

## Recommendation on Siris Partners IV L.P.

To: RISIC  
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From: Thomas Lynch, CFA, Senior Managing Director

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

### Summary of Siris Partners IV, L.P.

*Fund Overview:* Siris IV is a buyout fund seeking to acquire mature technology companies located primarily in the U.S. The Fund will use a proven strategy of assisting companies undergoing a value-enhancing business transition.

*People and Organization:* The general partner of Siris IV is Siris Capital Group ("Siris" or the "Firm"). Siris was founded in 2011 by Frank Baker, Peter Berger and Jeffrey Hendren. Prior to founding Siris, the founders had worked together at Ripplewood Holdings and S.A.C Capital. Headquartered in NY, Siris has raised two institutional funds, Siris Partners II and Siris Partners III. The three founders have been working together for approximately 18 years. The investment team is comprised of 18 core professionals, including the three founding partners, three directors, two principals, three vice presidents, and seven associates. In addition to the investment team, Siris has five business development professionals and an investor relations individual. The investment team is supplemented by thirteen executive partners.

*Investment Strategy and Process:* Siris pursues control-oriented investments in technology companies with total enterprise value of \$400 million to \$1.5 billion. The Firm will target companies that are facing disruptive technology trends, and impacted sectors including data storage, mobile data, cloud computing, and payments. The target companies are typically sourced through top-down industry research and are often publicly traded or large divisions of established technology companies. Siris will target companies with EBITDA of \$75 million to \$250 million and transactions will each typically require between \$250 million to \$750 million of equity. Siris' investment strategy is distinguished by its "bond and call option" approach. The Firm's target companies will have a mature, legacy technology business (the "bond") in transition with embedded next-generation venture-like assets (the "call option"). The target companies typically invest heavily in research and development to offset the revenue decline being experienced in the core product or service offering. The investment in the next generation assets tends to be through new products and services or acquiring rapidly growing technology companies. Siris seeks opportunities where the legacy division of the target company can generate a return of 1.5 times to 2.0 times invested capital, primarily through deleveraging and cash flows. The investment's return is supplemented by the company's call option division that has high growth potential and could generate outsized returns for a total overall return of at least 2.5 times invested capital. Siris and the firm's 13 executive partners work actively with portfolio companies post-acquisition to create value.

*Performance:* As of June 30, 2018, Siris' previous mature institutional fund, Siris II, has generated a 1.4 net multiple of invested capital, an IRR of 17.4%, and a 0.6 times DPI. Siris III made its first investment in December 2015 and has an average holding period of approximately 1.6 years. However, despite the relatively young age of the portfolio, the fund has performed well, especially in recent quarters. As of June 30, 2018, Fund III is generating a net return of 1.3 times invested capital

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and 18.6% net IRR. Siris' pre-fund core investments have both been fully realized, generating an aggregate return of 2.9 times invested capital and a 49.9% gross IRR. Fund III, Fund II and the pre-fund investments have generated a combined net IRR of 26.8%, outperforming the Russell 3000 Index by 14.8%.

*Investment Terms:* Cliffwater finds the terms outlined in the Limited Partnership Agreement, taken as a whole, to be in accordance with industry standards. The Fund will charge a 1.75% management fee on committed capital during the five-year investment period and a 1.5% management fee on invested capital thereafter. The management fee will be offset by 100% of all transaction, investment banking, break-up, advisory, monitoring, and other such fees. The Fund has a 20% carried-interest after an 8% preferred return. The Fund has a 10-year term with two one-year extensions. The General Partner will commit the lesser of 2% of total fund commitments or \$60 million to the Fund.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million to Siris Partners IV, L.P. as part of ERSRI's private equity allocation.