**PROTECTED MATERIALS**

**Relating to the PRIM Board Meeting**
**Tuesday, October 13, 2015**

*The following are protected materials consisting of trade secrets or commercial or financial information relating to the investment of public trust or retirement funds, the disclosure of which would likely impair the ability to obtain such information in the future or cause substantial harm to the competitive position of the person or entity from whom the information was obtained.*

Contents



Appendices

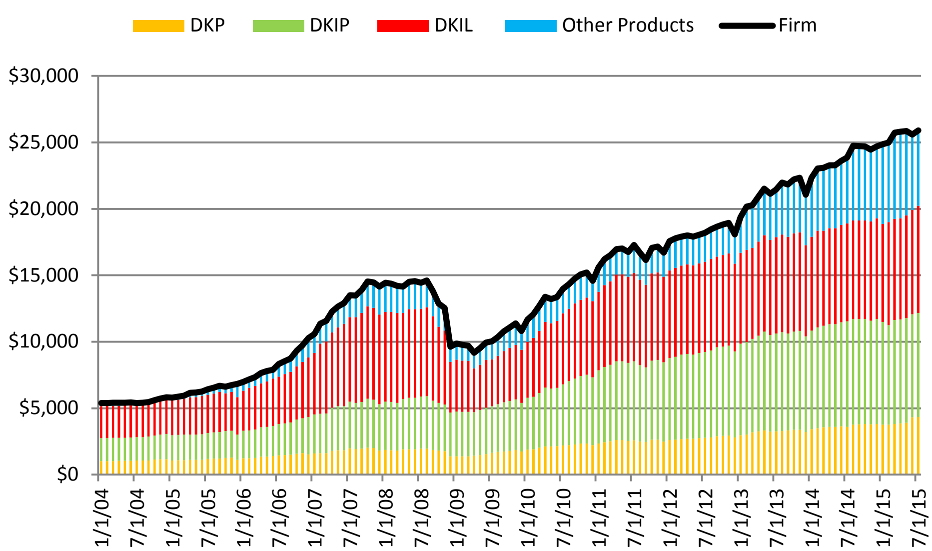
## I. Direct Hedge Fund Investment Recommendation: Davidson Kempner Special Opportunities Fund III, L.P.

| | |
|---|---|
| Manager Name: | Davidson Kempner Capital Management LP |
| Fund Name: | Davidson Kempner Special Opportunities Fund III, LP |
| Fund Manager Size: | $26 billion |
| Fund/Strategy Size: | $800mn - $1bn |

*Firm Overview*

Davidson Kempner ("DK") currently has $26 billion in assets under management, as of August 31st, 2015. The flagship multi-strategy product (of which PRIM is an investor) holds $20.2 billion in assets, along with $5.6 billion in other products, including the Distressed Opportunities Fund and the two previous Special Opportunities Funds. DK has 230 employees across offices in New York, London and Hong Kong. The firm has 95 investment professionals and 110 back and middle office personnel. DK's 14 principals have approximately $1.8 billion invested in the firm's various strategies and collectively they comprise the firm's single largest investor. DK has a diversified investor base comprised mainly of endowments, foundations, pensions (public and private), high net worth individuals, family offices and fund of hedge funds. The firm remains 100% employee-owned.

**Growth of Firm Assets Under Management**




*Firm History and Ownership*

M. H. Davidson & Co. was founded in 1983 by Marvin H. Davidson as a family office. Thomas L. Kempner, Jr. joined the firm at the end of 1984 and was later promoted to partner in 1986. In 1987, the firm changed its name to Davidson Kempner Capital Management, LLC as it transitioned from a family office to an asset manager, allowing it to raise outside capital. In 1990, the firm registered itself as an investment adviser with the SEC. Kempner succeeded Davidson as the firm's Executive Managing Member in 2004.

**Thomas L. Kempner, Jr., Executive Managing Member**

**EMPLOYMENT HISTORY**:

Davidson Kempner, 1984 – Present, Co-Founder and Executive Managing Member

Mr. Kempner joined Davidson Kempner in December 1984. Mr. Kempner became a Managing Member of Davidson Kempner in January 1986 and was appointed Executive Managing Member in January 2004.

**EDUCATION**

**Harvard Business School**, 1978, with distinction

**Yale College,** 1975, magna cum laude

Mr. Kempner is presently the Chairman of the Board of Trustees of the Central Park Conservancy, a member of the Board of Trustees of Harlem Village Academies and a member of the Board of Directors of Harvard Management Company. Mr. Kempner also serves on the board of the USA Cycling Development Foundation, the investment Committee of The St. Bernard's School in New York, and the Columbia University Medical Center Board of Advisors.

**Anthony A. Yoseloff, Deputy Executive Managing Member - Distressed Investments**

**EMPLOYMENT HISTORY**:

Davidson Kempner, 1999 - Present, Deputy Executive Managing Member

Mr. Yoseloff joined Davidson Kempner in August 1999 and became a Managing Member of Davidson Kempner in January 2004. He became Co-Deputy Executive Managing Member in January 2012 and the sole Deputy Executive Managing Member in January 2013. Mr. Yoseloff co-manages the distressed investments department.

**EDUCATION**

**Columbia Law School**, 1999, JD

**Columbia Graduate School of Business Administration**, 1999, MBA

**Princeton University,** 1996, Public and International Affairs

Mr. Yoseloff received a J.D. from Columbia Law School and an M.B.A. from the Columbia Graduate School of Business Administration in 1999. He earned an A.B., cum laude, from the Woodrow Wilson School of Public and International Affairs at Princeton University in 1996. Mr. Yoseloff is a member of the Board of Directors of DonorsChoose.org, a not-for-profit organization, and serves as the Chairman of its Audit Committee.

**Michael S. C. Herzog, Member and Co-Chief Executive Officer of Davidson Kempner European Partners, LLP; Merger Arbitrage and Long/Short Equities (London)**

**EMPLOYMENT HISTORY:**

Davidson Kempner, 2001 – Present, Member and Co-Chief Executive Officer of Davidson Kempner European Partners

Mr. Herzog joined Davidson Kempner in August 2001. Mr. Herzog became a Member and the Chief Executive Officer of Davidson Kempner European Partners, LLP in May 2004, was appointed Managing Director in January 2005 and became a Principal in 2008. Mr. Herzog co-manages the merger arbitrage department and manages the long/short equities department. From 1998 to 2001, Mr. Herzog was a Vice President in the Mergers and Acquisitions department at Merrill Lynch in London, where he advised on European cross-border transactions.

**EDUCATION**

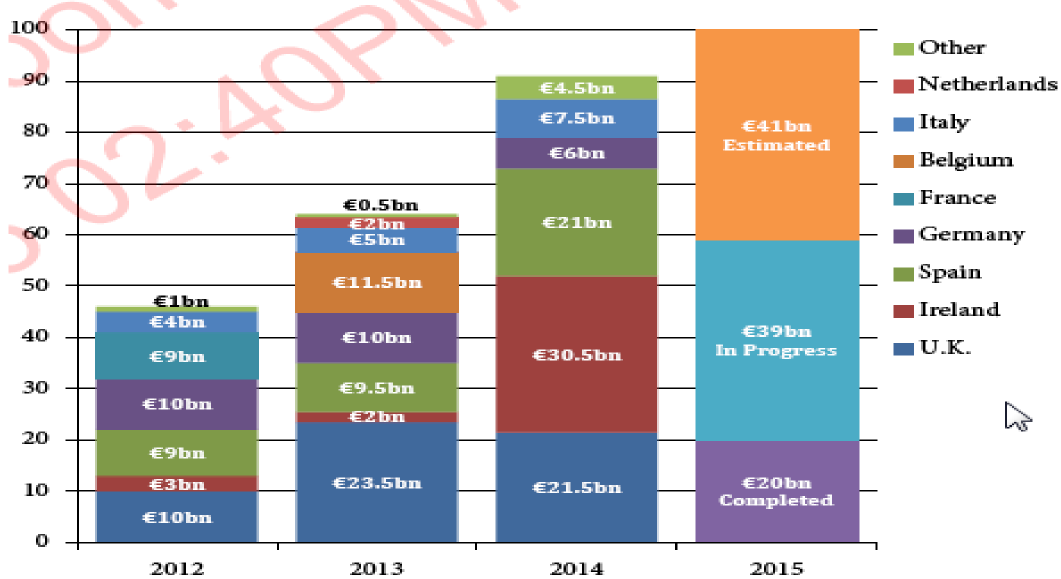
**University of Birmingham**, 1992, Bachelor of Laws degree in Law and Business Studies with honors

*Fund Strategy*

Davidson Kempner is launching the Special Opportunities Fund III (its predecessor, Special Opportunities Fund II launched in July 2014 and raised $800 million) in order to capture the opportunities the DK investment team frequently uncovers in the illiquid credit space. Due to risk management constraints, the manager was unable to allocate to these illiquid opportunities in a meaningful way (the multi-strategy fund and distressed funds each operate with illiquid buckets capped at 15% and with individual positions typically not exceeding 1%). Despite the fact that they were performing all of the analysis and due diligence on the underlying positions, DK was forced to syndicate out these very attractive deals because of sizing constraints. In launching the special opportunity funds, Davidson Kempner has created a structure that allows it the flexibility to invest in entire deals without exceeding the funds' risk management guidelines. Additionally, the drawdown structure of the Special Opportunities Fund allows the firm to more efficiently match the timing of individual deals with available capital.

The universe of investable assets for SOF III includes corporate debt, CRE loans, ABS, structured products, real estate, loans backed by hard assets, liquidations, restructurings, and other distressed opportunities. The manager believes that opportunities in distressed investing will continue to emerge from bank deleveraging and other structural changes in the global credit markets. DK views European banks as the biggest distressed seller as they remain under pressure to restructure their balance sheets. Though the space is competitive, DK notes that PE firms are unable to utilize the same levels of leverage used in the past, making investing in the space more appealing for unlevered players like DK. Additionally, the volume of available assets continues to increase; in 2014 there was a record €90 billion of asset sales, while 2015 is currently outpacing that total (see chart below).

**Loan Portfolio Transactions by Country (2012-2015)**




Source: PricewaterhouseCoopers, € in billions.

In the US, DK is looking at companies that will struggle due to prolonged lower energy prices, as they feel many companies will be forced to restructure their debt profile at advantageous terms for the creditor. We feel that DK's size will be beneficial in sourcing and bidding on deals, as DK will be able to bid on larger blocks and mitigate concentration risk by allocating the name across multiple funds.

Once a name is taken to auction, usually 5-10 investors/funds are offered the opportunity to bid on the paper. DK's long history and established reputation in the market provide them an edge in getting the opportunity to see and bid on as wide a filter of deals as possible. We view this as a considerable edge that DK has relative to other players in the space.

Currently, DK has a pipeline of 40-60 deals and on average has bid on 1-2 names a month. DK noted that their success rate in going from 1st round bids to 2nd round bids is under 10%; DK is disciplined and does not compete on price. However, when DK is invited back for 2nd round bids they usually have a 40% success rate in winning the bid. In many of these instances they are not the highest bidder, but advance due to their reputation as a high-quality investor and being a strong partner. DK focuses on deals in the $150-$500 million range where it feels it can be more competitive. It tends to avoid $1 billion+ deals.

While the primary focus is on performing extensive bottom up analysis on a deal-by-deal basis, DK also monitors the macroeconomic situation as an input into their investment process.

DK SOF II, which has $800 million in committed capital, is still in its investment period and has made five investments to date:

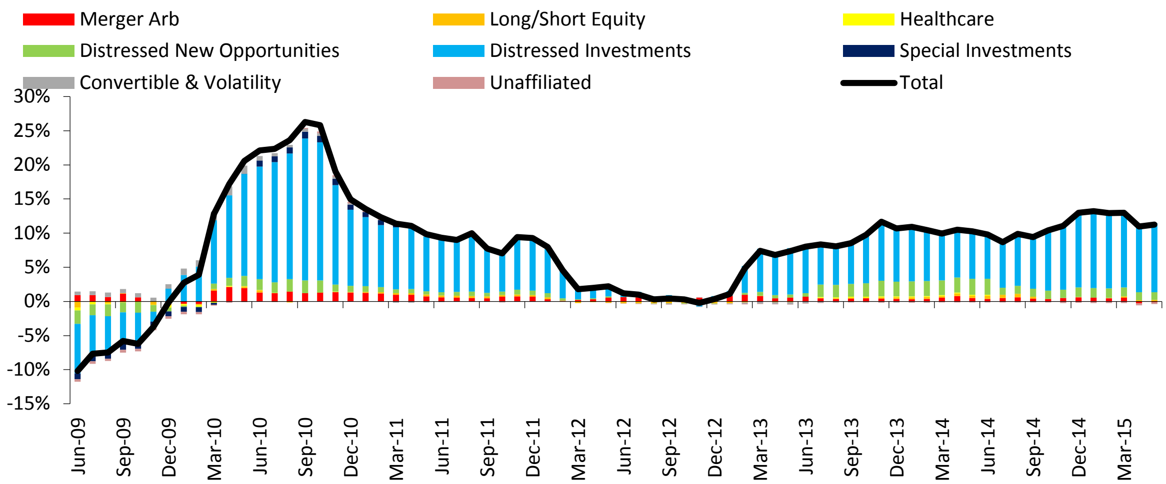
1. Spanish Hotel Loan portfolio is in the flagship fund and SOF II (15.5% in SOF II).
2. Global Aircraft Loan portfolio is in the flagship fund and SOF II (14.6%).
3. UK care homes is in the flagship fund, Distressed Opportunities Fund, and SOF II (15.8%).
4. Retail Property Company is mainly in Distressed and SOF II (9.7%).
5. US Iron Ore Mine is in the flagship fund, Distressed, and SOF II (8.3%).

There are two recently committed deals in SOF II that are in the process of funding; one is a 24.7% position and the other is a 9.6% position. The 24% position is a commercial real estate portfolio acquired from a German bank. DK partnered with Lonestar and JP Morgan on the deal. DK's exposure is split 54%/46% between SOF II and the master fund, respectively. DK chose to acquire only loans on assets in Cyprus and Nordic countries. The team did not want to take on exposure to Greece, Turkey or Eastern Europe as the analysts believe the macro risks in those countries are too high. The Cypriot paper is backed by a shopping mall in Cyprus that DK, through its due diligence, believes will be refinanced in the near-term. DK was comfortable taking on the Nordic loans as the team believes the Nordic economies are in the best financial state and present limited downside risk. DK believes this trade has an 8%-12% IRR but is relatively safe paper.

*Fund Performance and Fees*

The fund has yet to launch so no performance history is available. The SOF II product has an IRR of 10.7% through Q2 2015 (launched in August 2014) with expectations that returns are typically back-loaded for these types of investments. As depicted below, the flagship fund has been able to generate meaningful returns through its distressed book, which will be the focus on SOF III.

**Contribution to Returns by Strategy for DK Flagship**




SOF III investors committing $50 million or greater have two share class options available to them: 1) 0.5% management fee with a 15% incentive fee or 2) 0.75% management fee with a 10% incentive fee. In addition, both share classes have an 8% preferred return hurdle of the private equity type (i.e., GP catch up or "soft" hurdle). By contrast, Davidson Kempner's flagship fund carries a 1.5% management fee and 20% incentive fee, with no hurdle, so the SOF III fees represent significant savings of 50% or more relative to the flagship, depending on performance.

PRIM has submitted a partial redemption for $61 million of PRIM's current investment of $161 million in the Davidson Kempner flagship fund. We are recommending a commitment of $75 million to SOF III in the 0.75% and 10% share class. The investment would be mostly funded with the proceeds of the partial redemption of the flagship fund. The combined exposure will be of slightly larger size than the current investment in Davidson Kempner, but with 4/7 allocated to the flagship fund and 3/7 committed to SOF III. This conversion will result in estimated savings to PRIM well in excess of $1 million per year if the manager produces returns of 8%.

This investment proposal should be viewed as an opportunity to convert a portion of an existing investment into a vehicle with more favorable fees and better alignment of interest for investors. Since PRIM's initial investment, the flagship fund has delivered just under 7% annualized returns with annual volatility of 2.25% (below target). SOF III is seeking higher returns of 12% with correspondingly higher volatility. Since SOF III emphasizes high conviction positions that cannot be sized up in the flagship fund, we believe the SOF III allocation will also incrementally improve the return profile of PRIM's investment with Davidson Kempner.

*Recommendation*

The Investment Committee (unanimously) and PRIM Staff are recommending that the Board approve an initial allocation of up to $75 million to the Davidson Kempner Special Opportunities Fund III. Arden's recommendation report is contained at **Appendix A**.

## II. Private Equity Buyouts Research.

Michael R. Bailey, Senior Investment Officer – Director of Private Equity, and Michael M. McGirr, CFA, Senior Investment Officer – Private Equity discussed Private Equity Buyouts Research with the Investment Committee in the September 21, 2015 Investment Committee meeting (closed session). The presentation is contained at **Appendix B.**

## III. Private Equity – New Investment Opportunity: Lovell Minnick Equity Partners IV, L.P.

Michael R. Bailey, Senior Investment Officer – Director of Private Equity, Michael M. McGirr, CFA, Senior Investment Officer – Private Equity, and Sarah N. Samuels, CFA, Deputy Chief Investment Officer – Director of Public Markets & Investment Research.

Lovell Minnick Partners (LMP) is establishing Lovell Minnick Equity Partners IV, L.P. (LMEP IV or Fund IV) to make control and non-control oriented private equity investments in middle market financial services companies. LMEP IV will be between $550 - $750 million in aggregate commitments and will acquire equity positions through a variety of transaction types, including management buyouts, corporate divestitures, and growth equity investments. LMEP IV has closed on $505 million as of August, 1st 2015. PRIM has not made any prior investments with Lovell Minnick Partners.

Lovell Minnick Partners is a sector specialist private equity group focusing on financial and related business services companies. LMEP IV will make approximately 12 investments with a targeted equity investment of between $20 million and $80 million per investment. We expect 80% or more of LMEP IV to be invested in the U.S.

*Firm Overview*

Co-founder Jeff Lovell started a financial services investment bank named Putnam Lovell Group (PLG) in 1987. PLG sponsored the formation of Putnam Lovell Capital Partners (PLCP) in 1999 to make private equity investments in financial services companies. James Minnick joined PLCP as a co-founder in 1999. Mr. Lovell & Mr. Minnick grew PLG from a single office to a boutique investment bank with over 150 employees. The National Bank of Canada acquired PLG (including PLCP) in 2002. In 2004, the PLCP team reorganized as Lovell Minnick Partners and became fully independent in 2008. Since 1999, the firm has invested $711 million into 36 portfolio companies which has generated a 29.4% gross IRR and a 2.3x gross multiple as of 6/30/2015.

With offices in Los Angeles and Philadelphia, LMP is 100% partner owned and has $1.2 billion in assets under management. Mr. Lovell and Mr. Minnick remain highly engaged founders and managing partners of the firm. Joining Mr. Lovell & Mr. Minnick at the partner level are Jay Newcom, Robert Belke, Spencer Hoffman, and John Cochran who joined LMP in ’99, ’00, ’07, and ’08 respectively. Supporting these six partners are three principals, four associates, and five administrative professionals. LMP has not experienced any partner level turnover since its inception.

The general partner is committing $25 million (~3.3% of the fund) to LMEP IV.

*Investment Strategy and Investment Process*

LMEP IV will be a fairly concentrated U.S. middle market financial services sector focused private equity fund. LMP will seek to commit between $20 million and $80 million per investment in companies that range in enterprise values from $50 million to $200 million.

LMP continually evaluates in which subsectors to invest, however LMP’s themes and investment criteria are overlapping the most in the following subsectors:

- Wealth and asset management
- Financial product distribution
- Banks, lenders, and capital markets
- and business services and financial technology

The vast majority (80% or more) of LMEP IV will be invested in the U.S. LMEP IV's investment activities will be governed by an investment committee comprised of Mr. Lovell, Mr. Minnick, Mr. Belke, Mr. Cochran, and Mr. Hoffman.

