



State of Rhode Island
Office of the General Treasurer

Clearlake Opportunity Partners III, L.P. - Staff Recommendation

October 2021

RECOMMENDATION: Approve a commitment up to \$30 million to Clearlake Opportunity Partners III, L.P. ERSRI committed \$30 million to Clearlake Opportunity Partners II, a 2019 vintage fund, and \$10 million to Clearlake Flagship Plus Partners, a 2021 vintage comingled co-investment fund.

ASSET CLASS: Private Equity

SUB-STRATEGY: Opportunistic Credit

ALLOCATION: The target allocation for Private Equity is 12.5% and the allocation as of 8/31 is 11.1%. Previously, the Opportunistic Credit allocation was a separate 1.5% allocation within the Growth Bucket, but in July 2021 it was added as a sub-strategy to Private Equity to better reflect the opportunistic nature of the sub-asset class.

PORTFOLIO FIT: Unlike the Private Credit allocation, which focuses on performing credits and yield generation, Opportunistic Credit strategies seek a higher total return and may invest in non-performing credits. The Opportunistic Credit sub-asset class may be emphasized in periods of dislocation; however, timing deployment and reacting quickly can be a challenging dynamic for allocators. ERSRI seeks to maintain active exposure so select Opportunistic Credit strategies that can react quickly to shifting market environments, but also deploy capital in benign environments. The Clearlake Opportunity Partners (COP) funds employ this flexible strategy by investing in non-control opportunistic credit, structured equity investments and distressed businesses. COP will target software, technology-enabled services, and industrials.

MERITS: Given the opportunistic nature of the COP strategy across equity and debt markets, Clearlake is well-positioned to deploy capital into attractive opportunities regardless of the environment, including short windows of distress that arise. Clearlake has a single investment team across its strategies (Capital Partners, Opportunities Partners, and Flagship Plus) that is organized by sector. The sector teams develop deep knowledge of companies and themes within their sectors which allows them to react quickly to opportunities and make the best risk-adjusted investments.

The firm has demonstrated a strong track record and the founders remain heavily involved in the investment process. The fund is targeting a 15% net IRR. Fund I, a 2015 vintage fund, is generating a 15.9% net IRR and Fund II, a 2019 vintage fund, is generating a 34% net IRR as of 6/30/2021. Both funds are first quartile on a net TVPI basis.

CONCERNS: The firm has gone through AUM and strategy growth while maintaining a similar sized senior and mid-level team. The flagship fund strategy (Capital Partners) is raising its seventh fund at \$10 billion or more in committed capital. This could draw attention away from the COP strategy. Mitigating this concern is the shared team that is tasked with making the best risk-adjusted investments in their sector and a compensation scheme that does not bias which fund investments are housed in.

ESG: Clearlake ranks as a Leader on ESG. The firm has ESG and Diversity and Inclusion policies. The firm engaged with a third party ESG consultant in 2019 to advance its ESG program. ESG issues are reviewed during diligence and ESG and diversity value creation plans are outlined for new investments. On a quarterly basis ESG and diversity KPIs that are unique to each company are tracked and reviewed by the deal and management teams. Annually, the consultant is engaged again to review the existing goals and KPIs and look for new opportunities at each company.

FEES: The fees are in accordance with industry standards. The Fund will charge a management fee equal to 1% of total commitments during the 18-month investment period and 1.5% of invested capital thereafter. There is a 20% carry with an 8% preferred return.