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Performance: As of March 31, 2021, RMCF had called \$1.9 billion from limited partners across its six funds, generated \$1.7 billion of proceeds, and its funds had \$3.5 billion of fair value generating a cumulative, since inception, Net annualized IRR of 23.9%. The RMCF funds have performed well on an absolute basis and relative to public and private benchmarks. The six RMCF funds have outperformed the Russell 2000 by 10.8% in aggregate. RMCF III and RMCF IV have outperformed the public index by a wide margin of 34.7% and 23.8%, respectively. As of December 31, 2020, each of the first three RMCF funds rank in the first quartile or first decile on a net IRR, TVPI, and DPI basis. RMCF IV has generated near-median performance, however, the fund return is expected to improve as companies mature. RMCF V is young and has not yet generated meaningful net performance.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund has a five-year investment period and ten-year term. Investment management fees are 2.0% of commitments during the investment period, and 2.0% of invested capital thereafter; 100% offset by transaction, monitoring, advisory, investment banking, director's, break-up and similar fees. The Fund charges a 20% carried interest with an 8% preferred return.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million Riverside Micro-Cap Fund VI as part of ERSRI's Private Equity allocation.