*Prior Fund Performance*

LMP's prior performance is very strong. LMP has made a total of 36 portfolio company investments. 28 of LMP's 36 investments are fully or partially realized and have generated a realized gross levered IRR of 29.6% and a realized gross levered multiple of 2.5x as of June, 30th 2015.

LMEP I is a 2000 vintage year fund and is in Cambridge Associates' (CA) second quartiles for net multiple and net IRR. LMEP I is 100% realized and generated a 2.1x net multiple and a 21% net IRR.

LMEP II is 92% realized and has a 1.8x net multiple and a 14% net IRR as of June, 30th 2015. LMEP II is a financials-only fund that started investing in 2005 and is in CA's top quartile for net multiple.

LMEP III is a 2008 vintage year fund and is currently in CA's second quartile for net multiple and net IRR. LMEP III is 85% funded, 25% realized, and has a 1.5x net multiple and a 15% net IRR as of June, 30th 2015.

| Performance as of June 30, 2015 (in millions) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | Vintage | Fund Size | Cost | Realized Value | Remaining Value | Total Value | Gross Multiple | Net Multiple | Net IRR | CA TQ IRR | CA Med. IRR |
| Highcrest | 1999 | $14 | $14 | $82 | $0 | $82 | 6.0 | 4.8 | 37% | 21% | 12% |
| MDP | 1999 | $40 | $22 | $87 | $0 | $87 | 3.9 | 2.8 | 24% | 21% | 12% |
| LMEP Fund 1 | 2000 | $105 | $102 | $275 | $0 | $275 | 2.7 | 2.1 | 21% | 29% | 17% |
| LMEP Fund 2 | 2005 | $224 | $185 | $407 | $34 | $441 | 2.4 | 1.8 | 14% | 16% | 8% |
| LMEP Fund 3 | 2008 | $456 | $387 | $184 | $547 | $731 | 1.9 | 1.5 | 15% | 18% | 11% |
| | | | | | | | | | | | |
| *Note: **Bold** = prior PRIM investment.* | | | | | | | | | | | |
| *Note: Cambridge Associates data as of 12/31/14* | | | | | | | | | | | |

*Recommendation*

The PRIM Private Equity team believes that Lovell Minnick Equity Partners IV, L.P. provides the PRIT Fund with an attractive risk/return profile. Lovell Minnick Partners is a small highly focused firm with an experienced and motivated team. Lovell Minnick Partners has a strong and consistent track record. Based on these attributes, the Investment Committee (unanimously) and the PRIM Staff are recommending an investment in Lovell Minnick Equity Partners IV, L.P. of up to $100 million.
Hamilton Lane's analysis may be found in **Appendix C.**

*Third Party Marketing*

Per PRIM's policy regarding third-party marketing disclosures, staff would like to note that Lovell Minnick Partners has not engaged a placement agent to solicit general interest for Lovell Minnick Equity Partners IV, L.P. However, Lovell Minnick Partners has engaged Arch Street Advisors to help with a discrete list of potential limited partners, and Mass PRIM is not included on that list.

## IV. Private Equity – New Investment Opportunity: Reporting on Index Ventures Life VII.

In addition to the investments reported in the Private Equity 2015 Investment Summary in the Expanded Agenda for the October 13, 2015 PRIM Board meeting, Index Ventures Life VII was approved as an interim Private Equity investment recommendation on September 8, 2015. Index Ventures Life VII was not reported in the Private Equity 2015 Investment Summary, because Index Ventures requested and PRIM subsequently agreed to delay PRIM's reporting of the investment until December.

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PENSION RESERVES INVESTMENT MANAGEMENT BOARD

PROTECTED MATERIALS

# Appendix A

Arden Recommendation: Davidson Kempner Special Opportunities Fund III, L.P.

*PRIM Board Meeting*
*Tuesday, October 13, 2015*

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ARDEN

ASSET MANAGEMENT LLC

# DAVIDSON KEMPNER SPECIAL OPPORTUNITIES FUND III, LP

IC MANAGER FUNDING RECOMMENDATION MEMORANDUM

September 2015

| BACKGROUND INFORMATION | |
|---|---|
| Manager Name: | Davidson Kempner Capital Management LP ("DK") |
| Fund Name: | Davidson Kempner Special Opportunities Fund III, LP (DK SOF III) |
| Arden Strategy/ Sub-Strategy: | Credit - Distressed |
| Coverage: | |
| Senior: | Henry Davis |
| Primary: | Arun Loomba |
| Secondary: | Chris Dowd |
| Operational Due Diligence: | Chris Omueti |
| | |
| ***Date Submitted to IC:*** | ***9/02/2015*** |
| ***Date Approved by IC:*** | ***9/04/2015*** |

| FUND SNAPSHOT | |
|---|---|
| Inception Date: | 10/15/2015 |
| Portfolio Manager (s): | Anthony Yoseloff, Avram Friedman, and Conor Bastable |
| AUM ($$ millions): | |
| Fund: | ~$800mn - $1bn (expected SOF III commitments) |
| Strategy: | ~$3bn |
| Firm: | $26bn |

| TERMS/OTHER | |
|---|---|
| Fees: | Investors who allocate less than $50mn will be in Class A. Investors who allocate greater than $50mn can select either Class A or Class B |
| Management Fee: | Class A: 0.5% / Class B: 0.75% |
| Incentive Fee: | Class A: 15% / Class B: 10% -- both with an 8% hard hurdle |
| Liquidity Terms: | 18-month investment period, 2-year harvest, with potential for two additional 1-year extensions, determined at Davidson Kempner's discretion |
| Gate (yes/no, %, type): | No |
| Side Pocket (yes/no, max %): | N/A – this is an illiquid drawdown fund |
| Side Letter (yes/no): | No |
| Regulatory Registration: | |
| SEC (yes/no): | Yes |
| FCA (yes/no): | Yes |
| Other (specify): | No |
| HedgeMark Approved (yes/no/other): | Yes |

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ARDEN
ASSET MANAGEMENT LLC

## INVESTMENT REVIEW

### SUMMARY OF INVESTMENT RANKINGS

| Category | Score* |
|---|---|
| Overall outlook score | 2 |
| Return profile (left tail, core, right tail) | Core |
| Investment thesis: pros/cons/conclusion | 2 |
| Firm stability and background | 1 |
| Strength and quality of track record | N/A |
| Strength and quality of references | N/A** |
| Transparency/HedgeMark | 2 |

**Key: 1 (best) – 4 (worst)*

### EXECUTIVE SUMMARY/RECOMMENDATION

Davidson Kempner is an experienced investment firm that specializes in distressed investing. Davidson Kempner Special Opportunities Fund III (SOF III) will operate as a 'drawdown structure' vehicle, and will act as a spillover fund for investment opportunities that are deemed to be of insufficient liquidity for the firm's flagship hedge fund vehicles, Davidson Kempner Institutional Partners Fund (DKIP) or Davidson Kempner Distressed Opportunities Fund (DKDOF) to hold in size. SOF III will be concentrated, with 8-10 targeted positions in the portfolio over time.

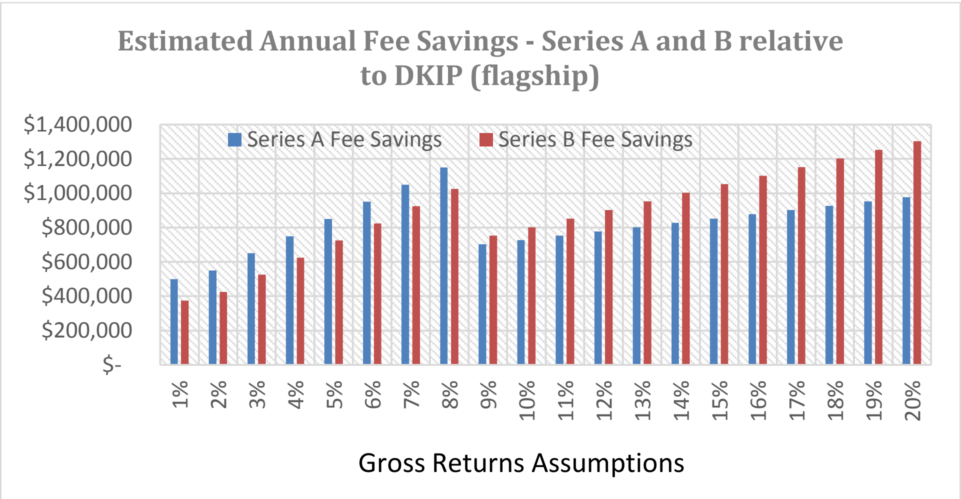
An investment in DK SOF III should be viewed as a complement to exposure already owned via a position in DKIP. DKIP is very diversified and has a modest expected return relative to its distressed peers; SOF III is significantly more concentrated and has a considerably higher expected return. When compared to a single investment in DKIP, the combination of DKIP and SOF III will raise the aggregate expected return while reducing the aggregate fee structure. Assuming a target redemption/subscription of $50mn from DKIP to SOF III, the estimated aggregate annual fee savings would range from $750,000 to $1,150,000, under a range of expected gross returns (between 8-15%). We recommend an investment in SOF III for those portfolios that own DKIP and are seeking to increase overall expected returns in a thoughtful, cash efficient manner.

### INVESTMENT THESIS

**INVESTMENT MERITS:**

- Opportunistic distressed strategy with an attractive drawdown structure
    - The drawdown structure will eliminate the cash drag that is proving to be a challenge for many large managers in the distressed space

- The portfolio will be concentrated; SOF III is targeting 8-10 names, which will complement the more diversified Davidson Kempner Institutional Partners Fund (the multi strategy fund)
- Broad credit mandate with a focus on opportunities across corporate and real estate asset-backed securities
    - DK is currently focused on the opportunity set in European debt being sold off by banks due to the introduction of the Basel III regulations. This European exposure should be a good diversifier to the predominantly US distressed credit held by many managers
- The fund will focus on mid-cap opportunities, primarily in credits with a face value of $150mn - $500mn. They do not intend to focus on $1bn+ paper
    - The mid cap focus will further differentiate the fund from peers and from other exposure already owned.
- Attractive fee structure.
    - 50% fee reduction relative to DKIP. Investors may choose between two different fee options (if they invest more than $50mn) - <u>Class A</u> with 0.5% management fee & 15% incentive fee or <u>Class B</u> with 0.75% management fee and 10% incentive fee, each with an 8% hard hurdle.




- As a result of the more concentrated investment mandate, mid-cap focus and lower fee structure, SOF III has a higher return profile than DKIP or DKDOF; SOF is targeting a return of 12% or more on a net basis.
- Seasoned team of portfolio managers, with many years of collective experience in their respective areas of focus. The firm has $26bn in AUM, aiding their ability to have a best in class front and back office systems and personnel.
    - The firm has had very little employee turnover and none of the firm's principles have ever left DK to join another firm; of the few principles that have left the firm, all have retired and/or no longer work in the financial industry.

- DK is able to use its size to help them close on larger deals as they can typically purchase either a significant majority or all of a given piece of debt.

**KEY CONCERNS:**

- Illiquidity - investors in SOF III will be locked up for a minimum of 3.5 years with the possibility of two further 1-year extensions, determined at the manager's discretion.
    - However, the investment and harvest periods are appropriate given the liquidity profile of the fund's underlying investments.
- Inexperience in the hybrid PE space - DK has been investing in distressed assets for over 25 years but they have limited experience managing these type of investments within a hybrid PE type vehicle. SOF I invested solely in Lehman paper while SOF II is currently still in its investment period, thus no directly comparable track record exists for this strategy.
    - A mitigating factor, as noted above is that the firm has been in business for over 25 years and specializes in distressed opportunities. Thus, while the fund structure is new, the investment strategy is consistent with the manager's long-term track record and approach to investing. As shown below, the firm has been able to generate strong returns in the distressed sector.
- Long-only strategy - although DK may be proven correct in their long-term investment thesis, the fund may be susceptible to considerable mark-to-market corrections in the short term with no hedge to dampen volatility.
    - Although the fund may experience additional mark-to-market volatility as a result of its long only posture, there really is no good way to hedge the types of positions SOF III will hold on the long side of the portfolio.
- High expenses ratio - 1.94% for SOF II through June 30, 2015, calculated using a blend of the management fee for both share classes
    - "Dead deals" have cost SOF II $1mn

## CONCLUSION

An investment in Davidson Kempner Special Opportunities Fund III is recommended for investors currently invested in DKIP, assuming that the investor is willing to accept a longer investment time horizon. The portfolio will likely generate higher returns with a lower management and incentive fee than DKIP.

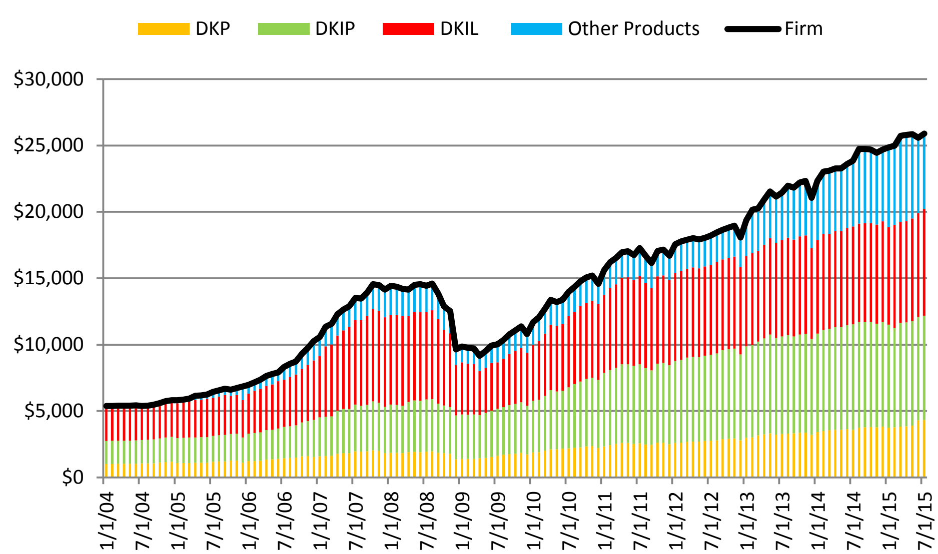
## MANAGER/STRATEGY REVIEW & ANALYSIS

### FIRM OVERVIEW/BACKGROUND

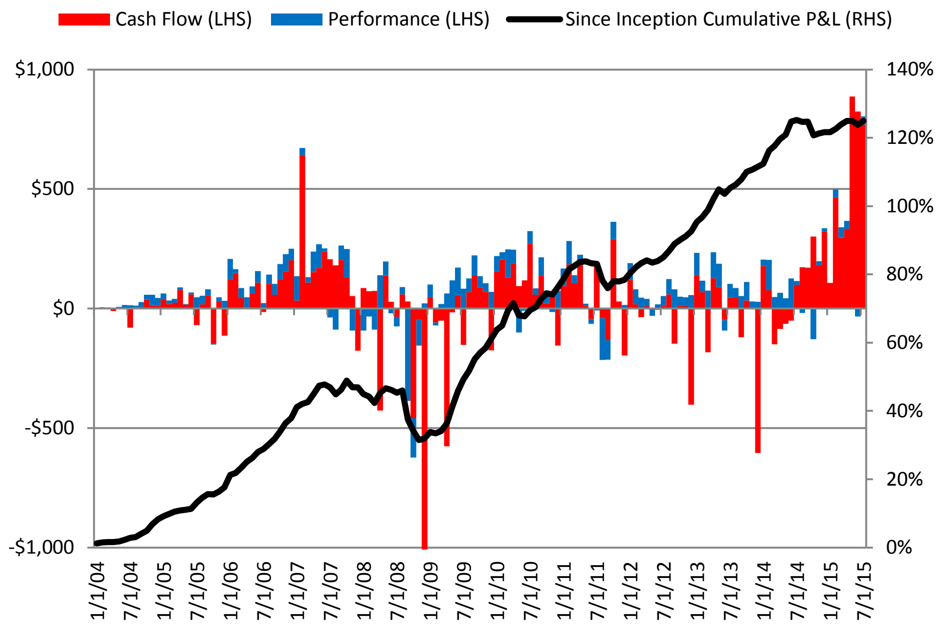
M. H. Davidson & Co. was founded in 1983 by Marvin H. Davidson as a family office. Thomas L. Kempner, Jr. joined the firm at the end of 1984 and was later promoted to partner in 1986. In 1987, the firm changed its name to Davidson Kempner Capital Management, LLC as it transitioned from a family office to an asset manager, allowing it to raise outside capital. In 1990, the firm registered itself as an investment adviser with the SEC. Kempner succeeded Davidson as the firm's Executive Managing Member in 2004.

DK currently has $26bn in AUM; as of August 31st, the flagship multi-strategy product has $20.2bn in AUM (this is split across three separate fund vehicles run on a pari passu basis with $7.8bn in DKIP, $8.1bn in DKIL, $4.3bn in DKP) and $5.6bn in other products, including the Distressed Opportunities Fund and the two other SOF funds. DK has 230 employees across offices in New York, London and Hong Kong. The firm has 95 investment professionals and 110 back and middle office personnel. DK's 14 principles have approximately $1.8bn invested in the firm's various strategies and together they comprise the firm's single largest investor. The firm has two hedge fund products and two drawdown, private-equity style, products. DK has a diversified investor base comprised mainly of endowments, foundations, pensions (public and private), high net worth individuals, family offices and fund of hedge funds. The firm remains 100% employee-owned.

**Growth of Firm Assets Under Management**



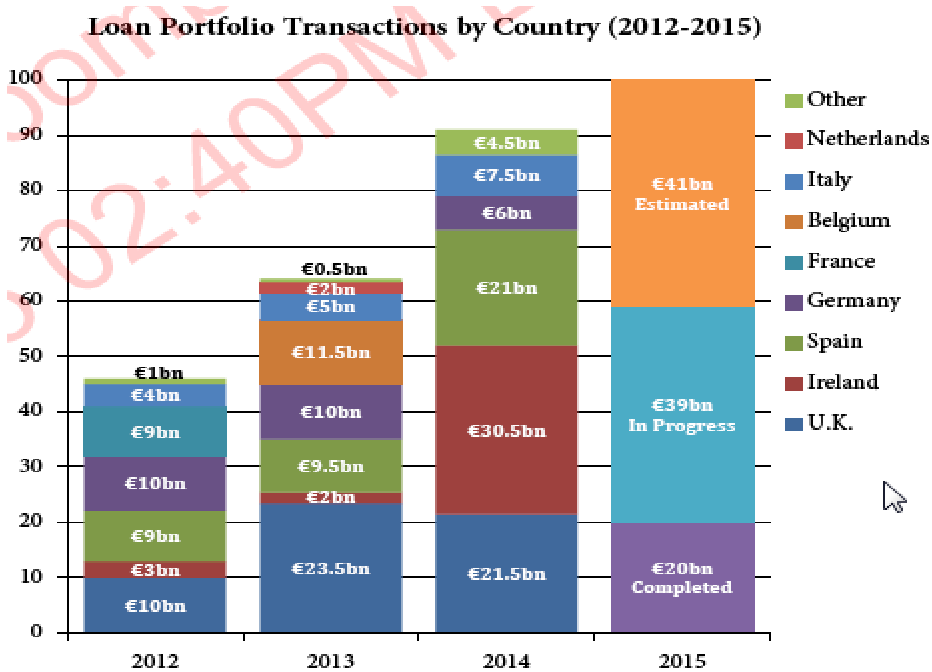
**Source of Growth – DKIL**




## INVESTMENT STRATEGY

Davidson Kempner is launching the Special Opportunities Fund III (its predecessor, Special Opportunities Fund II launched in July 2014 and raised $800mn) in order to capture the opportunities the DK investment team frequently uncovers in the illiquid credit space. Due to risk management constraints, the manager was unable to allocate to these illiquid opportunities in a meaningful way (the multi strategy fund and distressed funds each operate with illiquid buckets capped at 15% and with individual positions typically not exceeding 1%). Despite the fact that they were performing all of the analysis and due diligence on the underlying positions, DK was forced to syndicate out these very attractive deals because of sizing constraints. In launching the special opportunity funds, Davidson Kempner has created a structure that allows it the flexibility to invest in entire deals without exceeding the funds' risk management guidelines. Additionally, the drawdown structure of the Special Opportunities Fund allows the firm to more efficiently match the timing of individual deals with available capital.

