CLIFFWATER LLC

## Recommendation on Davidson Kempner Long Term Distressed Opportunity Fund IV

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| To: | RISIC |
| Prepared: | August 10, 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 Davidson Kempner Long Term Distressed Opportunity Fund IV ("DKDOF IV" or "the Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the fund.

Summary of Davidson Kempner Long Term Distressed Opportunity Fund IV

*Fund Overview:* DKDOF IV will invest in a broad cross-section of distressed opportunities across corporate debt and equity, real estate, structured credit, and hard assets. The Fund is targeting a mid-teens IRR.

*People and Organization:* Davidson Kempner Capital Management LLC ("DKCM" or the "firm") was founded in 1983 by Marvin Davidson. He was joined by Thomas Kempner in 1984. Mr. Davidson retired 2003. In 2013, Anthony ("Tony") Yoseloff, Co-head of Distressed Investing, was promoted to Deputy Executive Managing Member. The firm's primary business has been managing hedge fund portfolios investing in merger arbitrage and distressed securities. The firm launched its flagship vehicle, Davidson Kempner Partners ("DKP" or (the "flagship hedge fund") in 1987 and currently manages $20.7 billion in the strategy. The firm also manages six distressed debt closed-end vehicles targeting less liquid investments. The Long-Term Distressed Opportunities Funds are designed to invest in a more differentiated portfolio of both small and large investments in longer-dated, higher risk/reward distressed situations, including private equity. DKCM employs 288 individuals, including 213 in its New York headquarters, 57 in London, 14 in Hong Kong and 4 in Dublin. There are 67 investment professionals in the Distressed Investments group (or the "group"). The group is co-headed by Tony Yoseloff, Avram ("Avi") Friedman, and Connor Bastable.

*Investment Strategy and Process:* DKDOF IV will pursue a long-only, non-control distressed credit strategy targeting a mid-teens net IRR through investments in a variety of credit-oriented investments across distressed corporate debt, real estate, hard assets and structured credit. DK believes that the diversity of the Fund's mandate coupled with its ability to invest in longer-dated, less liquid situations will enable the firm to achieve its target return. As with the prior DKDO funds, the Fund may include more liquid credit investments, so long as they meet the target return profile. The portfolio will be allocated opportunistically across geography and investment category. The DKDOF IV will invest in 15 to 20 investments with a maximum exposure of 20% to any one investment. The Fund is expected to be fully invested in two to three years with a holding period of two to four years for each investment.

*Performance:* The prior three Long-Term Distressed Funds have achieved a combined net multiple of 1.57, net IRR of 19.7% as of March 31, 2017. All three funds are either in the first or second quartile on a net IRR and net TVPI basis in Cambridge Associates Universe. As of December 31, 2016, the prior funds outperformed the Barclays High Yield Index by 13.7% in aggregate on an annualized basis.

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. DKDOF IV has a three year investment period and five year fund term. The Fund charges a management fee of 1.50% on committed capital. The management fee will be reduced by 0.50% for the first year for investors in the Fund's first closing (applicable to ERSRI). The management fee will be reduced 100% by all director, transaction, monitoring, and other such fees. The Fund charges a 20% carried interest with an 8% preferred return. The General Partner will invest the greater of $50 million or 5% of the Fund.

Cliffwater Recommendation

Cliffwater recommends a commitment up to $50 million to Davidson Kempner Long Term Distressed Opportunity Fund IV as part of ERSRI's Opportunistic Credit allocation.