CLIFFWATER LLC

Recommendation Eureka IV, L.P.

To:	RISIC
Prepared:	May 20, 2019
From:	Thomas Lynch, CFA, Senior Managing Director

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

Summary of Eureka IV

Fund Overview: Eureka IV will make control-oriented buyouts of lower middle-market companies in the business services, healthcare services, consumer products, and specialty-manufacturing sector. The Fund will seek to add-value through strategic and operational improvements and add-on acquisitions.

People and Organization: Eureka Equity Partners ("Eureka" or the "Firm") was established as an independent firm in 2004, when Chris Hanssens and two partners led a spin-out from the Berwind Group, a family-owned enterprise. Eureka managed Fund I under a sub-advisory agreement with Berwind. Subsequent to Fund I, the Firm raised two independent funds, Eureka II in 2005 and Eureka III in 2012. The Firm is led by managing partner Chris Hanssens, supported by partners Christian Miller and Jonathan Chou. Together, the three partners are responsible for managing the day-to-day activities of the Firm and leading investment activities. One or more of the partners will lead all investments. In addition to the partners, the Firm has four other investment professionals, one dedicated sourcing professional and two operations staff. The Firm uses an informal network of operating executives for sourcing, due diligence, and board representation.

Investment Strategy and Process: Eureka will target control-oriented investments in lower middle-market companies primarily across the business services, healthcare services, consumer, and specialty manufacturing sectors. The Firm invests in companies that are niche market leaders located primarily across the eastern US, seeking to be the first institutional capital provider. Fund IV will initially invest between $10 million to $25 million of equity per investment in companies with revenue up to $100 million and EBITDA of at least $5 million. The Firm has a value-oriented investment approach seeking to acquire companies by partnering with company management. Since Fund II, the Firm has been able to acquire companies at multiples below 5.0 times EBITDA on a consistent basis. Post-acquisition, the Firm focuses on providing strategic guidance, augmenting management teams, completing operational improvements, driving and accelerating organic growth, and sourcing and executing add-on acquisitions. Eureka will seek to deploy capital over a four- or five-year period, targeting up to ten investments in Fund IV.

Performance: Eureka's prior three funds have invested $324 million, distributed $324 million and generated a net TVPI and IRR of 1.57 times and 13.1%, respectively. Relative to public equities, the three funds have outperformed the Russell 2000 Index by 3.5% per year net of fees. The IRRs for Fund I and Fund III rank in the first quartile of the Cambridge U.S. Buyout Universe. Fund II is a 2005 Vintage Year fund and has underperformed, generating a 5.0% net IRR and a third quartile ranking. Fund II was impacted by investments made prior to the financial crisis. The Firm also revamped its strategy after Fund II by seeking to avoid performance issues resulting from companies with EBITDA less than $5 million, requiring more effort to reach scale, and non-control investments.

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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 total commitments during the five-year investment period and 2.0% of invested capital thereafter. The management fee will be offset by 100% of all directors', transaction, investment banking, break-up, advisory, monitoring or similar fees in excess of $1 million in any calendar year. The Fund charges a 20% carried interest subject to an 8% preferred return. The general partner will commit $5 million to the Fund.

<u>Cliffwater Recommendation</u>

Cliffwater recommends an investment of up to $20 million to Eureka IV, L.P. as part of ERSRI's Private Equity allocation.