The universe of investable assets for SOF III includes corporate debt, CRE loans, ABS, structured products, real estate, loans backed by hard assets, liquidations, restructurings, and other distressed opportunities. The manager believes that opportunities in distressed investing will continue to emerge from bank deleveraging and other structural changes in the global credit markets. DK views European banks as the biggest distressed seller as they remain under pressure to restructure their balance sheets leading to forced sales. Though the space is competitive, DK notes that PE firms are unable to utilize the same levels of leverage used in the past, making investing in the space more appealing for unlevered players like DK. Additionally, the volume of available assets continues to increase; in 2014 there was a record €90bn of asset sales, while 2015 is currently outpacing that total (see chart below).



Source: PricewaterhouseCoopers, € in billions.

In the US, DK is looking at companies that will struggle due to prolonged lower energy prices, as they feel many companies will be forced to restructure their debt profile at advantageous terms for the creditor. We feel that DK's size will be beneficial in sourcing and bidding on deals, as DK will be able to bid on larger blocks and mitigate concentration risk by allocating the name across multiple funds.

Once a name is taken to auction, usually 5-10 investors/funds are offered the opportunity to bid on the paper. DK's long history and established reputation in the market provide them an edge in getting the opportunity to see and bid on as wide a filter of deals as possible. We view this as a considerable edge that DK has relative to other players in the space.

Currently, DK has a pipeline of 40-60 deals and on average has bid on 1-2 names a month. DK noted that their success rate in going from 1$^{st}$ round bids to 2$^{nd}$ round bids is under 10%; DK is disciplined and does not compete on price. However, when DK is invited back for 2$^{nd}$ round bids they usually have a 40% success rate in winning the bid. In many of these instances they are not the highest bidder, but advance due to their reputation as a high-quality investor and being a strong partner. DK focuses on deals in the $150-$500mn range where it feels it can be more competitive. It tends to avoid $1bn+ deals.

While the primary focus is on performing extensive bottom up analysis on a deal-by-deal basis, DK also monitors the macro situation as an input into their investment process.

DK SOF II, which has $800mn in committed capital, is still in its investment period and has made five investments to date:

1. Spanish Hotel Loan portfolio is in DKIP and SOF II (15.5%)
2. Global Aircraft Loan portfolio is in the DKIP and SOF II (14.6% in SOF II). Please note that the LDO2 ($805mn in AUM) fund (long term lockup fund) has some aircraft exposure but invests in different loans within the same portfolio
3. UK care homes is in DKIP, DKDOF fund and SOF II (15.8% in SOF II)
4. Retail Property Company is mainly in DKDOF and SOF II (9.7% in SOF II)
5. US Iron Ore Mine is in DKIP, DKDOF and SOF II (8.3% in SOF II)

There are two recently committed deals in SOF II that are in the process of funding; one is a 24.7% position and the other is a 9.6% position. The 24% position is a commercial real estate portfolio acquired from a German bank. DK partnered with Lonestar and JP Morgan on the deal. DK's exposure is split 54%/46% between SOF II and DKIP, respectively. DK chose to acquire only loans on assets in Cyprus and Nordic countries. The team did not want to take on exposure to Greece, Turkey or Eastern Europe as the analysts believe the macro risks in those countries are too high. The Cypriot paper is backed by a shopping mall in Cyprus that DK, through its due diligence, believes will be refinanced in the near-term. DK was comfortable taking on the Nordic loans as the team believes the Nordic economies are in the best financial state and present limited downside risk. DK believes this trade has an 8%-12% IRR but is relatively safe paper.

## INVESTMENT PROCESS

The fund's investment process starts with bottom-up, fundamental analysis focusing on the business and financial conditions of each company with specific attention being paid to upcoming events that will affect the prices of the company's securities. Each position is judged on its relative risk/reward compared to short-term interest rates. SOF III will look to invest in positions that will liquidate within a two-year period, but may extend the liquidation period by an additional two years. The fund is set-up as a drawdown structure and will be long-only, holding 8-10 names.

For DK, distressed investing is all about valuation and process. The fund will invest in corporates, CRE loans, ABS, structured products, real estate, loans backed by hard assets, liquidations, restructurings, and other distressed opportunities.

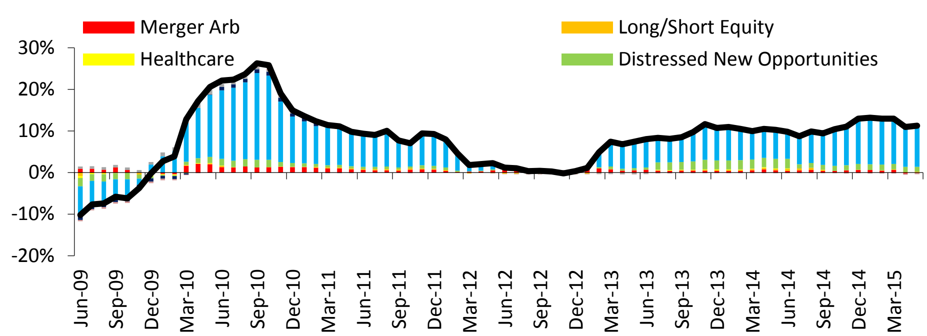
There is no change to the team structure, Anthony Yoseloff, Avram Friedman, and Conor Bastable will be managing the fund. The three lead PMs are supported by a team of Partners and Managing Directors and a 63-person global distressed investments team across NY, London and HK. The team is comprised of 27 people covering corporates (16 N.A., 9 in London and 2 in Asia), 8 in structured products (7 in N.A and 1 in London), 7 in real estate (5 in N.A and 1 in London), 3 in US RV, and 15 in trading/support (11 in N.A. and 4 in London).

There is no change in the investment approach for Davidson Kempner Special Opportunities Fund III. Analysts bring specific names to the senior investment team, who then review and discuss them in a weekly meeting. A quick analysis is performed to determine whether to continue with further due diligence. If the go ahead is given a junior and senior analyst perform more detailed analysis on the name. The analysts will meet with the management team, create an internal set of financials on the company and construct financial models. The name is then presented to the investment team for approval. The investment committee will review the position and make the decision of investing in a single or across multiple portfolios. There is no allocation policy; allocations are at the discretion of the investment committee.

## INVESTMENT THESIS SUPPORT/PERFORMANCE ANALYSIS/OTHER ANALYTICS

The fund has yet to launch so no performance history is available. The SOF II product has an IRR of 10.7% through Q2 2015 (launched in Aug 2014) with expectations that returns are typically back-loaded for these types of investments. As depicted below, DKIP has been able to generate meaningful returns through its distressed book, which will be the focus on SOF III.

**Contribution to Returns by Strategy for DK Flagship**




## PARTNER PROFILE/REFERENCES

**Thomas L. Kempner, Jr., Executive Managing Member**

**EMPLOYMENT HISTORY**:
Davidson Kempner, 1984 – Present, Co-Founder and Executive Managing Member
Mr. Kempner joined Davidson Kempner in December 1984. Mr. Kempner became a Managing Member of Davidson Kempner in January 1986 and was appointed Executive Managing Member in January 2004.

First City Capital Corporation, 1983 – 1984, Vice President of First City Capital Corporation
Prior to joining Davidson Kempner, he was a Vice President of First City Capital Corporation, where he traded a fixed-income portfolio.

**EDUCATION**
**Harvard Business School**, 1978, with distinction
**Yale College,** 1975, magna cum laude

Kempner is presently the Chairman of the Board of Trustees of the Central Park Conservancy, a member of the Board of Trustees of Harlem Village Academies and a member of the Board of Directors of Harvard Management Company. Mr. Kempner also serves on the board of the USA Cycling Development Foundation, the investment committee of The St. Bernard's School in New York, and the Columbia University Medical Center Board of Advisors.

**Anthony A. Yoseloff, Deputy Executive Managing Member - Distressed Investments**

**EMPLOYMENT HISTORY**:
Davidson Kempner, 1999 Present, Deputy Executive Managing Member
Yoseloff joined Davidson Kempner in August 1999 and became a Managing Member of Davidson Kempner in January 2004. He became Co-Deputy Executive Managing Member in January 2012 and the sole Deputy Executive Managing Member in January 2013. Mr. Yoseloff co-manages the distressed investments department.
**EDUCATION**
**Columbia Law School**, 1999, JD
**Columbia Graduate School of Business Administration**, 1999, MBA
**Princeton University,** 1996, Public and International Affairs

Yoseloff received a J.D. from Columbia Law School and an M.B.A. from the Columbia Graduate School of Business Administration in 1999. He earned an A.B., cum laude, from the Woodrow Wilson School of Public and International Affairs at Princeton University in 1996. Mr. Yoseloff is a member of the Board of Directors of DonorsChoose.org, a not-for-profit organization, and serves as the Chairman of its Audit Committee.

**Michael S. C. Herzog, Member and Co-Chief Executive Officer of Davidson Kempner European Partners, LLP; Merger Arbitrage and Long/Short Equities (London)**

**EMPLOYMENT HISTORY:**
Davidson Kempner, 2001 – Present, Member and Co-Chief Executive Officer of Davidson Kempner European Partners
Herzog joined Davidson Kempner in August 2001. Mr. Herzog became a Member and the Chief Executive Officer of Davidson Kempner European Partners, LLP in May 2004, he was appointed Managing Director in January 2005 and became a Principal in 2008. Mr. Herzog co-manages the merger arbitrage department and manages the long/short equities department. From 1998 to 2001, Mr. Herzog was a Vice President in the Mergers and Acquisitions department at Merrill Lynch in London, where he advised on European cross-border transactions. .
UBS Warburg, 1983 – 1984, Investment Banking

**EDUCATION**
**University of Birmingham**, 1992, Bachelor of Laws degree in Law and Business Studies with honors

*RECOMMENDED FOR INVESTMENT:*

☒ YES ☐ NO ______ Other Recommendation (explain)

*Other items:*
☒ Reference checks X HedgeMark

**Davidson Kempner is an existing investment, reference checks were performed when initial investment was made.

## RISK MANAGEMENT/QUANT REVIEW

### SUMMARY OF RISK RANKINGS

| Category | Score* |
|---|---|
| Risk overall | 4 |
| Risk environment | 2 |
| Portfolio risk | 4 |
| Liquidity/complexity | 4 |
| Portfolio concentration | 4 |

**Key: 1 (best) – 4 (worst)*

### EXECUTIVE SUMMARY AND CONCLUSION

Davidson Kempner has a strong risk culture that is fully integrated with every aspect of analysis and portfolio construction. The firm's CRO, Jeffery Hurwitz, is a thoughtful risk manager who fits the firm's extra conservative nature. Hurwitz has done a good job of building out the firm's risk policies and procedures, though he does not have ultimate authority to veto positions in the firm's portfolios. The biggest risks seen in DK's portfolios are idiosyncratic risks associated with each of their underlying positions, as well as the fact that the portfolio is long-only and will not have overlay hedges.

### RISK ENVIRONMENT

DK's independent risk function was a result of the firm hiring Jeffrey Hurwitz to be the CRO in 2012. Hurwitz was previously employed in a similar role at Plural Investments (2008-2012) and has experience as the CRO of Pequot (2005-2008) and director of risk management for SAC (2002-2005).

When Hurwitz joined the firm in 2012, he started to formalize the risk approach with the goal of supplementing what the firm's partners had been doing for many years. The independent risk team has two goals: one is to provide the traditional risk oversight and controls and the other is adding value through qualitative and quantitative metrics.

Hurwitz feels that the senior management at DK has totally bought into the independent risk function and has not experienced any resistance. If anything, Hurwitz says he sees a desire for new ways to think about risk, specifically with regard to portfolio construction.

While Hr. Hurwitz does not have any direct authority over the portfolio, he reports directly to Thomas Kempner, who does have authority over the portfolio. Additionally Kempner and Hurwitz sit on every risk committee at the firm; the firm has a separate risk committee for each of the underlying strategies within the fund. Kempner and Hurwitz are joined by the primary investment decision makers, traders and other investment professionals from each of the respective teams, for their respective meetings.

## PORTFOLIO RISK

Davidson Kempner Special Opportunities Fund, LP is a hedge fund with a distressed focus that seek to exploit situations in which announced or anticipated events create opportunities to invest in securities and other financial instruments at a discount to their perceived exit values. The fund focuses on investments primarily in distressed situations. DK believes that opportunities in distressed investing continue to emerge from bank deleveraging and other structural changes in the global credit markets. The fund's investment decisions are almost exclusively made bottom-up, with DK's investment team performing rigorous and detailed analysis on each of their positions.

The fund has the ability to trade all of the following instruments: corporate bonds, CRE loans, ABS, structured products, real estate, loans backed by hard assets, liquidations, restructurings, and other distressed opportunities.

Given the directional and longer-term nature of the fund's holdings, the portfolio will not experience a significant amount of turnover.

The largest risk in DK's portfolio would be idiosyncratic risks associated to each of the various positions. The manager attempts to control this risk by being very detailed and thorough with their position-level analysis. In addition, the independent risk team tracks the portfolio's beta-adjusted exposure. Given that the portfolio will likely have significant exposure to distressed illiquid positions, which historically have low betas during positively trending markets and high betas during negatively trending markets, the team tries to think about these risks from a more qualitative than quantitative standpoint.

Once per quarter, the risk team performs formal stress tests, however, due to the idiosyncratic nature of the portfolio's underlying holdings, these tests are not the most insightful. Most of the portfolio's stress testing, intra quarter, is done bottom up on a position-by-position basis. One metric the risk team does look at is the correlation among the firm's various strategies. The way DK looks at this is through a 90-day look back period measuring each strategy to every other strategy. This information is captured as part of the risk dashboard, which is a collection of information that allows Hurwitz to keep his finger on the pulse of what is occurring in the markets. Correlation and volatility are the two most important metrics for how Hurwitz thinks about risk.

DK does not use portfolio level hedges.

## LIQUIDITY/COMPLEXITY

The portfolio will be comprised of 8-10 illiquid securities. The fund has an 18-month investment period and a 2-year harvest period, with the possibility for the two 1-year extensions, determined at the manager's discretion. The expectation is that this portfolio will be illiquid. It is rare for DK to use any leverage at the portfolio level, however, the capital structures of the underlying companies and assets in their portfolio are typically leveraged.

## PORTFOLIO CONCENTRATION

This portfolio will be concentrated. As previously noted, the fund will hold 8-10 names. Davidson Kempner Special Opportunities Fund II holds 10 names, the largest of which is 25% of AUM. The second largest comprises of 15% of the AUM.

*RECOMMENDED FOR INVESTMENT:*

☒ YES ☐ NO ______ Other Recommendation (explain)

OPERATIONAL DUE DILIGENCE (“ODD”) REVIEW

## SUMMARY OF ODD RANKINGS

| Category | Score* |
|---|---|
| Overall score | White |
| Pricing/valuation | 2 |
| Organizational viability | 1 |
| Tradeflow/back office/IT | 2 |
| Ownership structure/management investment | 1 |
| Service providers | 2 |
| Current investor base | 3 |

**Key: 1 (best) – 4 (worst)*

## OVERVIEW

Davidson Kempner is an experienced investment firm that specializes in distressed investing and currently oversees about $26bn in AUM spread across three core strategies including multi-strategy, distressed opportunities and long-term distressed opportunities. Davidson Kempner Special Opportunities Fund III (SOF III) acts as a spillover fund for investment opportunities that are deemed too illiquid or are not otherwise suitable for Davidson Kempner Institutional Partners (DKIP) or Davidson Kempner Distressed Opportunities Fund (DKDOF) to hold in size. SOF III will be a concentrated portfolio with between 8 and 10 investments. Management is targeting $800mn in capital commitments and is planning to close the fund by the end of October 2015.

**INFRASTRUCTURE OVERVIEW**
**Prime Brokers/Custodians:** N/A
**Fund Administrator:** Bank of New York (BONY)
**Auditor:** PricewaterhouseCoopers (PWC)
**Legal:** Schulte Roth & Zabel
**Systems:** Advent Geneva (Accounting), Charles River (Order Management)

## ASSESSMENT

Overall, Davidson Kempner is a stable and mature firm with good internal controls, segregation of duties and a solid compliance policy. They mitigate counterparty risk well by spreading exposure across many prime brokers and ISDA counterparties. Davidson Kempner has a strong partnership and management structure in place that helps to minimize key person risk. The presence of a proprietary trading vehicle and the composition of the valuation committee are key concerns and should be closely monitored as these could raise conflict of interest concerns. Trade allocations among the funds is also a key risk area.

## FLAGS/CONCERNS

- Principals at the firm trade through a proprietary trading vehicle. Conflicts of interest is a concern here, hence proper compliance monitoring and transparency is important.
- The valuation committee comprises more investment team members than non-investment personnel and the CIO has the deciding vote if there is a valuation impasse.
- Trade allocations although generally pre-determined may not be done on a pro-rata basis.
- The DK SOF III fund itself, has a limited operating history.
- The fund invests in illiquid assets and investors are locked in for a minimum of 3.5 years with the possibility of up to 5.5 years.
- As expected given the strategy, the fund has a concentrated investor base. However all investors are locked in for the same period so no one can redeem early.

## OPERATIONAL SCORE

Maintain an operational score of 2 (White)

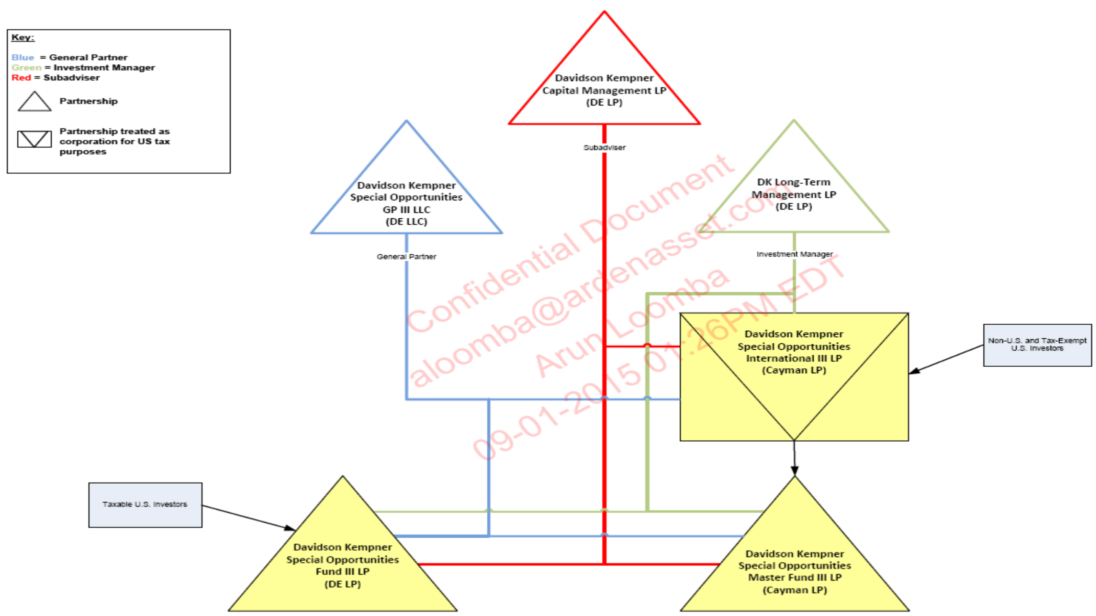
## ODD SUMMARY

• **Ownership Structure:** There are currently 13 principals at the firm in what is a diversified ownership structure. No two principals own 50% of the firm. Davidson Kempner generally adds new principals every two years. Other senior members of the firm who are not principals, particularly managing directors, participate in P/L sharing through a phantom equity program. We view this ownership structure positively given its diverse ownership base. P/L participation also helps to incentivize talented employees to stay with the firm. The firm is 100% employee owned. The 13 principals collectively invest about $1.5bn across the firms' strategies.

