

Recommendation on Tenex Capital Partners II, L.P.

To: RISIC
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From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on Tenex Capital Partners II, L.P. Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund.

Summary of Tenex Capital Partners II, L.P.

Fund Overview: Tenex Capital Partners II, L.P. (the "Fund" or "Tenex II") will make control-oriented investments in underperforming middle-market companies and drive investment performance through operational improvements. Target companies will have an enterprise value between \$30 million and \$250 million and will be based in either the United States or Canada. The Fund will invest \$25 million to \$75 million in each platform investment and may deploy additional capital in add-on acquisitions. The Fund is expected to include 14 to 16 companies.

People and Organization: Tenex Capital Management (the "Firm" or "Tenex") was formed in 2010 to continue its predecessor firm's operations-focused middle-market investment strategy. The predecessor firm, TenX Capital Partners ("TenX"), was founded in 1999 by Michael Green as a pledge fund to invest in underperforming middle-market companies and drive performance through operational improvements. TenX was acquired by Cerberus in 2003, and the firm added Varun Bedi, Joe Cottone, J.P. Bretl, and Chad Spooner (including Green, the "Founding Partners") as senior investment professionals. The Tenex team reestablished itself as an independent investment firm in 2010. Currently, Tenex is led by seven Managing Directors, namely the five Founding Partners plus Ron Lejman and Scott Galletti. Green, Cottone, Lejman, Galletti, and Spooner all previously worked at General Electric ("GE"), while Bedi and Bretl previously worked at McKinsey. The Firm is currently comprised of 12 investment professionals and is headquartered in New York City.

Investment Strategy and Process: Tenex targets companies that are operationally underperforming their peers by approximately one standard deviation. These companies are not the worst companies in their respective sectors, which are likely in secular decline and beyond salvaging, but rather possess significant room for material near-term improvement. Once a company is acquired, Tenex drives value with a formulaic three-step approach which involves: 1) a modest reduction of fixed costs, 2) a significant improvement in variable cost productivity, and 3) the acquisition of complementary add-on investments to maximize operating leverage.

Performance: Fund I has generated a net IRR of 16.9% since 2011, outperforming the Russell 2000 Index by 8.7%. Fund I has invested \$367 million, distributed \$192 million, and produced a return of 1.42 times paid-in capital. Fund I compares favorably to Cambridge Associates benchmarks for U.S. buyout funds formed in the same vintage year. The fund has exited two investments for a return of 3.58 times invested capital and a gross IRR of 52.0%.

Investment Terms: The management fee is 2% of commitments during the investment period and 2% of invested capital thereafter. Management fees will be offset by 100% of any transaction, investment banking, break-up, advisory, monitoring, directors' and other similar fees. The General Partner takes 20% of partnership profits. There is an 8% preferred return. The General Partner

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will make a minimum commitment equal to 3% of aggregate capital commitments through 50% cash and 50% management fee waivers.

Cliffwater Recommendation

Cliffwater recommends an investment of \$30 million in Tenex Capital Partners II, L.P.