Recommendation Vinci Capital Partners III, L.P.

To:	RISIC
Prepared:	April 15, 2019
From:	Thomas Lynch, CFA, Senior Managing Director

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

<u>Summary of Vinci III</u>

Fund Overview: Vinci III will target control buyout investments in middle-market companies based in Brazil. The Fund will have a diversified sector focus, with an emphasis on high-quality, high-growth businesses. Sectors of particular focus for Vinci include consumer-focused sectors such as education, food and beverage, and retail.

People and Organization: Vinci Capital Partners is a Brazilian private equity firm with a deep local heritage beginning with Banco Pactual in 2001. In 2006, UBS purchased Banco Pactual to form Banco UBS Pactual. Vinci was formed in 2009, following UBS' divestiture of Banco UBS Pactual, and the Firm' raised its first traditional private equity fund in 2011, raising $1.4 billion of total commitments. The Firm had completed private equity investments from the balance sheet dating back to 2004. Today, the Firm is led by Gilberto Sayao and Alessandro Horta, with Bruno Zaremba leading the private equity team. VCP III will continue the Firm's successful investment strategy of pursuing opportunistic private equity and equity-like investments in Brazil. The Firm is headquartered in Rio de Janeiro, Brazil with additional offices located in Sao Paulo and New York. The Firm has 56 total employees including 14 investment professionals.

Investment Strategy and Process: Vinci III will target control buyout investments in middle-market companies based in Brazil. The Fund will have a diversified sector focus, with an emphasis on high-quality, high-growth businesses. Sectors of focus for Vinci include consumer-facing sectors benefitting from the rise of the Brazilian middle class, such as education, food and beverage, financial services, and retail. VCP III will target equity investments of $60 million to $110 million in companies with $300 million to $600 million of enterprise value at entry. VCP III will seek to create a portfolio of 10 to 12 investments, with no single investment representing over 15% of total commitments. VCP III will underwrite investments to generate gross IRRs of at least 30% in BRL and will typically underwrite 5% currency depreciation and will seek to utilize sellers financing when possible to mitigate currency risk. The Firm will typically seek to assist management teams post-investment with a variety of methods, including financing, M&A sourcing and diligence, the implementation of strategic initiatives such as technology rollouts, cost optimization, succession planning, board leadership, and company professionalization including the implementation of corporate best practices and financial reporting tools.

Performance: Vinci has invested $1.9 billion, generated $2.3 billion of total distributions, and manages $1.2 billion of fair market value. In total, the Firm's investments have generated a net return of 1.82 times invested capital in USD and a net return of 2.23 times invested capital in BRL. Vinci has realized ten of 19 investments, representing 44.7% of total invested capital, generating a gross return of 3.20 times invested capital and a gross IRR of 78.6% in BRL. As of December 31, 2018, Vinci's two previous funds have generated a net IRR of 39.6% (in USD) since 2004. Investing in the MSCI Brazil (USD) Index[1] during the same period would have generated a return of 2.8%. Vinci has outperformed the Index by 36.7%. Vinci's modeled prefund track record is generating first quartile performance relative to Cambridge Associates emerging market private equity and venture capital benchmarks. VCP II is generating third quartile performance on a net TVPI basis; however, the emerging markets benchmark is not heavily weighted by Latin American investments.

.

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 2% of total commitments during the six-year investment period and 2% of invested capital thereafter. The management fee will be offset by 100% of all directors', transaction, investment banking, break-up, advisory, monitoring or similar fees and 100% of all placement agent fees and excess organizational expenses. The Fund charges a 20% carried interest on fund-level subject to an 8% preferred return and a 50/50 GP/LP catch-up.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $30 million to Vinci Capital Partners III, L.P. as part of ERSRI's private equity allocation.

---

[1] Frank Russell Company ("FRC") is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The Russell Index data may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Cliffwater LLC. FRC is not responsible for the formatting or configuration of this material or for any inaccuracy in the presentation thereof. The Russell 2000 ® Index is a trademark/service mark of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company.