• **Fund Structure:** DK SOF III domestic fund and master fund co-invest on a side-by-side basis; the onshore fund is a Delaware limited partnership and the offshore feeder and master funds are Cayman Island limited partnerships. Investors pay a management fee of 0.50% and 15% in carried interest for commitments that are equal to or less than $50mn. The carried interest is subject to a claw back. Investors with commitments greater than $50mn pay a management fee of 0.75% and carried interest of 10% subject to a claw back provision.

The fund has a 2-year harvest period and two one-year extensions subject to managements' discretion. The fund also has an 8% hurdle rate.

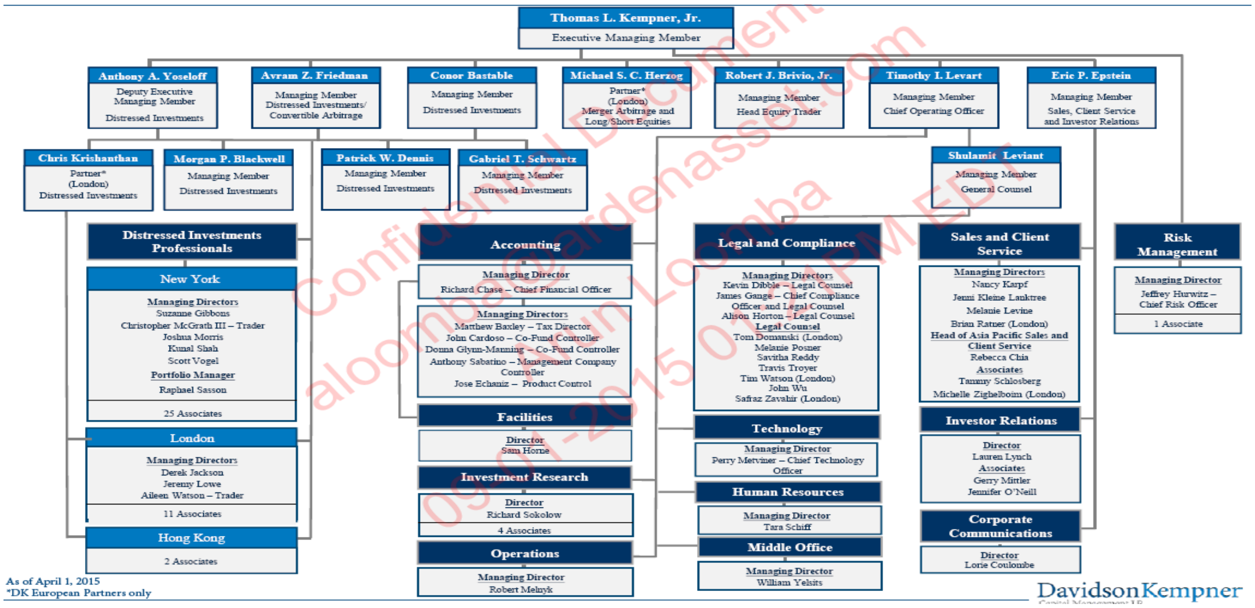
DAVIDSON KEMPNER SPECIAL OPPORTUNITIES FUND III






• **Affiliated broker-dealer/entities:** There are no affiliated broker-dealers.

• **Staffing:** Davidson Kempner currently has about 256 employees; 121 in the front office and 135 on the infrastructure side of the business. The breakdown across the regions is as follows: 198 in New York, 45 in London, 11 in Hong Kong and 2 in Dublin. The distressed investment team comprises 63 individuals in New York, London and Hong Kong and is broken down as follows; 3 global co-heads, 16 covering North American Corporates, 9 covering European Corporates, 2 covering Asian Corporates, 8 covering Structured Products, 7 covering Real Estate, 3 covering U.S. Relative Value Credit and 15 in Global Trading/Closing/Support. See the firm's organizational chart below.




• **AUM:** Davidson Kempner manages approximately $26bn invested across multiple strategies and funds. DK SOF III has raised $500mn from external investors and management has invested about $40mn during the first closed. The fund is oversubscribed and management expect to raise $500mn during the second close, which would bring the fund total assets to just over $1bn. The firm enjoys a large asset base that is invested in different products, which provide the firm with multiple sources of revenues. Organizational viability remains strong.

• **Investor Base:** As expected, the DK SOF III is a concentrated fund so the score investor concentration score above is for this fund only and not the firm. The onshore vehicle currently has 6 entities invested and the offshore has 8 entities invested. Per Melanie Levine, the fund raised $500mn during the first close, and management expects to raise an additional $500mn from external investors prior to final close. As such, the investor composition will change. The investor breakdown across the firm is as follows; 30% pensions, 30% foundations and endowments, 8% sovereign wealth funds, 16-17% high net worth/foundations, 8% fund of funds and the remainder spread among private banks, corporations and insurance. Davidson Kempner has over 1,900 unique investors across the firm.

• **Service Providers:** Davidson Kempner works with industry recognized service providers and works closely with them on a daily basis. BONY provides full fund administration and is responsible for producing the final NAV. PricewaterhouseCoopers performs the fund audit.

• **Counterparty Agreements:** All in, Davidson Kempner has access to over 150 executing brokers. The COO is responsible for the final approval of all new prime broker and counterparty relationships upon the completion of the due diligence process.

• **Cash Management:** Prior to executing a wire, approval is required from one or a combination of the COO, CFO and/or Director of Operations depending on the size and nature of the amount and in accordance with firm policy. Once a pre-designated threshold is exceeded a signature from at least two principals is required, and this typically includes the COO. Cash wires are approved through a proprietary application.

• **Leverage Facilities:** DK SOF III is a long only distressed fund with a drawdown structure and currently does not employ any leverage. The fund however does have the ability to obtain recourse debt financing that is collateralized by undrawn capital commitments via a line of credit.

• **Daily Ops & Controls:** Davidson Kempner has dedicated traders that execute trades on behalf of the funds. Trade instructions are sent electronically to the traders who subsequently place the orders. Most trades are recorded in the Charles River order management system regardless of how they are executed. Bank debt, trade claims, liens and swaps are recorded in the bank debt module in Advent Geneva. The operations team, headed by Robert Melnyk, is divided into Prime Brokerage Operations, Derivatives Operations/Treasury and Bank Debt Operations. This allows for specialization and efficiency within the back office operations. Procedures are in place for closely monitoring bank debt transactions. Unsettled trades, payment schedules and accruals are monitored closely and BONY performs quarterly asset validation. Davidson Kempner allocates trades on a pro-rata basis however may periodically allocate trades on a judgmental basis if necessary. This is more likely to occur especially in the case of allocations involving DK SOF III because of its distressed investment style. Management will make allocations to DK SOF III that other DK Funds may not be able to purchase entirely, due to capacity, liquidity or risk management constraints. Thus, management calculates a pre-determined (not necessarily pro-rata) allocation ratio which can be modified when necessary. As a control measure, the compliance team periodically reviews the trade allocation process and allocations made.

• **Pricing & Valuations:** Valuation is a key risk area at the firm. Davidson Kempner marks to market the portfolio where applicable on a daily basis and the fund administrator independently verifies the portfolio prices at month end. Most of the portfolio is priced using broker quotes and the process calls for at least three broker quotes when available. Outliers are thrown out. Broker quotes are sent to an automated price application, which generates an average price. Where applicable third party pricing services like Houlihan Lokey and CBRE are used to review GP models and provide a possible range of values. Management requires analysts to write a valuation memo and include all pricing support, which is reviewed by the valuation committee. Houlihan Lokey provides a range of values and if the GP marks fall outside the range, then a discussion and a vote ensues at the valuation committee. The composition of the committee is not ideal because of the eleven members, six are investment team members and the CIO has the deciding vote. DK SOF III invests in loans and other illiquid assets, which are not marked to market on a daily basis. The valuation of the portfolio is subjective and requires that management use pricing models/comps.

• **Fund Accounting/Tax/Audit:** There have been no NAV restatements and the audit opinion for the funds has been unqualified. Davidson Kemper runs full shadow books and records and uses Advent Geneva G/L and Advent Partners. PWC has been the auditor for over 5 years and there are no planned changes at this time.

• **Regulatory Compliance/Legal Issues:** Davidson Kempner and affiliates are registered with the SEC, UK FCA and Hong Kong SFC. James Gange (CCO) is responsible for compliance and he and his team are involved in day-to-day aspects of key processes like trade allocation review and monitoring, valuation back-testing, best execution monitoring and review. ACA consultants perform quarterly reviews of different areas within the business and performs a formal email review on a monthly basis. The compliance team also performs email reviews. The compliance team maintains a restricted list employees are prohibited from trading certain types of securities. A 30-day minimum holding period is required and the firm receives quarterly broker statements.

• **IT/BCP:** Perry Metviner (CTO) oversees the Davidson Kempner's technology infrastructure and oversees a team of 13 professionals. Davidson Kempner maintains hot-site capabilities in New Jersey, Westchester and London. In total, the three locations can sit up to 65 individuals. All employees have remote access via Citrix, which requires two-factor authentication. There are also access restrictions, network restrictions and all internal e-mail between servers and PC's is encrypted. The firm works closely with Eze-Castle for IT monitoring and DR planning and uses Iron Mountain for data storage among other services. The firm maintains networks in New York, London and Hong Kong as production data centers and has a DR infrastructure at a co-location facility in Boston.

• **Side Letters:** Across the firm, Davidson Kempner has side letter arrangements with certain investors, which may allow those investors to receive additional portfolio data and transparency that may not otherwise be available to other investors.

*RECOMMENDED FOR INVESTMENT:*

☒ YES ☐ NO ______ Other Recommendation (explain)

Explain:

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

PROTECTED MATERIALS

# Appendix B

Private Equity Buyouts Research

*PRIM Board Meeting*
*Tuesday, October 13, 2015*

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# *Private Equity*
# *Buyouts Research*

***By Michael R. Bailey and Michael M. McGirr***

***Presentation to the Investment Committee***

***September 21, 2015***

# Agenda

- Buyouts research
- Case study
- Next Steps

# Buyouts Research: July 2014 / Dec 2014 Meeting Recaps

- Goals of projects
  - Research mega/large vs. SMID (small & mid) markets
  - Assess manager skill on core competencies
  - Select PRIM's co-investment bench

- Scope of Projects
  - Analyzed 19 mega/large buyout fund managers (current & potential managers)
    - Analyzed 1426 mega/large buyout investments
  - Analyzed  50 SMID buyout managers (current & potential managers)
    - Analyzed 1816 SMID buyout investments

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

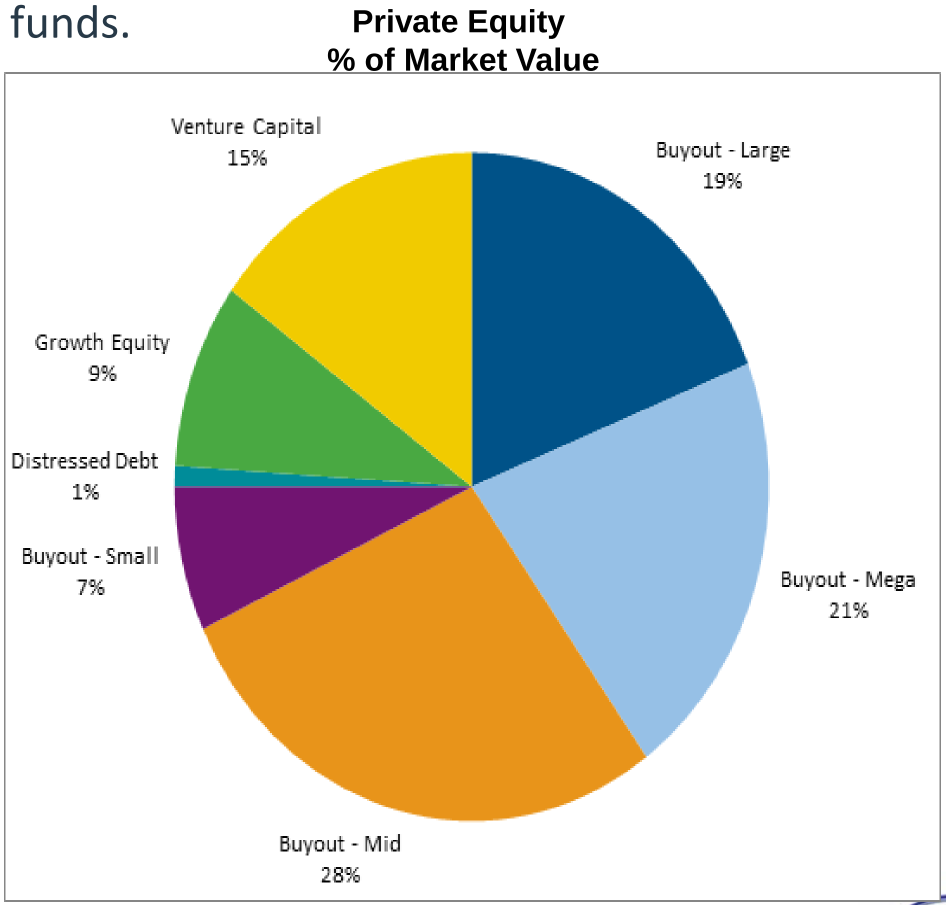
Notes: SMID buyout managers are managers with an average portfolio company enterprise value below $1B.
Mega/Large buyout managers are managers with an average portfolio company enterprise value above $1B.

# Buyouts Research: Summary of Findings

- SMID buyout firms have generated higher returns with higher levels of dispersion than the mega/large buyout firms.
- The SMID universe trades at lower multiples, supports less debt, and generally has stronger earnings growth characteristics relative to the mega/large universe.
- SMID managers have higher fees than mega/large managers.
- PRIM is interested in gaining additional exposure to high quality SMID buyout managers.

# Buyouts Research: PRIM's Buyout Portfolio Snapshot

- Private Equity Market Value as of 8/31/2015 = $6.8B
- 76% buyouts ($5.2B); 24% growth equity & venture capital ($1.6B)
- 64 total buyout GPs. 153 total buyout funds.
- Within buyouts
  - 53% of market value is mega/large
  - 46% of market value is SMID
  - 46 SMID GPs; 85 SMID funds.



# Buyouts Research: SMID vs. Mega/Large Buyout Managers

- Long term mega/large net performance is ~13%-14.5%.
- Long term SMID net performance is ~15%-17.5%.

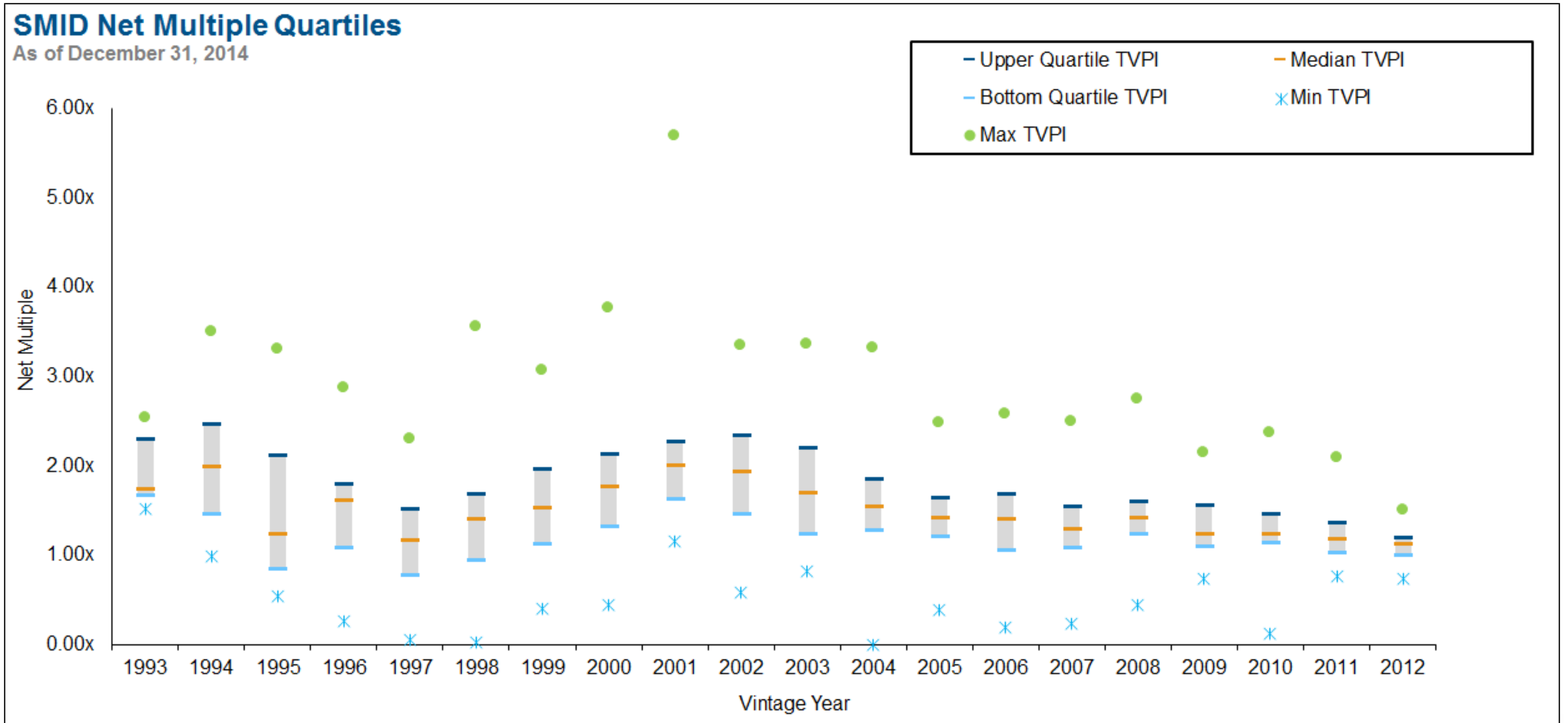
| | 10-Year IRR |
|---|---|
| CA Mega/Large Buyout[1] | 13.2% |
| PRIM Mega/Large Buyout | 14.3% |
| | |
| CA SMID Buyout [2] | 17.2% |
| PRIM SMID Buyout | 19.5% |

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Notes: Long term performance data as of 12/31/13.
1. Cambridge Associates - Asset Class: Buyout Small Cap and Mid Cap; Geographies: All
2. Cambridge Associates - Asset Class: Buyout Large Cap and Mega Cap; Geographies: All

# Buyouts Research: SMID vs. Mega/Large Buyout Managers

- SMID managers have a larger dispersion of returns compared to mega/large managers.
- SMID median fund multiple is similar to mega/large median multiple, however SMID upper quartile multiple is usually greater than mega/large upper quartile multiple and SMID bottom quartile multiple is usually worse than mega/large bottom quartile.
- SMID manager selection is critical




*Source: Hamilton Lane Fund Investment Database, MSCI (May 2015). Public market benchmark calculated as PME (Public Market Equivalent) using SMid pooled cashflows, net reinvested dividends.*

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Notes: Multiple = Total Value / Paid-in Capital. Example: 1.15x multiple = a 15% time weighted return over 1 year.

