CLIFFWATER

Recommendation for Nautic Partners XI, L.P.

To: RISIC
Prepared: June 6, 2024
From: George Bumeder, Managing Director

The purpose of this memo is to provide the RISIC with a summary of Cliffwater's recommendation on Nautic Partners XI, L.P. ("Nautic XI", or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Funds as part of ERSRI and OPEB's Private Equity allocations.

Summary of Nautic Partners XI

Fund Overview: Nautic targets control-oriented buyouts in middle market companies based in North America. The Fund targets investments in outsourced services, healthcare, and industrials.

People and Organization: Nautic Partners ("Nautic", or the "Firm") was formed in 2000, when the Firm completed a spin-out from Fleet Financial Group ("Fleet"). The investment vehicles prior to the establishment of Nautic were managed primarily on behalf of Fleet entities. Habib Gorgi, Bernie Buonanno, and Scott Hilinski were previously members of Fleet Equity Partners ("FEP"). Nautic raised its first independent fund in 2000, Nautic V, which was approximately $1.1 billion. Nautic is currently led by an executive committee comprised of five managing directors, including Scott Hilinski, Christopher Crosby, Christopher Corey, Christopher Pierce, and Mark Perlberg. Bernard Buonanno stepped down from the executive committee at the launch of Fund X and was replaced by Scott Hilinski. Chris Pierce and Mark Perlberg also joined the executive committee at the start of Fund X. The investment committee is made up of the five members of the executive committee, as well as Allan Peterson. Peterson has been with the Firm for 23 years and serves as the Chief Operating Officer and Head of Investor Relations. Peterson will be joining the executive committee during Fund XI. Buonanno and Gorgi remain involved in an advisory role and have been with Nautic since inception. The five managing directors that comprise the executive committee have sector-based responsibilities from a deal origination and execution standpoint. Hilinski, Corey, and Crosby lead the healthcare sector, which is the Firm's largest area of focus. Pierce leads investments in the industrial products & distribution sector. The outsourced services sector had previously been managed together with the industrial-related investments. Nautic decided to make outsourced services a standalone area of focus in an effort to improve deal flow and manage the portfolio more effectively. The Firm added Mark Perlberg as a managing director to the investment team to oversee outsourced services. Perlberg has previously served as the President & CEO of Oasis, a prior portfolio company of Nautic V. Shahan Zafar recently was made co-head of the services group alongside Perlberg. There are four managing directors that support the sector heads. Keith Farrow and Chris Vinciguerra are focused on healthcare, Sean Wieland is focused on industrials, and Shahan Zafar is focused on the outsourced services sector. There are also five principals, seven vice presidents, four senior associates, eight associates, and four analysts. Other than analysts, all members of the investment team are assigned to a specific sector. The firm has 70 total employees and 35 dedicated investment professionals.

Investment Strategy and Process: Nautic targets control-oriented buyouts in middle market companies based in North America, focusing on investments in outsourced services, healthcare, and industrials. Nautic applies a hands-on approach in helping portfolio companies achieve value creation initiatives. The primary ways in which the Firm adds value include improving management teams, developing operating strategies, streamlining processes, and identifying and executing add-on acquisitions. The Firm targets equity investments of $50 million to $500 million per transaction in companies with enterprise values up to $500 million at entry. Fund XI will opportunistically invest in larger companies. Nautic anticipates that Fund XI will invest in 15 to 20 portfolio companies over a six-year investment period. Nautic targets net returns of 2.0 times invested capital and 20%+ net IRRs. Nautic has an opportunistic approach to investing across the three core sectors, but healthcare is expected to comprise approximately 40% to 50% of the overall portfolio.

Performance: Since 2000, Nautic Partners has raised six middle market buyout strategies. Those funds have generated a net return of 1.90 times invested capital, a net IRR of 18.1%, and a net DPI of 1.35 times invested capital. Since 2000, Nautic has exited 53 companies, which have generated a gross return of 3.24 times invested capital and a gross IRR of 31%. During that same period, the Firm has a realized loss ratio of 13.6%. As of December 31, 2023, Nautic Partner's Funds V through X have generated a net IRR of 18.1%. During that time period, Nautic has outperformed the Russell 2000 Total Return Index by 8.2%. While all funds individually outperformed the public index, Fund VII and Fund VIII outperformed the Russell 2000 by over 25%.

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 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, monitoring, and other such fees. The Fund will also charge a 20% incentive fee on a deal-by-deal basis with an 8% preferred return and 100% general partner catch-up, and with a general partner clawback. The general partner will commit at least 4% of the total fund capital.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $40 million to Nautic XI as part of ERSRI's Private Equity allocation and an investment of up to $2 million to Nautic XI as part of OPEB's Private Equity allocation.