
Recommendation on EnCap Capital Energy Fund XI, L.P.

To: RISIC
Prepared: December 5, 2016
From: Thomas Lynch, CFA, Senior Managing Director

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

Summary of EnCap Capital Energy Fund XI

Fund Overview: EnCap Capital Energy Fund XI ("Fund XI" or the "Fund") will be comprised of equity and equity-related investments in oil and gas companies. EnCap will seek to partner with seasoned management teams focused on the acquisition and development of oil and gas reserves. The majority of the Fund's investments are expected to be in companies based in the United States. The General Partner may invest an amount equal to 15% of aggregate commitments in companies based outside of the United States and Canada.

People and Organization: EnCap Investments ("EnCap") was formed in 1988 and is headquartered in Houston, Texas with a second office in Dallas, Texas. The founding partners have worked together for more than 35 years starting at Republic National Bank of Dallas where they provided debt financing to oil and gas companies. During 2011, the Firm announced that three of the Partners, Jason DeLorenzo, Murphy Markham, and Douglas Swanson, had been named as the future leaders of the Firm. The Firm's succession plan also includes a gradual transfer of ownership from the founders to the partners, specifically to DeLorenzo, Markham, and Swanson. The four founders lead a team of 29 investment professionals. The Principals and Partners have an average tenure of 19 years at the Firm. In 2015, the EnCap sold a passive 25% interest in the firm to Dyal.

Investment Strategy and Process: The General Partner will seek equity and equity-related investments in growing, independent oil and gas companies. Investments will be focused on companies investing in oil and gas reserves. EnCap is agnostic to investing in either natural gas or crude oil but expects Fund XI to invest in the most economic opportunities. Investments are expected to require between \$200 million and \$500 million of equity capital. The General Partner will build a portfolio of 20 to 25 companies for Fund XI. The Firm is distinguished by the team's investment experience of investing across multiple energy industry cycles and its extensive network of industry based contacts. The team anticipates investing at approximately 50% of Fund XI with management teams it has worked with previously.

Performance: As of September 30, 2016, EnCap has generated a net IRR of 12.0% across its six prior funds beginning in 2004. Investing in the Russell 3000 Energy Index during the same period would have generated a return of 2.1%. EnCap has outperformed the Index by 9.9%. Four of the prior five funds outperformed the Index by at least 13.1%. Since 2004, EnCap has invested \$15.5 billion in 140 companies, distributed \$10.7 billion and created a fair value of \$7.6 billion. Five of the Firm's most recent six funds have generated either first or second quartile performance on a net IRR basis relative to Cambridge Associates Private Equity benchmarks as of June 30, 2016.

Investment Terms: Cliffwater finds the terms outlined in the Limited Partnership Agreement, taken as a whole, to be in accordance with industry standards. The proposed management fee

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for EnCap Fund XI during the 10-year term is 1.5% of commitments during the 5-year investment period and 1.5% of invested capital thereafter. The General Partner will not receive any ancillary fees. The ten-year term may be extended with Advisory Board approval for two additional one-year periods. The General Partner will commit at least 3% of aggregate fund commitments to the Fund. The General Partner will receive 20% of the Fund's profits. There is a preferred return for investors of 8% per annum.

Cliffwater Recommendation

Cliffwater recommends an investment of \$50 million in EnCap Capital Energy Fund XI, L.P.