# Buyouts Research: SMID vs. Mega/Large Buyout Managers

- SMID companies generally have stronger earnings growth characteristics than mega/large companies.
- SMID companies trade at lower multiples than mega/large companies.
- SMID companies typically support less debt than mega/large companies.

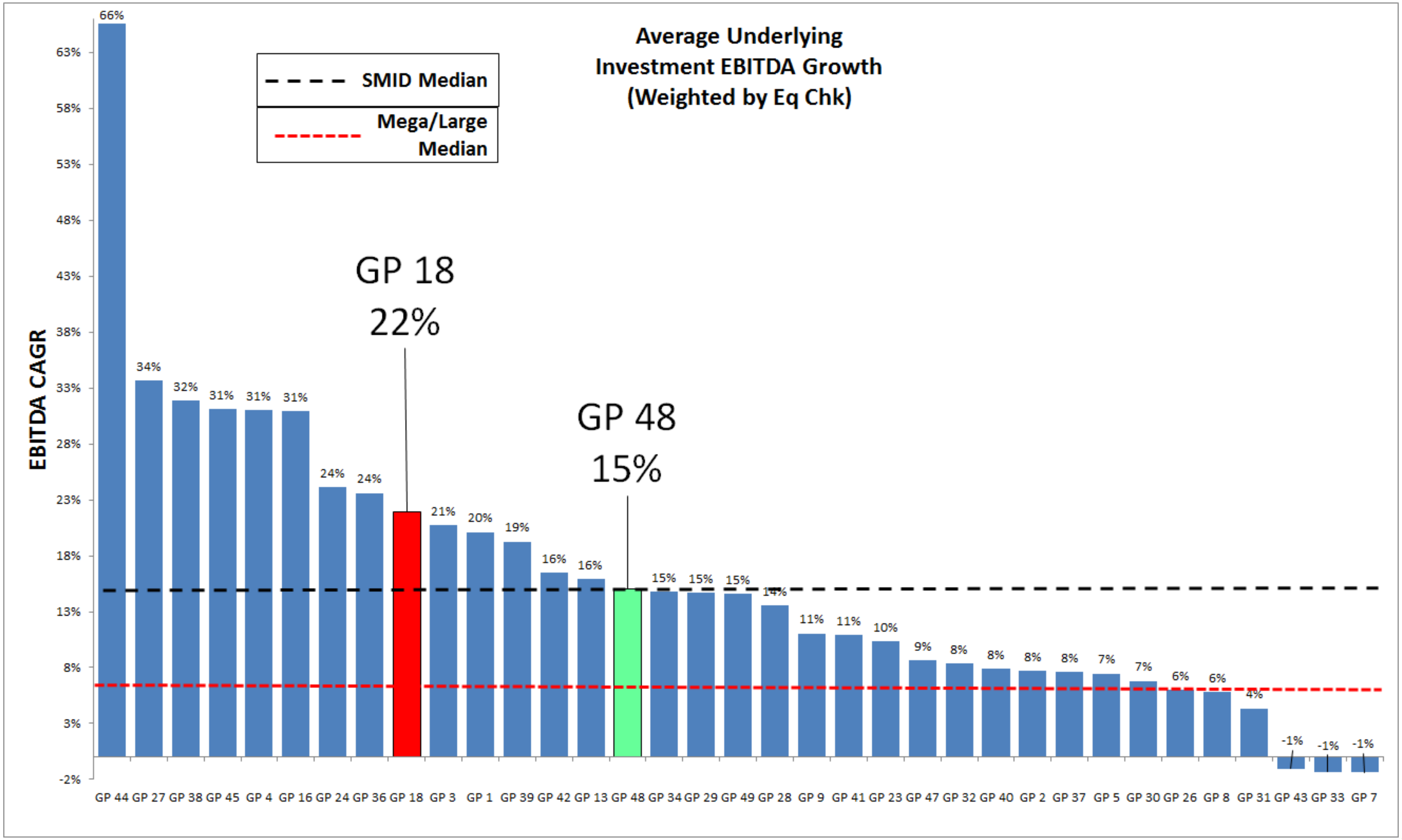
| | SMID Median GP | Mega/Large Median GP |
|---|---|---|
| EBITDA CAGR | 15% | 6% |
| EV/EBITDA @ Entry | 8.8x | 10.2x |
| D/EBITDA @ Entry | 4.1x | 5.6x |

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

Notes: Median statistics are weighted by equity check. Data collected from PRIM's Mega & Middle Market Buyout Studies 2014-2015. SMID data includes only US buyouts.
EBITDA: Earnings Before Interest Taxes Depreciation and Amortization
EV: Enterprise Value
D: Net Debt

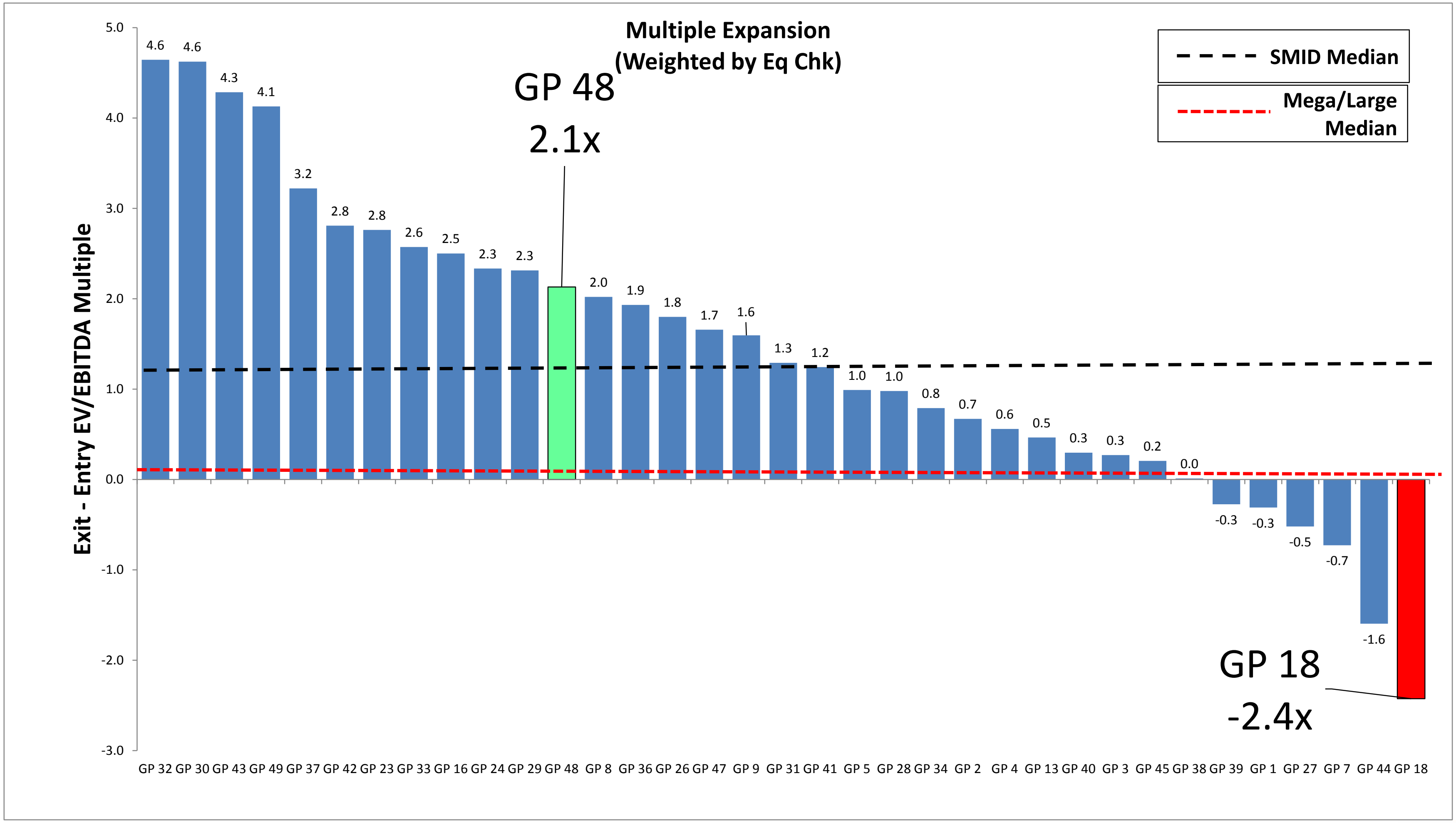
# Case Study: GP 48 vs. GP 18

- Create earnings growth



# Case Study: GP 48 vs. GP 18

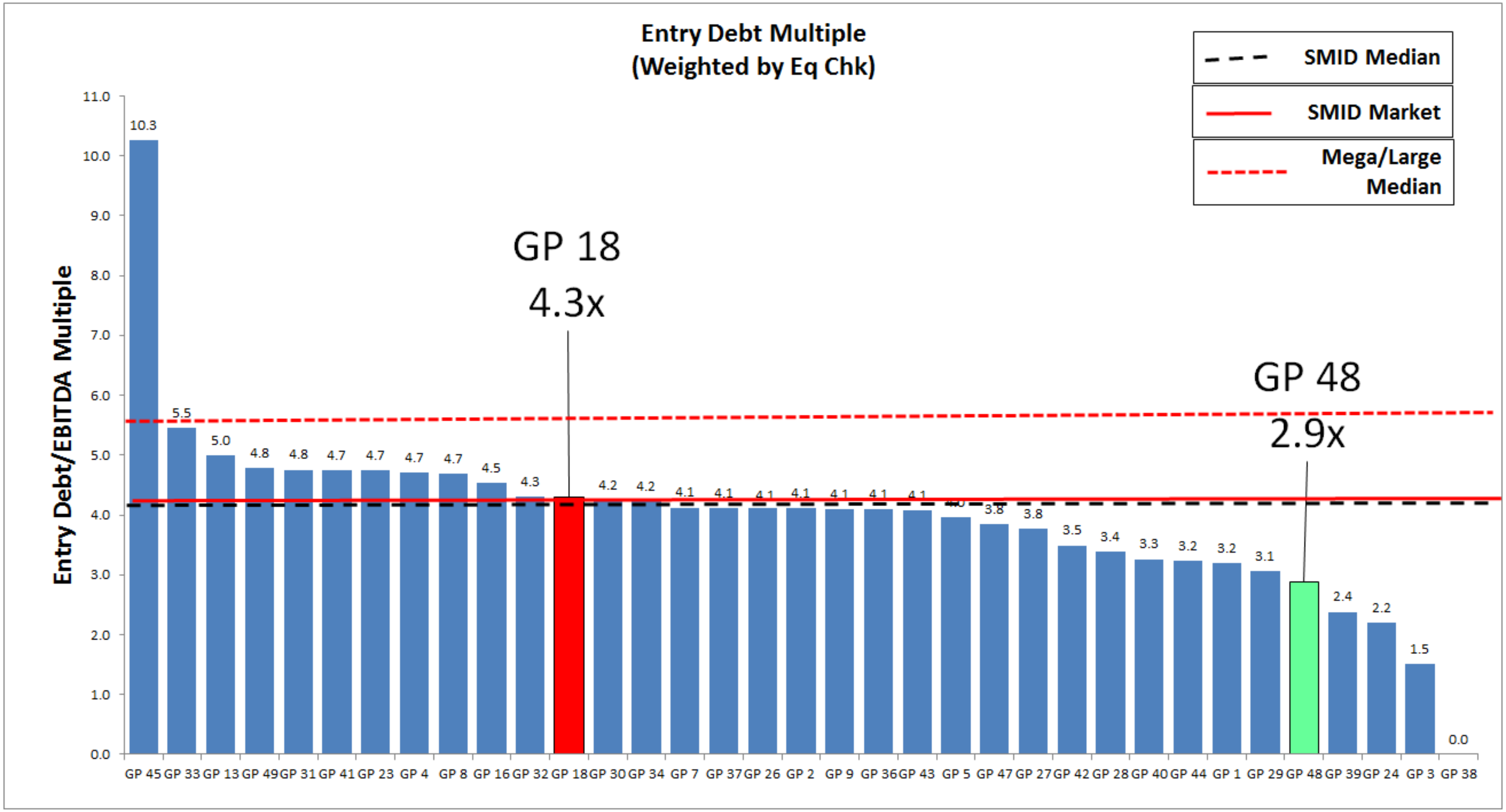
- Exploit price arbitrage opportunities (multiple expansion)




PENSION RESERVES INVESTMENT MANAGEMENT BOARD

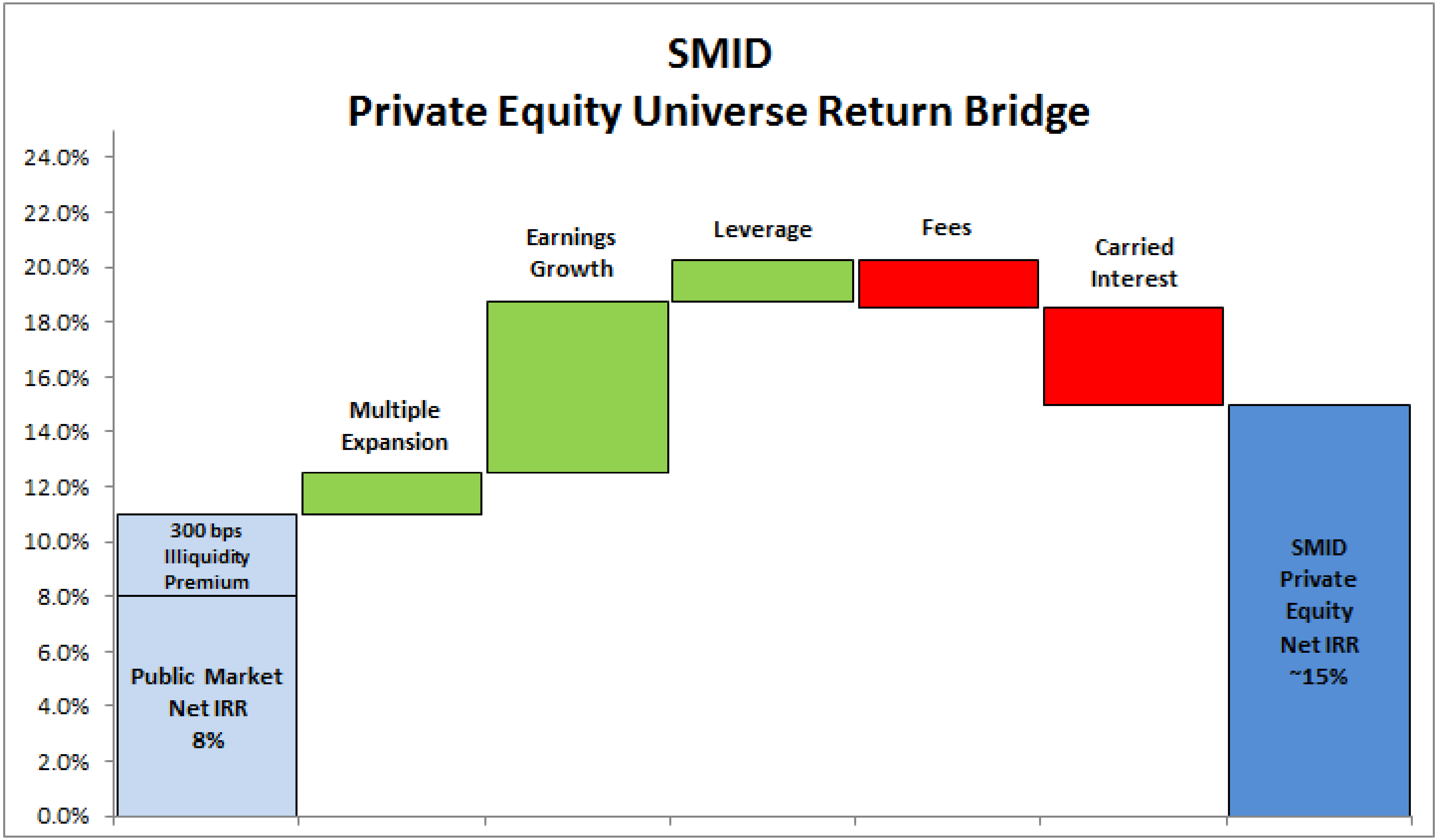
# Case Study: GP 48 vs. GP 18

- Utilize leverage



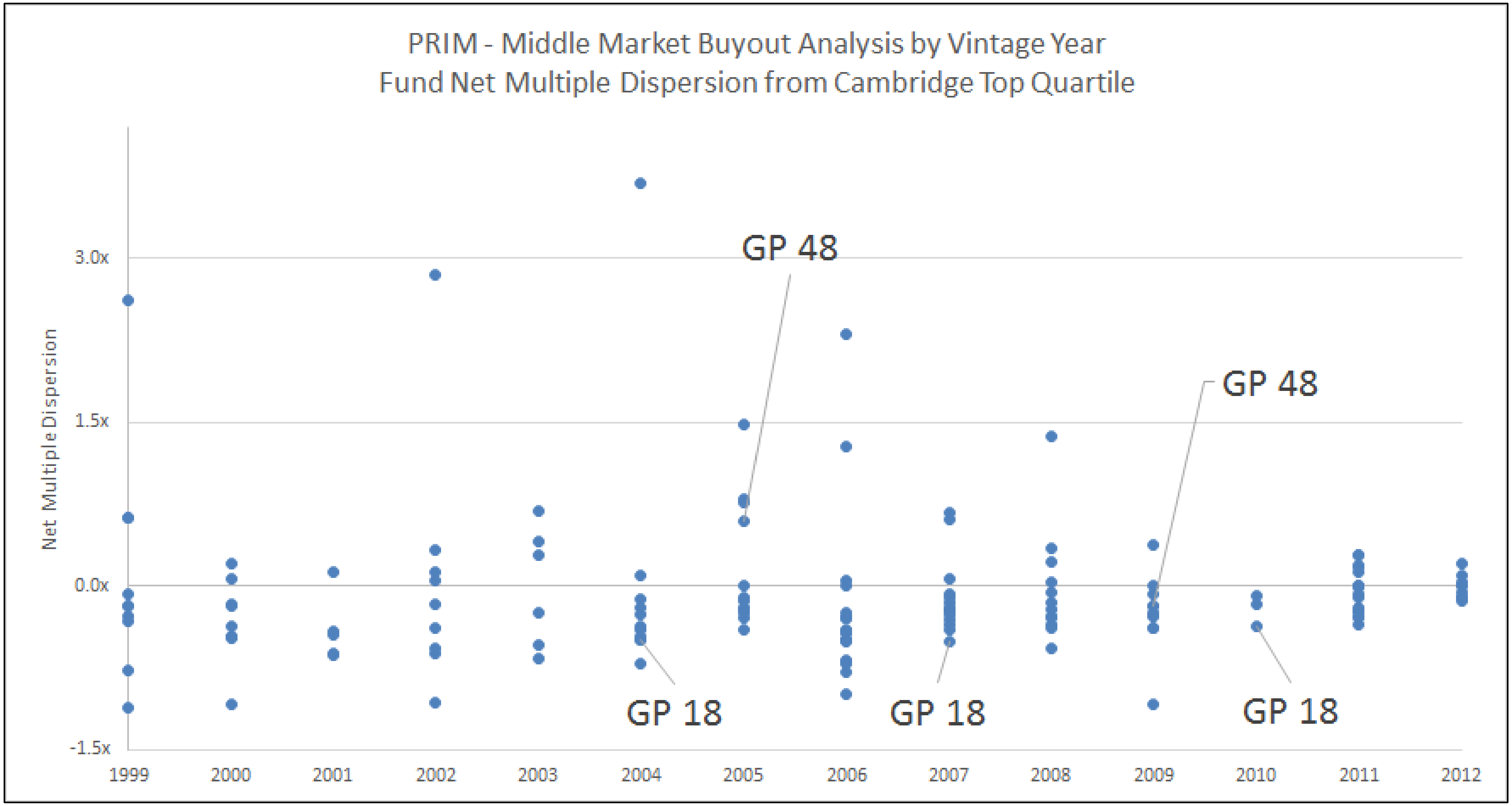

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# Private Equity (SMID) vs. Public Equity



