

## Recommendation for Parthenon Investors VII, L.P. and Co-investment

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 Parthenon Investors VII, L.P. ("Parthenon VII" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's and OPEB's Private Equity allocation. Cliffwater also recommends a separate allocation for potential co-investments in investments made in Parthenon VII, on a no fee and no carry basis.

### Summary of Parthenon

**Fund Overview:** Parthenon VII is a middle-market buyout fund targeting growth-oriented investments in health care services, financial services and business/technology services businesses.

**People and Organization:** The general partner of Parthenon VII, Parthenon Capital ("Parthenon" or the "Firm") was established as a generalist investor in 1998 by John Rutherford and Ernest Jacquet. After weak performance in Fund I and Fund II, the second generation of partners including David Ament, William Kessinger, and Brian Golson, purchased the Firm in 2005. The Firm has successfully executed on its strategy since the acquisition. The Firm continues to be led by David Ament and Brian Golson, co-Chief Executive Officers. Ament leads the Boston office and focuses on investments primarily in healthcare services, healthcare technology, and areas of business services. Golson leads the San Francisco office and focuses on the financial services and business & technology services sectors. Both Ament and Golson are actively involved in all areas of investment management and lead the investment committee. William Kessinger is the Firm's CIO. Two investment professionals were promoted to partner in 2022, Anthony Orazio and Zach Sadek. In total, the Firm has 50 employees including 27 investment professionals. The Firm is mostly owned by Ament and Golson, with a small, passive minority stake owned by Goldman Sachs' Petershill program.

**Investment Strategy and Process:** Parthenon employs a thesis-driven investment strategy to invest in high-growth middle market companies. The Firm targets investments in the healthcare services, financial services, and business & technology services sectors. Parthenon develops a transformational strategy for each prospective acquisition. The Firm seeks to accelerate earnings growth, transform companies into market leaders, and potentially redefine the market in which the company participates. The Fund will target portfolio companies with enterprise values ranging from \$50 million to \$500 million, EBITDA greater than \$7.5 million, and requiring approximately \$80 million to \$400 million of equity capital. The Fund will be diversified across the three core sectors. Parthenon expects to complete between 13 to 17 investments in Fund VII over a five-year investment period.

**Performance:** As of September 30, 2022, Parthenon has generated a net return of 2.75 times invested capital, 25% net IRR, and 1.7 times net DPI. The track record includes investments in Fund II that were led by the current team, and all investments since Fund III. Fund III has generated a net return of 2.3 times invested capital and 2.2 times net DPI, ranking in the first quartile. Fund IV has generated top decile results across all benchmark metrics; Fund V has generated top decile and top quartile results on a net IRR and net TVPI basis. Fund VI is a 2020 vintage and has not generated meaningful performance versus the benchmarks.

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*This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may not be disclosed except as required by applicable law.*

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to not be in accordance with industry standards due to the high carried interest and longer term. The management fee is 2% of commitments during the five-year investment period; 1.5% of invested capital until the end of year ten. After year ten, no fee will be charged. The Fund has a 13-year term subject to one-year extensions with the approval of the Limited Partner Advisory Board. The Fund charges a 20% carried interest on a deal-by-deal basis up to a 2.0 times return and an 8% preferred return. After the 8% preferred return and limited partner capital accounts are valued at 2.0 times invested capital, the carried interest increases to 25%.

#### Cliffwater Recommendation

Cliffwater recommends an investment of up to \$35 million to Parthenon Investors VII, L.P. as part of ERSRI's Private Equity allocation and an investment of up to \$1 million to Parthenon Investors VII, L.P. as part of OPEB's Private Equity allocation.

Parthenon VII will provide the opportunity for ERSRI as well as other limited partners to co-invest in investments in Parthenon VII when such investments require additional capital that exceeds the diversification guidelines of the Fund. Cliffwater recommends that ERSRI invest \$2.5 million per investment in up to two such co-investments or a total not exceeding \$5 million. Such co-investments will be completed if Staff and Cliffwater conclude that they fit the strategy and criteria of Parthenon VII and will be made on a no-fee, no carry basis.