CLIFFWATER LLC

Recommendation on Hastings Equity Fund IV, L.P.

To: RISIC
Prepared: February 17, 2018
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Hastings Equity Fund IV ("Hastings IV"). Cliffwater has completed its investment due diligence and operational due diligence and recommends Hastings IV as a private equity investment in ERSRI's Growth Class.

Summary of Hastings Equity Fund IV

Fund Overview: Hastings IV is a lower middle market buyout fund focused on acquiring companies in the U.S. energy services sector.

People and Organization: Hastings IV is managed by Hasting Equity Partners ("Hastings" or the "Firm"). Hastings was founded in 2004. The Firm is 100% owned by its co-founder, Ted Patton. The other co-founder resigned in 2016 when the Firm moved its headquarters to Houston. The Firm maintains its original office in Boston. Hastings has 15 employees and is functionally organized around business development, portfolio management, and finance and operations. Patton is responsible for overall firm management and direction, Tanner Moran, managing director, leads business development, and Joe Conlon, managing director, leads portfolio management. The portfolio management group also includes three exclusive operating partners. Hastings began as a diversified lower middle market buyout firm and modified its strategy to focus on the energy services sector in its third fund, Hastings Equity Fund III.

Investment Strategy and Process: Hastings IV will seek a gross, annualized IRR of 30% by acquiring eight to ten companies in the energy services sector. Hastings' sector focus provides a competitive advantage in acquiring companies in this fragmented industry sector. The average acquisition EBITDA multiple for companies in Hastings Equity Fund III is 4.1 times, well below the average multiple for buyout acquisitions over this period. Post acquisition, Hastings will seek to add value by making add-on acquisitions to grow EBITDA and to improve the economies of scale. Hastings will seek to mitigate commodity price risk by focusing on downstream service companies that are less energy price sensitive and to maintain balance sheet flexibility with moderate levels of debt financing.

Performance: Since 2005, Hastings has raised three investment funds, totaling $255 million in capital commitments. As of September 30, 2017, Hastings has drawn $215 million from limited partners, distributed approximately $145 million, and has generated a total net return of 1.39 times paid in capital. The Firm has generated a net IRR of 15.6% across the three prior funds. Fund I has outperformed the Russell 2000 Index by 4% and the S&P Oil & Gas Equipment & Services ("SPOGES") Index by 2.1%. Fund II has underperformed the Russell 2000 by 0.9% and has exceeded the SPOGES index by 6.2%. Fund III has outperformed the Russell 2000 by 15.4% and the SPOGES index by 48%. As of September 30, 2017, Funds I, II, and III ranked in the first quartile of the Cambridge Associates' U.S. Private Equity Energy Universe on a net IRR basis.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards for lower middle market buyout funds. Hastings IV is seeking a maximum of $300 million. The Fund will charge a 2% management fee during its five year investment period. The management fee will decline to 1.5% of invested capital after the investment period with a minimum fee of 0.90% of committed capital. Management fees will be offset by 100% of commitment, break-up, consulting, transaction, financing, and banking fees. Management fees will be offset by 100% of monitoring fees in excess of $150,000 per company per year. The general partner will receive a 20% carried interest after an 8% preferred return. The general partner will commit at least 3% of total commitments.

Cliffwater Recommendation

Cliffwater recommends a commitment up to $25 million to Hastings Equity Fund IV as part of ERSRI's private equity allocation in the Growth Class.