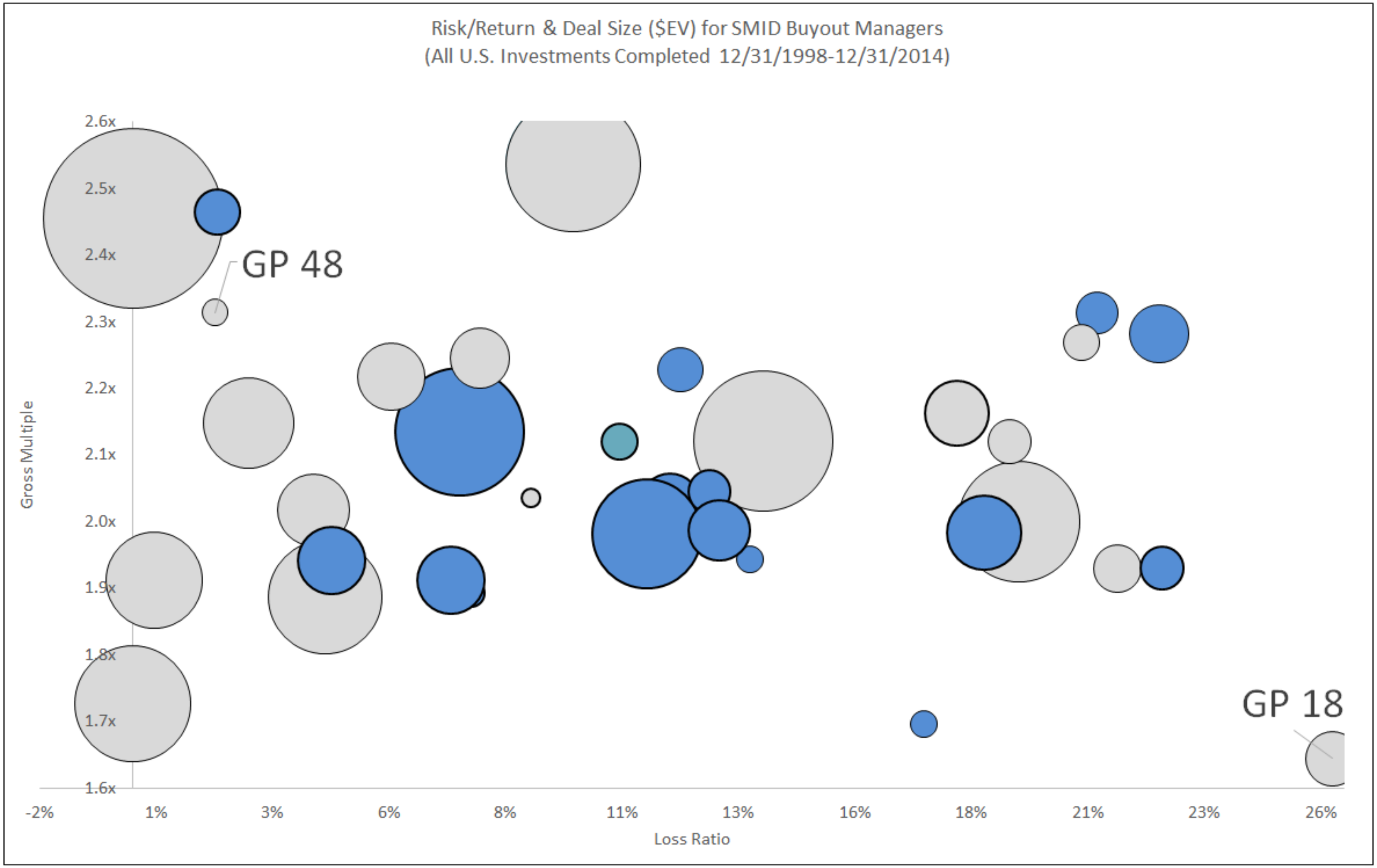
# Case Study: GP 48 vs. GP 18

- Relative fund level performance



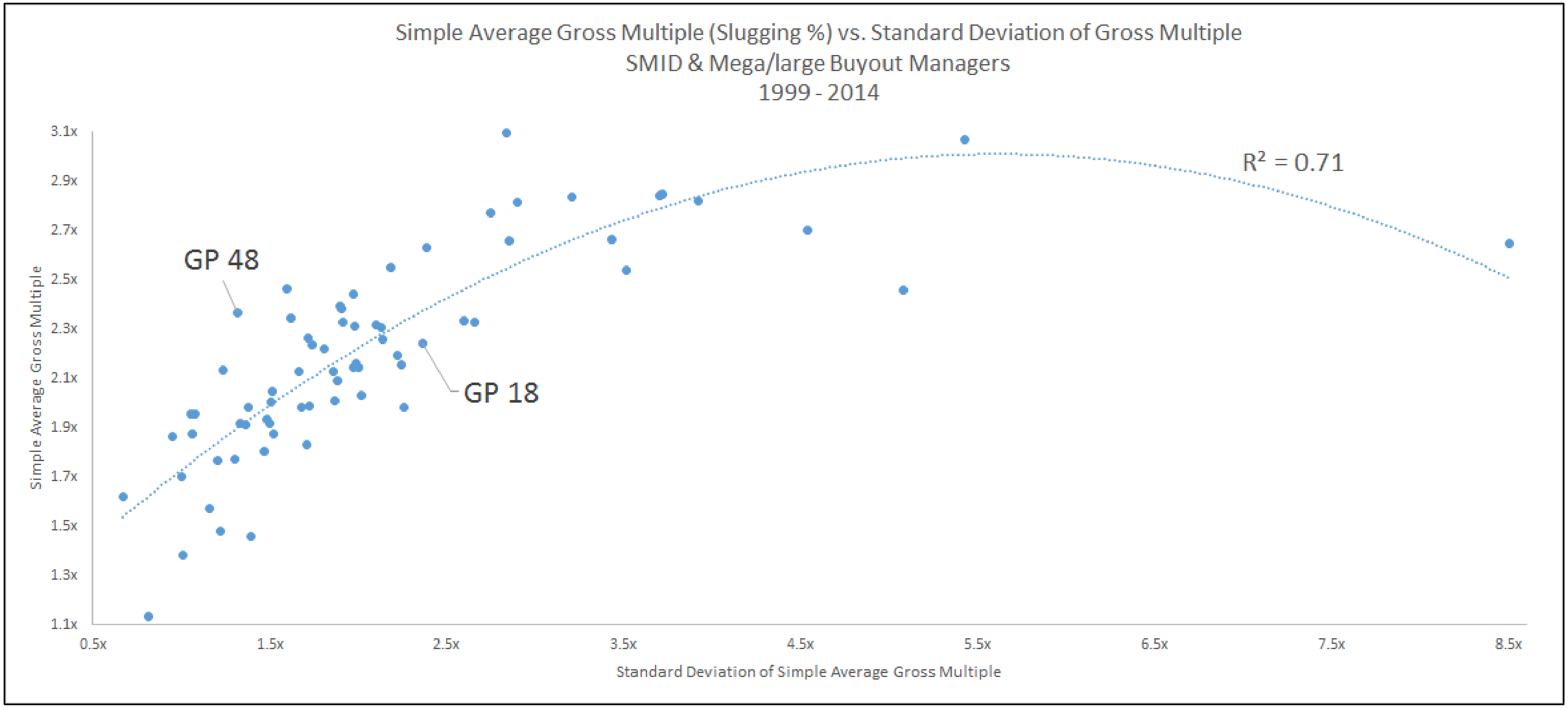
# Case Study: GP 48 vs. GP 18

- Risk / Return



# Case Study: GP 48 vs. GP 18

- Risk / Return




PENSION RESERVES
INVESTMENT
MANAGEMENT BOARD

# Number of "Core" Managers 2013 vs. 2015

| | 2013 | 2015 | Change |
|---|---|---|---|
| SMID | 23 | 17 | -6 |
| Mega / Large | 17 | 13 | -4 |
| | | | |
| Total | 40 | 30 | -10 |

- Grow with best managers (when possible)
- "Pass" decision are as important as "commit" decisions
  - Re-up rate for FY 2015: 15 out of 29
- Expect number of "core" managers to continue to decline
- Smaller funds present a challenge for PRIM's size

PENSION RESERVES INVESTMENT MANAGEMENT BOARD

# Next Steps

- Recommend additions to PRIM's co-investment bench at November, 17th 2015 Investment Committee meeting.

- Future (post November 17th, 2015) co-investment bench recommendations will be paired with new fund recommendations.

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PENSION RESERVES INVESTMENT MANAGEMENT BOARD

PROTECTED MATERIALS

# Appendix C

Hamilton Lane Recommendation: Lovell Minnick Equity Partners IV, L.P.

*PRIM Board Meeting*
*Tuesday, October 13, 2015*

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Hamilton Lane

# Lovell Minnick Equity Partners IV LP

Final Investment Report

## Important Disclosures

All information contained within this report has been gathered from sources believed to be reliable, including but not limited to the general partner(s), other industry participants and the Hamilton Lane Investment Database, but its accuracy cannot be guaranteed.

The information contained in this report may include forward-looking statements regarding the fund presented or its portfolio companies. Forward-looking statements include a number of risks, uncertainties and other factors beyond the control of the fund or the portfolio companies, which may result in material differences in actual results, performance or other expectations. The opinions, estimates and analyses reflect our current judgment, which may change in the future.

The past performance information contained in this report is not necessarily indicative of future results and there is no assurance that the fund will achieve comparable results or that it will be able to implement its investment strategy or achieve its investment objectives. The actual realized value of currently unrealized investments will depend on a variety of factors, including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the current unrealized valuations are based.

Any tables, graphs or charts relating to past performance included in this report are intended only to illustrate the performance of the fund or the portfolio companies referred to for the historical periods shown. Such tables, graphs and charts are not intended to predict future performance and should not be used as the basis for an investment decision.

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# Executive Summary

## Fund Information

| | |
|---|---|
| **General Partner:** | Lovell Minnick Partners LLC ("Lovell Minnick") |
| **Fund:** | Lovell Minnick Equity Partners IV LP |
| **Firm Inception:** | 1999 |
| **Target Size / Hard Cap:** | $550 million / $750 million |
| **Strategy:** | Corporate finance / buyout |
| **Substrategy:** | Small buyout |
| **Geography:** | Primarily U.S. |
| **Team:** | 13 investment professionals |
| **Senior Partners:** | Jeffrey Lovell, James Minnick, Robert Belke, John Cochran and Spencer Hoffman |
| **Location:** | Philadelphia and Los Angeles |
| **Industries:** | Financial services |
| **Enterprise Values:** | Between $50 million and $250 million |
| **Equity Investments:** | Between $20 million and $80 million |

## Investment Highlights

- Continued focus on financial services companies operating in the lower middle-market
- Consistent performance across Prior Funds with limited write-offs
- Experienced and tenured team with relevant skillsets and established professional networks

## Executive Summary (continued)

### Recommendation

Taking into consideration the investment strategy and portfolio diversification objectives of the Massachusetts Pension Reserves Investment Trust (PRIT) Fund's Private Equity program, Hamilton Lane recommends a commitment of up to $100.0 million to this Fund by the Massachusetts Pension Reserves Investment Management (PRIM) Board.

## Executive Summary (continued)

### Prior Funds and Closing Schedule

| Prior Funds | | | | | |
|---|---|---|---|---|---|
| ($mm) Fund | Vintage | Fund Size | % Drawn [1] | Net IRR [1] | Strategy |
| Putnam Lovell Equity Partners LP ("Fund I") | 2000 | $105.4 | 100% | 20.7% | Corporate finance / buyout |
| Lovell Minnick Equity Partners II LP ("Fund II") | 2005 | 223.5 | 98% | 14.1% | Corporate finance / buyout |
| Lovell Minnick Equity Partners III LP ("Fund III") | 2008 | 455.8 | 95% | 14.4% | Corporate finance / buyout |

[1] As of 3/31/15

| Closing Schedule | |
|---|---|
| Close | Actual / Expected Date |
| First | 6/4/14 |
| Final | 10/15/15 |

- The Fund has received approximately $500 million in aggregate commitments to date and is expected to approach the hard cap of $750 million

### Key Terms

**Investment period:** 6 years

**Fund term:** 10 years; + 1 one-year extension at the discretion of the General Partner; + 2 one-year extensions with advisory board approval

**Management fee:** Investment period: 2.0% of aggregate commitments

Post-investment period: 2.0% of net invested capital

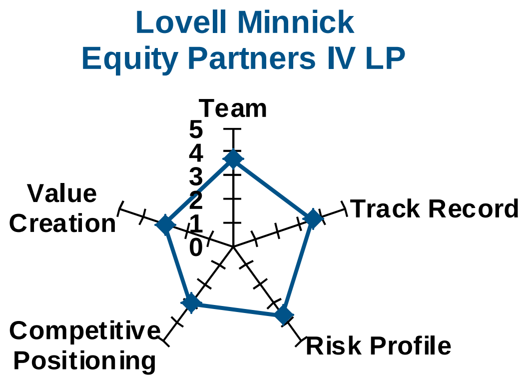
**Fee Offset:** 100%

**Carry / Hurdle:** 20% / 8%

**GP Commitment:** 2.8% ($15.25 million)

**Key Man:** Jeffrey Lovell or James Minnick; or two of Robert Belke, John Cochran and Spencer Hoffman

## Hamilton Lane General Partner Rating System (“GPRS”)




| Criteria | Score |
|---|---|
| *Team* | 3.7 |
| *Track Record* | 3.6 |
| *Risk Profile* | 3.6 |
| *Competitive Positioning* | 3.0 |
| *Value Creation* | 3.0 |
| ***Weighted Average*** | **3.4** |

About GPRS: The GPRS is a proprietary model developed by Hamilton Lane to evaluate each General Partner and provide a means to compare one fund to another on a more quantitative basis. Each of the five categories (Team, Track Record, Risk Profile, Competitive Positioning and Value Creation) is comprised of several subcategories which are weighted and totaled to create an overall value for the fund.

The ratings for each category and subcategory are 1 through 5, with 5 being the best.

## Table of Contents

# Section 1 | Investment Strategy

# Lovell Minnick Equity Partners IV LP

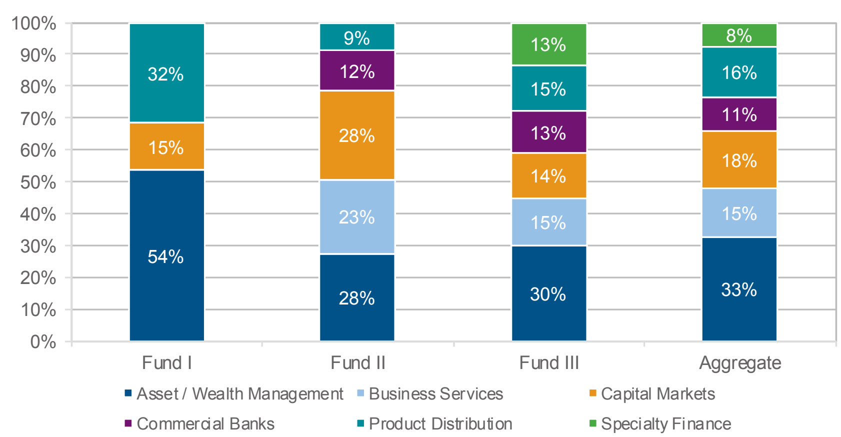
- Invests opportunistically across the financial services sector
- Target enterprise values and equity checks consistent with Prior Funds
- Pursues both control and minority investments
- Limited use of leverage

## 1.1 Approach

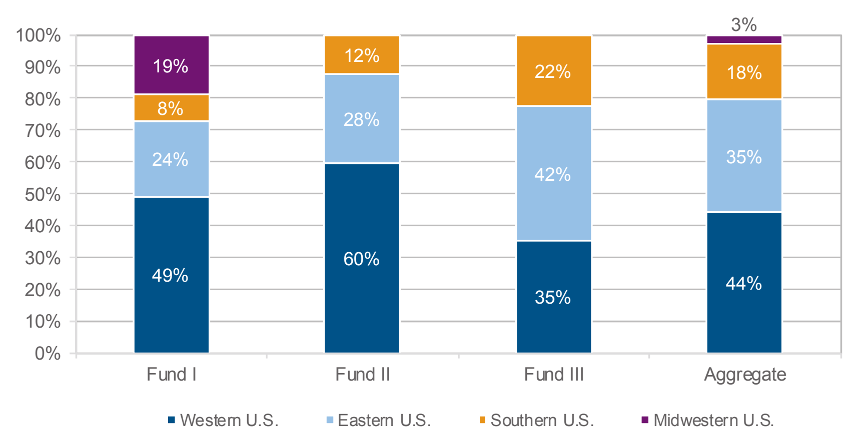
**Focuses on financial services**

- Consistent with Prior Funds, Lovell Minnick will invest exclusively in financial services companies
- The General Partner pursues a top-down investment strategy to identify the most attractive subsectors based on macroeconomic trends and regulatory environments
  - Lovell Minnick has recently started to focus on specialty lending in underserved credit markets
- The General Partner has not yet invested outside of the U.S., but may opportunistically pursue deals in Western Europe, especially those seeking to enter North America
  - A Europe-based Senior Advisor provides a local perspective of the market

**Prior Investments - % by Subsector**
**As of 3/31/15**




**Prior Investments - % by Region**
**As of 3/31/15**

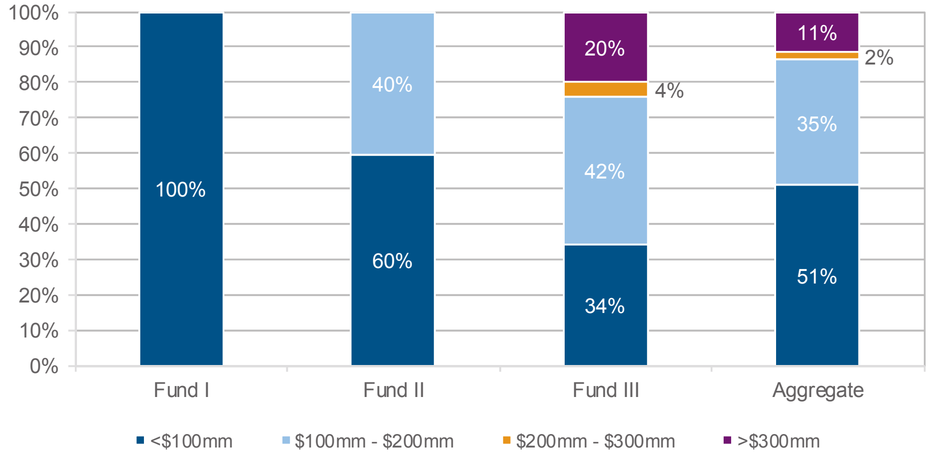


## 1.1 Approach (continued)

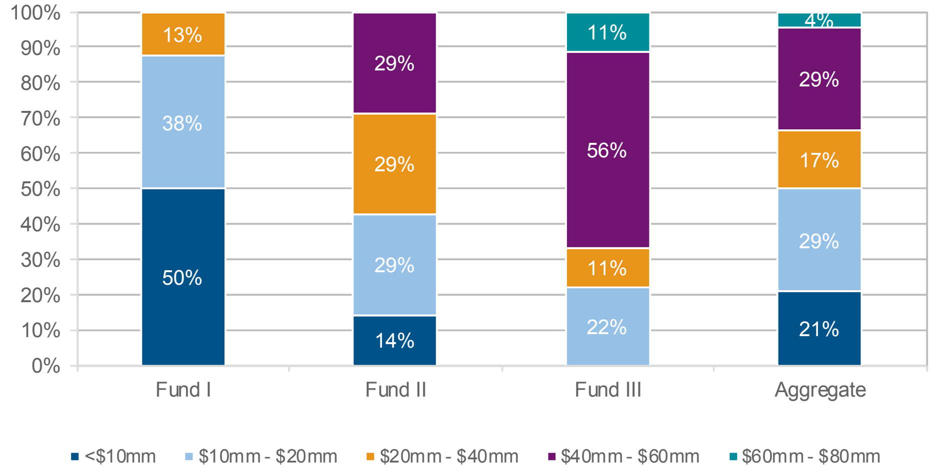
**Emphasis on investments in the lower middle-market**

