CLIFFWATER LLC

Recommendation on Virgo Societas Partnership IV

To: RISIC
Prepared: September 27, 2017
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Virgo Societas Partnership IV ("Virgo IV" or "the Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as a private credit investment in ERSRI's Income Class.

Summary of Virgo Societas Partnership Fund IV

Fund Overview: Virgo IV will invest in a broad cross-section of private credit opportunities including specialty finance, mezzanine debt or senior equity, and asset backed credit. The Fund seeks to generate a current yield of 6-9% and generate upside return through equity investments such as warrants while mitigating risk through diligent underwriting and structuring.

People and Organization: Virgo Investment Group LLC ("Virgo" or 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. Watson, MacDonald and McNair all previously worked together at Silver Point Capital. In total, the Firm has 22 employees including 9 investment professionals. Virgo is 100% owned by employees and is headquartered in Redwood Shores, CA with additional offices in New Jersey, Atlanta, and Dallas. The Firm raised one prior institutional fund (Virgo III) and a number of separate accounts totaling $642 million in capital.

Investment Strategy and Process: Virgo will pursue a special situations strategy targeting opportunities arising from capital dislocation "market seams" in five core industries, namely specialty finance and real estate credit, niche industrials, media & entertainment, energy, and healthcare. Investments will be of medium duration, less than five years on average, and will be comprised of highly structured combinations of credit and equity. The Fund will seek to create a base level of return and mitigate downside risk through current yields of 6% to 9% and quarterly cash distributions while maintaining equity upside. Virgo typically provides structured financing solutions to family-owned or founder-led small to medium sized companies, but it may also acquire or lend against niche assets such as aircraft or non-bankable real estate. The Fund will target investments of $40 million to $50 million, typically in a combination of debt and preferred equity. The Firm expects Fund IV to be comprised of approximately 15 investments.

Performance: Through March 31, 2017, Virgo has generated a net return of 1.26 times paid-in capital across the Firm's prior investments. Virgo's prior investments have generated a net IRR of 10.7% since 2009 and distributed 0.68 times paid-in capital as of March 31, 2017. The Firm has realized 20 investments which have generated a gross return of 1.49 times invested capital and a gross IRR of 21.1%. The Firm also receives interest payments and dividends from the majority of its investments. The active portfolio is comprised of 18 investments. Virgo's prior, Fund III, is generating first quartile performance on both a net IRR and DPI basis and second quartile performance on a net TVPI basis relative to Cambridge Associates' benchmark as of March 31, 2017

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund will charge a management fee equal to 1.75% of total commitments during the two-and-a-half year investment period and 1.75% of the lesser of invested capital and fair value of investments thereafter. The management fee will be offset by 100% of all transaction, breakup, origination, and other similar fees. The Fund charges a 20% carried interest after an 8% preferred return. The Fund has a 6-year term, plus 2 one-year extensions. The general partner is contributing 1% of fund commitments.

Cliffwater Recommendation

Cliffwater recommends a commitment up to $50 million to Virgo Societas Partnership IV as part of ERSRI's private credit allocation in the Income Class.