CLIFFWATER LLC

Recommendation on Nautic Partners VIII, L.P.

To: RISIC
Prepared: December 16, 2015
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Nautic Partners VIII, L.P. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

Summary of Nautic Partners VIII, L.P.

Fund Overview: Nautic Partners VIII, L.P. ("Fund VIII" or the "Fund") will consist of control-oriented buyout transactions in 10 to 15 companies based in North America. Nautic Partners ("Nautic" or the "Firm") will pursue companies in the outsourced services, healthcare, and industrial products sectors. The Fund will generally target companies with EBITDA between $10 million and $30 million and will make equity investments ranging from $25 million to $75 million.

People and Organization: Nautic was formed as a fully independent private equity firm in 2000. Prior to 2000, the senior investment team executed a lower middle-market buyout investment strategy at Fleet Equity Partners ("Fleet") as part of Fleet Financial Group, a bank, for nearly 15 years. Nautic's senior investment team is comprised of managing directors Habib Gorgi, Bernie Buonanno, Scott Hilinski, Doug Hill, Chris Crosby, Chris Corey, and Chris Pierce. All 18 of the Firm's investment professionals work out of the headquarters in Providence, Rhode Island. The Firm also has three operating partners and one senior professional dedicated to originating investments. Over the last five years, there have been three senior level departures.

Investment Strategy and Process: Fund VIII will pursue control-oriented buyout investments in middle market businesses based in North America. The Firm typically targets companies that are family-owned and undermanaged and have strong business fundamentals, management teams, and growth potential. Fund VIII will primarily focus on healthcare, industrial products and outsourced services. The Firm's sector-driven investment strategy has allowed them to build expertise and networks of relationships within targeted industries. The Firm has evolved to focus on the sectors that Nautic has had a strong track record, as well as strong networks and relationships. Nautic seeks to add-value post-investment by enhancing the management team, identifying and executing add-on acquisition opportunities, and making operational improvements. Nautic's deal sourcing capabilities are Firm-wide and are supported by a managing director of business development who is fully focused on strengthening the Firm's relationships with intermediaries, financial sponsors, and other brokers and advisors at both a regional and national level.

Performance: Since 1986, Nautic has invested $2.4 billion of capital, distributed $3.6 billion, and generated a net IRR of 16.8% and a net return of 2.0 times invested equity as of June 30, 2015. Overall, the Nautic funds have outperformed the Russell 2000 index by 7.3%. The three most recent Nautic funds are ranked above the median benchmarks in terms of net IRR, TVPI, and DPI when compared to Cambridge Associates buyout benchmarks as of June 30, 2015. Fund IV's unfavorable ranking was influenced by its investments in the telecommunications industry which the Firm no longer pursues. Fund VI is a 2007 vintage fund that ranks in or near the first quartile on both a net IRR and a net TVPI basis, and within the second quartile in terms of DPI. Fund VII is young with a capital weighted age of 0.5 years, however, the fund's underlying investments are performing well with an early pending realization.

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 2.00% of committed capital during the six year investment period and 1.65% of remaining invested capital thereafter. Management fees will be reduced by 100% of all directors', consulting, monitoring, investment banking, transaction, break-up and other similar fees, and 100% of all placement agent fees and excess organizational expenses. There is a preferred return of 8% per annum for Limited Partners. The General Partner will receive 20% of the partnership profits which is subject to a clawback provision. The investment period is six years and the partnership term is 10 years, with three potential one-year extensions. The General Partner commitment will be at least 5% of total commitments.

<u>Cliffwater Recommendation</u>
Cliffwater recommends an investment of $25 million in Nautic Partners VIII, L.P.