- The General Partner seeks to invest in lower middle-market companies with average enterprise values between $50 million and $250 million
  - Target company sizes are consistent with Prior Funds
- Lovell Minnick expects to complete between ten and twelve investments, with equity investments ranging from $20 million to $80 million
  - The General Partner has historically offered co-investments to limited partners and expects to continue to do so

**Prior Investments - % of Deals by Enterprise Value [1]**
**As of 3/31/15**




**Prior Investments - % of Deals by Investment Size**
**As of 3/31/15**



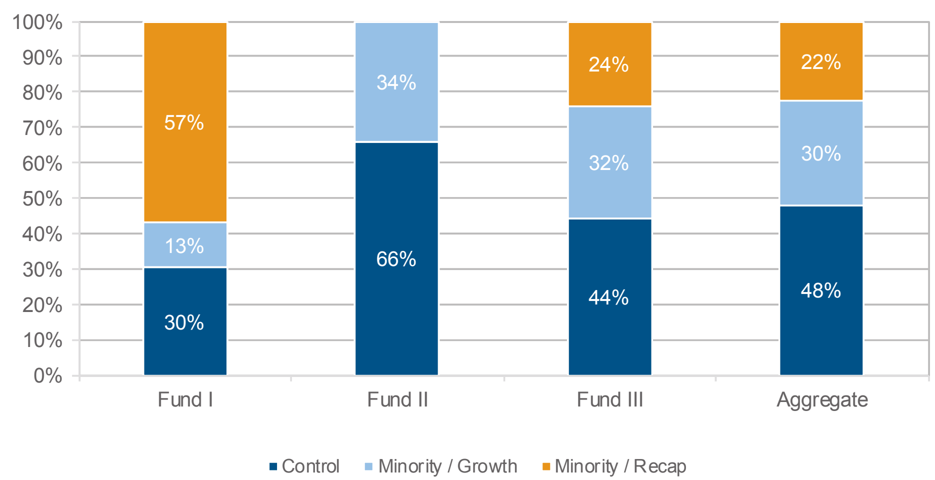

[1] Also represents tangible book value for commercial bank investments

## 1.1 Approach (continued)

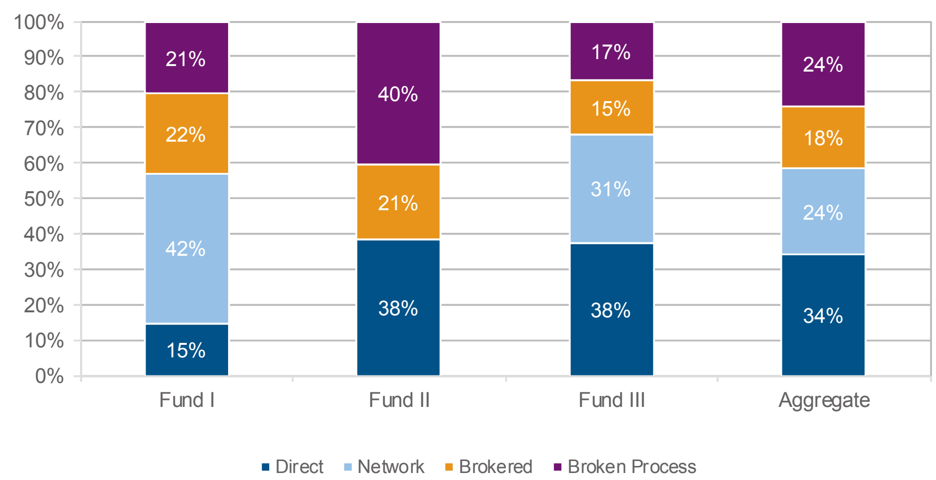
**Acquires both control and minority positions**

- Lovell Minnick pursues both control and minority investments
  - Minority deals are split between traditional growth equity investments and situations in which the General Partner provides capital to support management-led buyouts of asset management and product distribution companies
- Through its 16 year history of investing in financial services, Lovell Minnick has developed a network that is capable of providing off-market deal flow
  - However, the General Partner frequently participates in brokered transactions in which it seeks to differentiate itself as a value-added partner to management teams

**Prior Investments - % by Investment Type**
**As of 3/31/15**




**Prior Investments - % by Source**
**As of 3/31/15**

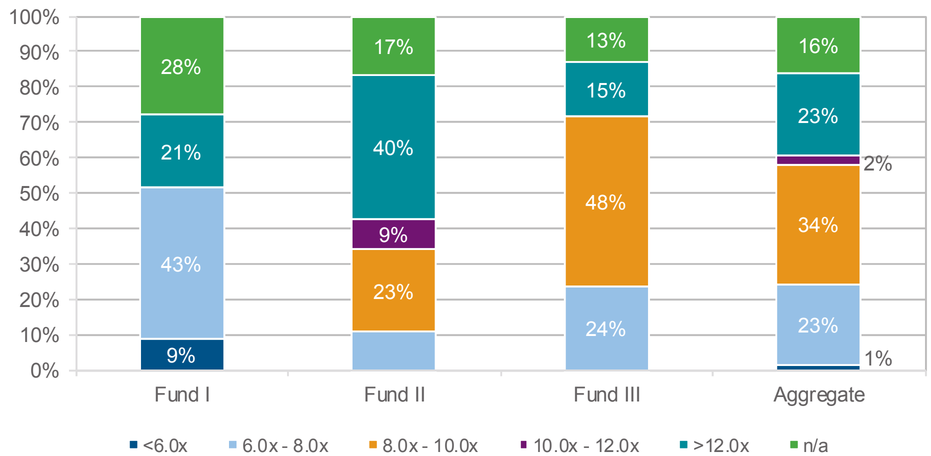


## 1.1 Approach (continued)

**Conservative use of leverage**

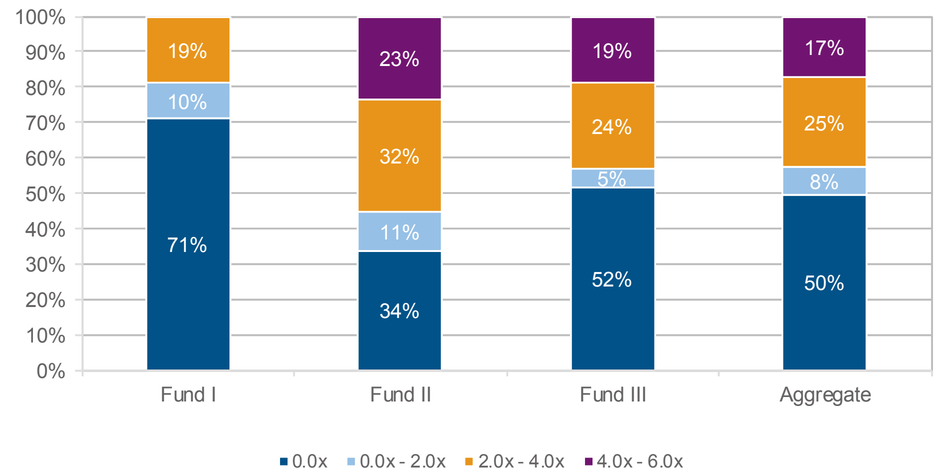
- The General Partner typically targets healthy businesses with strong management teams, often through intermediated processes, and is therefore less sensitive to entry multiples
- Lovell Minnick is prudent about leverage at the portfolio company level, with no debt at entry for half of its invested capital
  - The General Partner often adds leverage or completes dividend recapitalizations as companies demonstrate the ability to support debt service

**Prior Investments - % by EBITDA Multiple at Entry [1]**
**As of 3/31/15**




[1] n/a represents companies with negative or zero EBITDA

**Prior Investments - % by Leverage Multiple at Entry**
**As of 3/31/15**

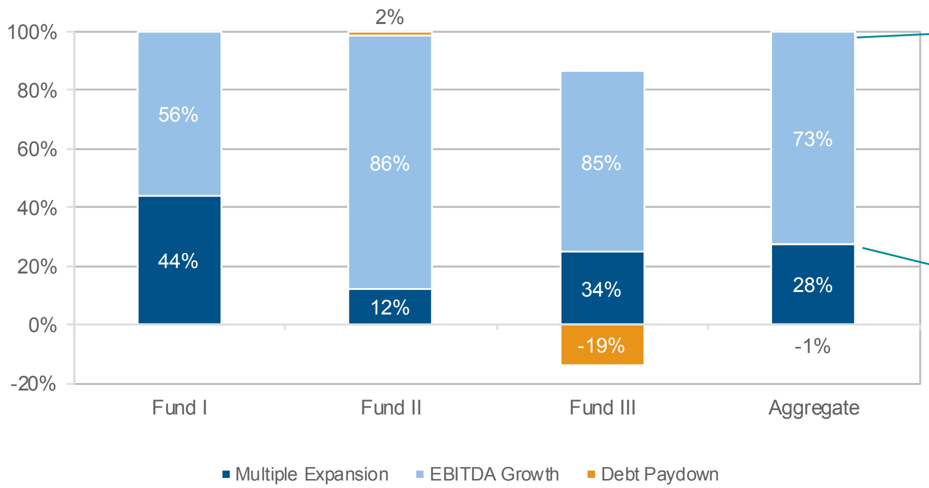


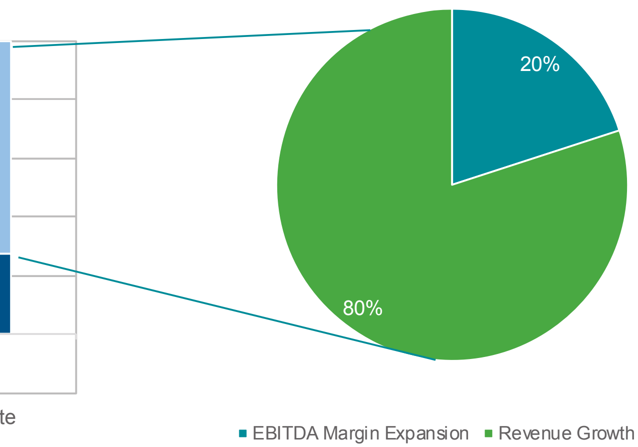
## 1.1 Approach (continued)

### Value creation

- Post-investment, Lovell Minnick seeks to add value through its sector expertise
  - Investment team members typically serve on board seats and assist portfolio companies with launching new business lines / investment products, rationalizing costs, implementing operational best practices and identifying potential M&A targets
- For non-bank investments, EBITDA growth has accounted for the majority of value creation among realized portfolio investments

**Value Creation - % by Source [1]**
**As of 3/31/15**




[1] Comprises investments realized above cost

## 1.2 Fund Parameters

| Fund Parameters | |
|---|---|
| **Parameter** | **Fund IV** |
| Target # of investments | 10 to 12 |
| Max % to be invested in a single investment | 20% |
| Target # of investments completed per year | 2 to 4 |
| Expected holding period per investment | 4 to 6 years |
| Expected # of years until fully invested | 4 years |
| Target # of investments per Partner | 2 to 3 |

## 1.3 Exit Strategy

- Sales to strategic buyers are the most common exit method

| Prior Fund Exit Strategies | | | | | | |
|---|---|---|---|---|---|---|
| **($mm)** | **Fund I** | | **Fund II** | | **Fund III** | |
| **Strategy** | **No. of Trans.** | **Amount Invested** | **No. of Trans.** | **Amount Invested** | **No. of Trans.** | **Amount Invested** |
| IPO | 1 | $10.0 | 1 | $20.0 | 0 | $0.0 |
| Management Recap | 1 | 14.5 | 1 | 31.8 | 0 | 0.0 |
| Strategic Sale | 3 | 43.3 | 3 | 67.4 | 1 | 42.0 |
| Write Off | 3 | 34.5 | 0 | 0.0 | 0 | 0.0 |
| **Total** | **8** | **$102.3** | **5** | **$119.2** | **1** | **$42.0** |

## 1.4 Peer Group Competition

| Peer Group Competition |
|---|
| **Fund Manager** |
| Aquiline |
| Capital Z Partners |
| Century Capital |
| Corsair Capital |
| Flexpoint Ford |
| FTV Capital |
| Lightyear Capital |
| Parthenon Capital Partners |
| Pine Brook Road |
| Rosemont Investment Partners |
| Stone Point Capital |

# Section 2 | Prior Investment Experience

- Gross and net performance have been consistent
- The Fund has completed three investments to date
- Performance compares favorably to peers
- Limited write-off ratio across the Prior Funds

## 2.1 Net Returns to Limited Partners

- Net returns across Prior Funds have been consistent and fairly attractive

| Lovell Minnick Partners<br>Prior Investment Performance<br>As of 3/31/15 | | | | | | | |
|---|---|---|---|---|---|---|---|
| ($mm)<br>Fund | Vintage | Capital Drawn | Capital Distributed | NAV | DPI | TVPI | Net IRR |
| Fund I | 2000 | $111.0 | $232.8 | $0.0 | 2.1x | 2.1x | 20.7% |
| Fund II | 2005 | 211.0 | 303.7 | 78.6 | 1.4x | 1.8x | 14.1% |
| Fund III | 2008 | 432.5 | 164.8 | 467.7 | 0.4x | 1.5x | 14.4% |
| **Total** | | **$754.5** | **$701.3** | **$546.4** | **0.9x** | **1.7x** | **16.7%** |

## 2.2 Gross Fund Overall Returns

- Lovell Minnick has generated consistently attractive gross performance
- Fund III's wide gross-net spread resulted from a failed transaction
    - The General Partner called capital in October 2008 and returned most of it following the cancelled deal
    - Fund III did not complete its first investment until September 2010, resulting in significant fee drag
    - As a result, Lovell Minnick overhauled its approach to IRR management by instituting the use of a credit line to bridge capital calls and activating the Fund only after initial investments were nearing closes

**Lovell Minnick Partners**
**Prior Investment Performance**
**As of 3/31/15**

| ($mm) Fund | Vintage | # of Inv. Total | # of Inv. Real. | Fund Size | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR |
|---|---|---|---|---|---|---|---|---|---|
| Fund I | 2000 | 8 | 8 | $105.4 | $102.3 | $275.0 | $0.0 | 2.7x | 29.2% |
| Fund II | 2005 | 7 | 5 | 223.5 | 185.3 | 349.2 | 90.0 | 2.4x | 20.8% |
| Fund III | 2008 | 9 | 1 | 455.8 | 387.5 | 182.1 | 523.0 | 1.8x | 25.5% |
| **Total** | | **24** | **14** | | **$675.1** | **$806.3** | **$613.0** | **2.1x** | **25.9%** |

**Lovell Minnick Partners**
**Realized Investment Performance**
**As of 3/31/15**

| ($mm) Fund | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR |
|---|---|---|---|---|---|
| Fund I | $102.3 | $275.0 | $0.0 | 2.7x | 29.2% |
| Fund II | 119.2 | 337.4 | 0.0 | 2.8x | 25.3% |
| Fund III | 42.0 | 88.7 | 20.0 | 2.6x | 56.2% |
| **Total** | **$263.5** | **$701.2** | **$20.0** | **2.7x** | **28.5%** |

**Lovell Minnick Partners**
**Unrealized Investment Performance**
**As of 3/31/15**

| ($mm) Fund | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR |
|---|---|---|---|---|---|
| Fund I | $0.0 | $0.0 | $0.0 | n/a | n/a |
| Fund II | 66.1 | 11.8 | 90.0 | 1.5x | 7.8% |
| Fund III | 345.5 | 93.3 | 503.0 | 1.7x | 22.0% |
| **Total** | **$411.6** | **$105.1** | **$593.0** | **1.7x** | **17.2%** |

## 2.3 Performance and Portfolio Analysis

### Fund II unrealized portfolio analysis

- Fund II is mostly realized, with only one investment remaining as of September 2015
- Mercer Advisors was unrealized as of 3/31/15 but was later sold to a strategic buyer in May 2015
  - The General Partner exited the investment at a 1.6x gross multiple, equal to its 3/31/15 valuation
- Lovell Minnick estimates Fund II will ultimately generate a net IRR of approximately 14% and a TVPI of 2.0x

| Fund II - Unrealized Portfolio Company Assessment | | | | | | |
|---|---|---|---|---|---|---|
| ($mm) Company | Subsector | Inv. Date | Amount Invested [1] | Gross Mult. [1] | Performance Assessment [2] | Notes |
| Seaside National Bank & Trust | Commercial Banks | Nov-09 | $23.0 | 1.5x | On plan | ● Exit expected in the second half of 2016<br>● Forecasted gross multiple between 2.0x and 3.0x |

[1] As of 3/31/15
[2] Provided by the General Partner

## 2.3 Performance and Portfolio Analysis (continued)

### Fund III unrealized portfolio analysis

- Fund III has a significant unrealized portfolio, with a combination of mature investments and several newer deals that were held near cost as of 3/31/15
  - Subsequent to 3/31/15, the General Partner closed its final Fund III deal, a $25 million investment in Lincoln Investment Planning
- Lovell Minnick's base case forecast for Fund III's ultimate performance is a 2.2x TVPI and a net IRR of 18.7%

**Fund III - Unrealized Portfolio Company Assessment**

| ($mm) Company | Subsector | Inv. Date | Amount Invested [1] | Gross Mult. [1] | Performance Assessment [2] | Notes |
|---|---|---|---|---|---|---|
| 361 Capital | Asset / Wealth Management | Jun-14 | $18.0 | 1.0x | On plan | • Exit expected in 2019 or 2020 |
| Commercial Credit Group | Specialty Finance | May-12 | 51.0 | 3.3x | Above plan | • Exit expected in 2016 or 2017<br>• Forecasted gross multiple between 4.0x and 5.0x |
| Dahlman Rose & Company | Capital Markets | Sep-10 | 55.3 | 0.3x | Below plan | • Substantially realized with limited upside expected |
| H.D. Vest | Product Distribution | Sep-11 | 15.0 | 3.1x | Above plan | • Expected exit in September 2015 at a 5.0x gross multiple |
| Kanaly Trust | Asset / Wealth Management | Dec-12 | 21.1 | 1.1x | Below plan | • Limited revenue and EBITDA growth<br>• Exit expected in 2018 |
| Keane Holdings | Business Services | Feb-14 | 58.0 | 1.0x | Below plan | • Continued integration of add-on acquisition completed in late 2014<br>• Exit expected in 2019 or 2020 |
| Matthews Int'l Capital Mgmt. | Asset / Wealth Management | Jan-11 | 77.1 | 2.8x | On plan | • LOI with large strategic that will acquire approximately 20% of the company<br>• Exit expected in 2017 to 2019 |
| TriState Capital Holdings | Commercial Banks | Aug-12 | 50.0 | 1.0x | Public company | • Completed IPO in May 2013<br>• Share price has increased by over 20% since 3/31/15 |

[1] As of 3/31/15
[2] Provided by the General Partner

## 2.3 Performance and Portfolio Analysis (continued)

### Fund IV investments

- The General Partner activated the Fund in January 2015 and has closed on three platform investments
    - All investments were held at cost as of 6/30/15
- The current investment pipeline includes a potential add-on acquisition for LSQ Funding and several preliminary bids on standalone companies

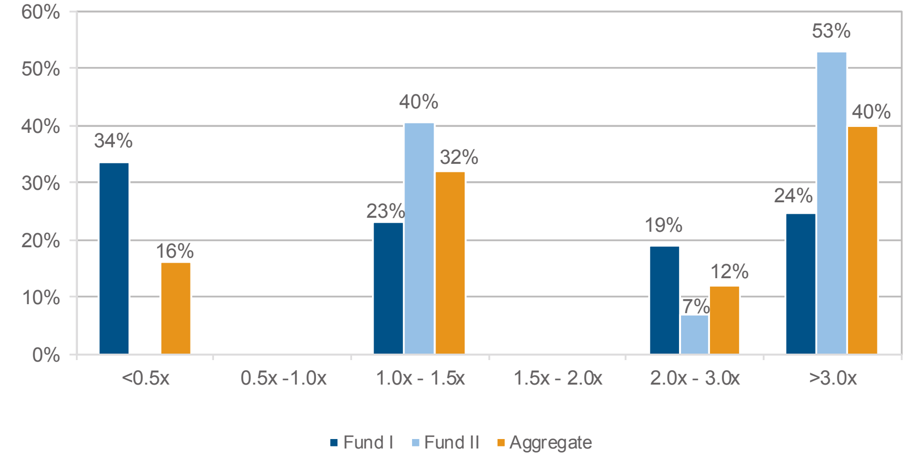
| Fund IV - Closed Investments | | | |
|---|---|---|---|
| ($mm) Company | Subsector | Inv. Date | Amount Invested [1] |
| J.S. Held | Business Services | Mar-15 | $40.3 |
| LSQ Funding | Specialty Finance | Apr-15 | 60.5 |
| Worldwide Facilities | Product Distribution | Jul-15 | 40.0 |
| **Total** | | | **$140.8** |

[1] As of 6/30/15

## 2.4 Realized Loss Ratio Analysis

- The General Partner has limited write-offs on an aggregate basis

**Dispersion of Returns - By % of Invested Capital [1]**
**As of 3/31/15**

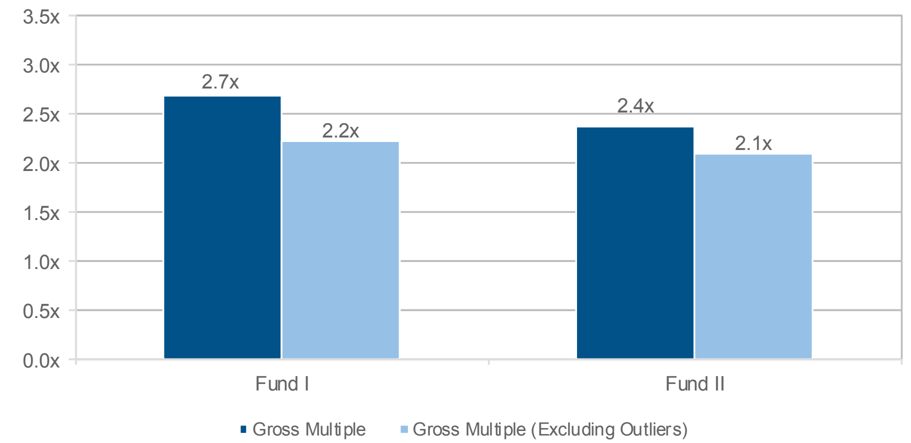



[1] Excludes Fund III due to limited realizations

## 2.5 Realized Multiple Analysis (Excluding Outliers)

- Outlier transactions have positively affected aggregate performance

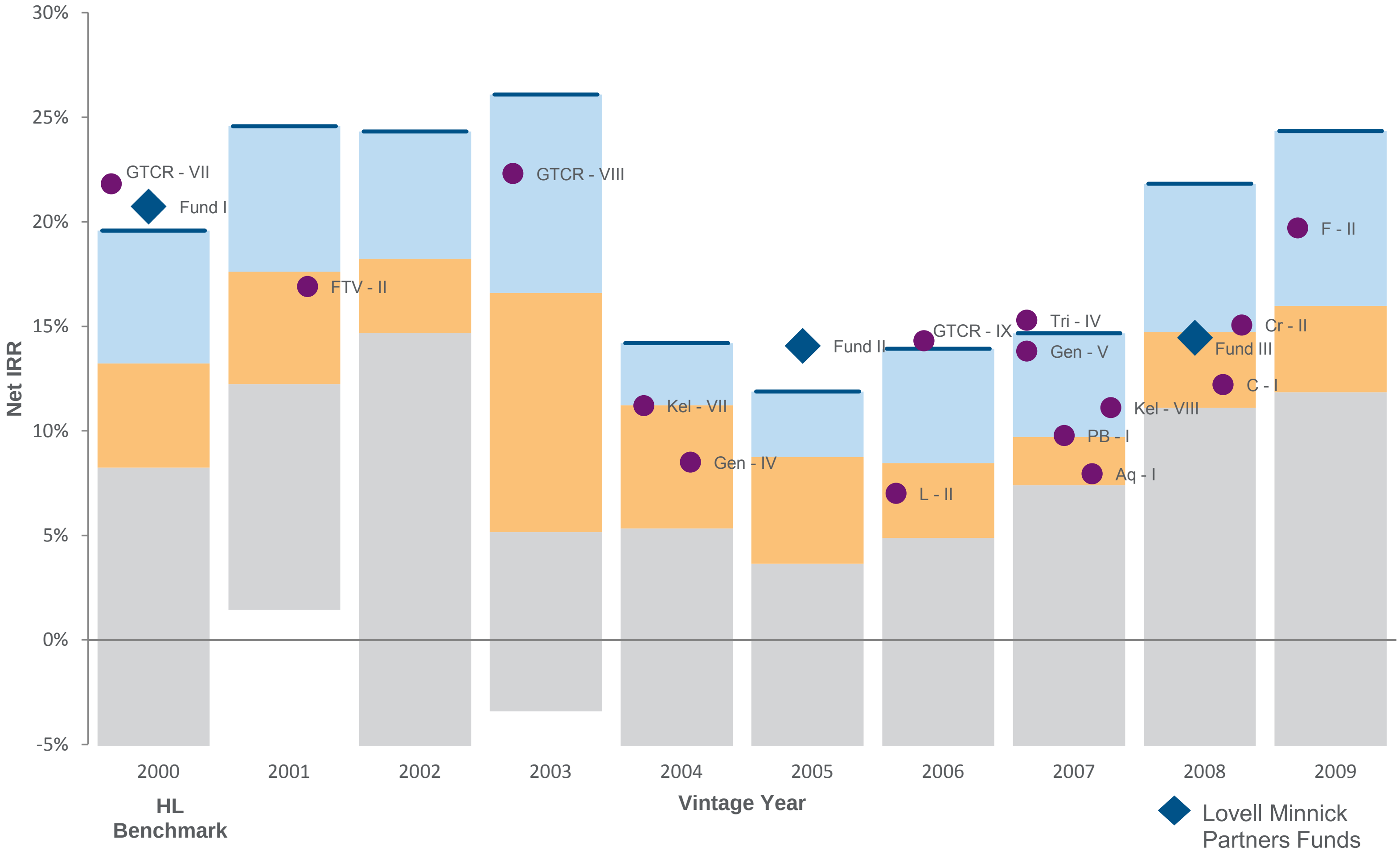
**Realized Multiple Analysis [1]**
**Excluding Best and Worst Gross Multiple Transaction**
**As of 3/31/15**




[1] Excludes Fund III due to limited realizations

## 2.6 Benchmark Analysis

- Performance of Prior Funds compares favorably to both competitors and benchmarks



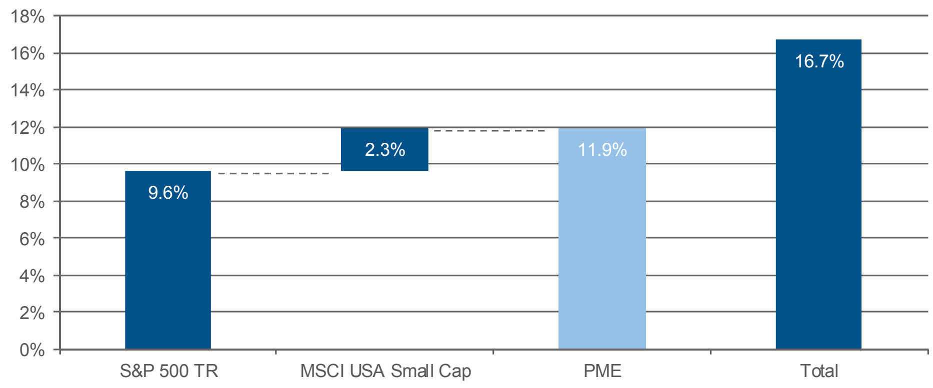

Comp Fund Legend:
Aq = Aquiline Capital Partners, C = Carlyle Carlyle Global Financial Services Partners,
Cor = Corsair Capital, Cr = Crestview Partners, F = Flexpoint Ford, FTV = FTV Capital,
Gen = Genstar Capital Partners, GTCR = GTCR, Kel = Kelso & Company, L = Lightyear Capital,
P = Parthenon Capital, PB = Pine Brook Road Partners, Tri = Stone Point Capital

Source:
Funds - Hamilton Lane database and Preqin as of most up to date
Benchmarks - The benchmark data shown is the most recent available at this time. Hamilton Lane North American buyout benchmarks as of 3/31/15

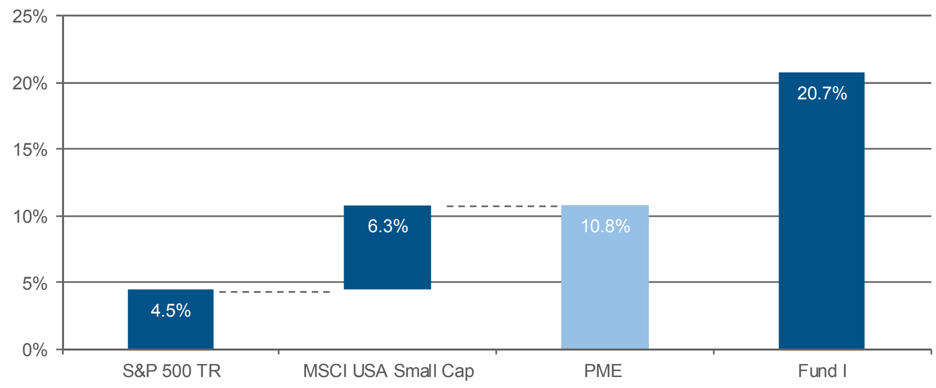
## 2.7 PME Analysis

- Prior Funds have generally outperformed public market indices

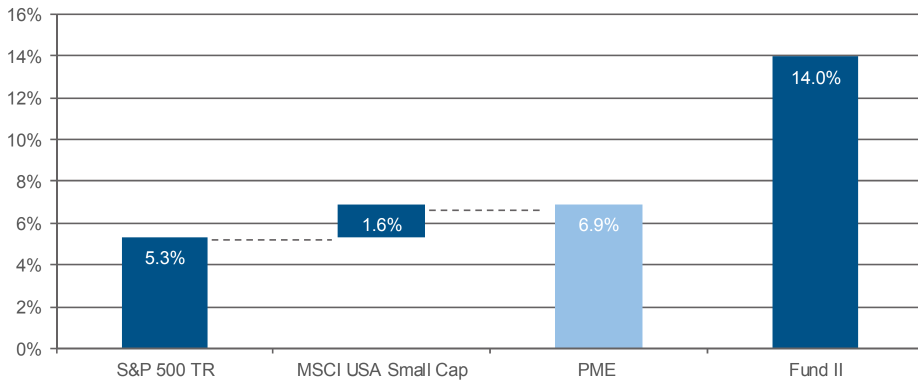
**PME Attribution - Total [1,2]**



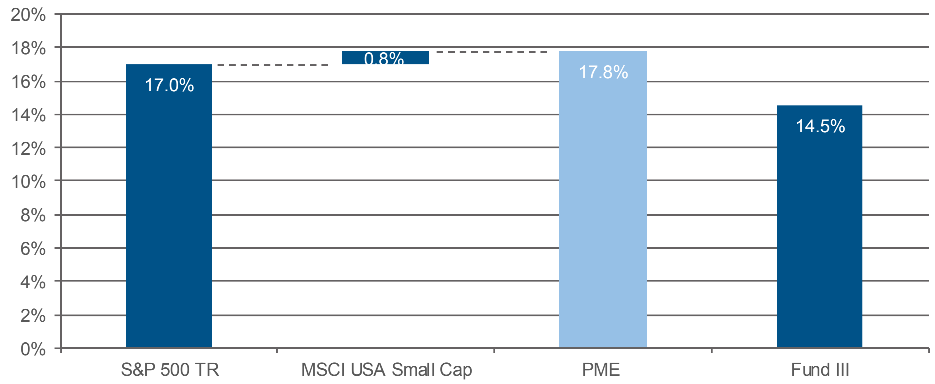

**PME Attribution - Fund I [1,2]**




**PME Attribution - Fund II [1,2]**




**PME Attribution - Fund III [1,2]**



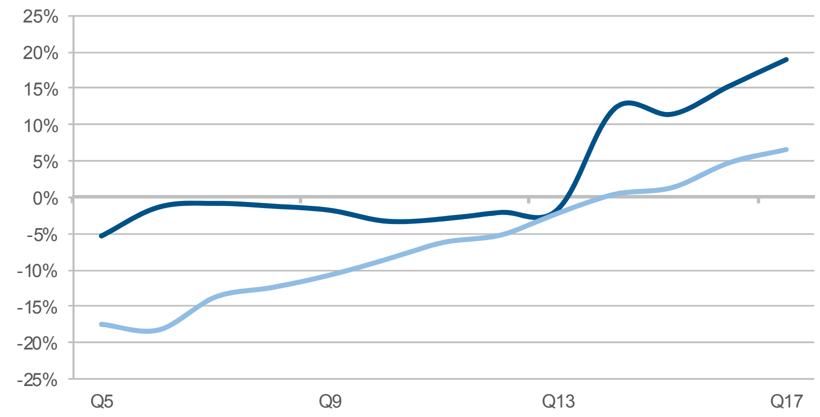

[1] The selected PME represents the most relevant public market benchmark, which in this case is MSCI USA Small Cap; the bridge takes the broadest public market benchmark return as a base and illustrates the incremental performance, relative to the base, of increasingly relevant public market benchmarks

[2] Returns are calculated using monthly cash flows and may differ from returns calculated in Section 2.1

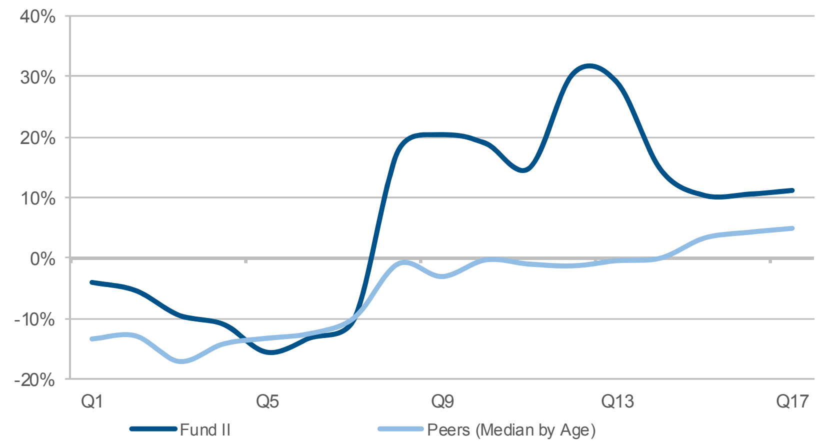
## 2.8 J-curve Analysis

- Funds I and II generated positive net IRRs in similar timeframes to small buyout peers, while Fund III lagged due to significant fee drag

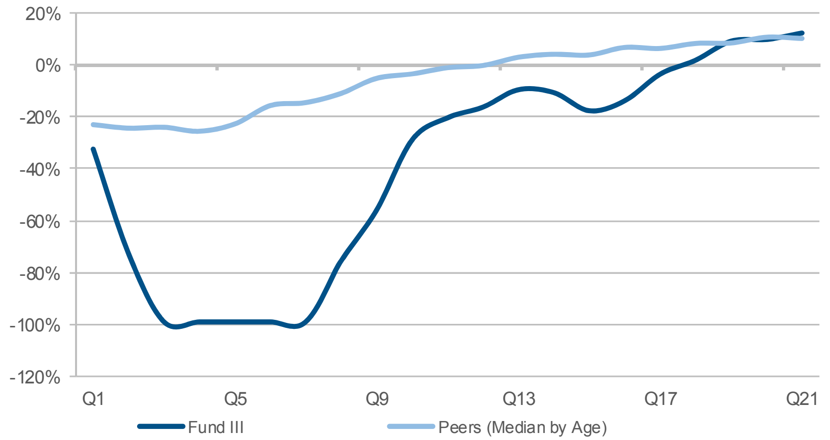
**Fund I - J-Curve Analysis**
**As of 3/31/15 [1]**




**Fund II - J-Curve Analysis**
**As of 3/31/15 [1]**




**Fund III - J-Curve Analysis**
**As of 3/31/15 [1]**




[1] Peer (median by age) is calculated by taking the median IRR of Small Buyout funds of similar vintages in Hamilton Lane's database at each quarter, w hich are simulated as investing at the same point of time

## 2.9 Realized Attribution Analysis

| Aggregate - Realized Performance by Subsector | | | | | |
|---|---|---|---|---|---|
| ($mm) Subsector | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| Business Services | 1 | $43.0 | 16.3% | 4.2x | 32.2% |
| Product Distribution | 5 | 90.7 | 34.4% | 2.9x | 36.3% |
| Capital Markets | 4 | 67.0 | 25.4% | 2.7x | 24.6% |
| Asset / Wealth Management | 4 | 62.8 | 23.8% | 1.4x | 14.2% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

| Aggregate - Realized Performance by Region | | | | | |
|---|---|---|---|---|---|
| ($mm) Region | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| Western U.S. | 8 | $159.7 | 60.6% | 2.9x | 28.8% |
| Midwestern U.S. | 1 | 19.3 | 7.3% | 2.8x | 46.3% |
| Eastern U.S. | 4 | 76.3 | 29.0% | 2.6x | 23.6% |
| Southern U.S. | 1 | 8.3 | 3.1% | 0.0x | -100.0% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

| Aggregate - Realized Performance by Source | | | | | |
|---|---|---|---|---|---|
| ($mm) Source | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| Direct | 4 | $43.2 | 16.4% | 3.6x | 28.5% |
| Network | 4 | 85.3 | 32.4% | 3.5x | 43.3% |
| Broken Process | 3 | 95.8 | 36.4% | 2.4x | 16.7% |
| Brokered | 3 | 39.2 | 14.9% | 0.9x | -1.1% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

| Aggregate - Realized Performance by Investment Type / Stage | | | | | |
|---|---|---|---|---|---|
| ($mm) Investment Type / Stage | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| Minority / Recap | 4 | $57.8 | 21.9% | 3.6x | 38.9% |
| Control | 6 | 152.4 | 57.9% | 3.0x | 26.3% |
| Minority / Growth | 4 | 53.3 | 20.2% | 1.1x | 1.8% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

| Aggregate - Realized Performance by Investment Size | | | | | |
|---|---|---|---|---|---|
| ($mm) Investment Size | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| <$10mm | 5 | $40.5 | 15.4% | 2.3x | 17.7% |
| $10mm - $20mm | 5 | 85.2 | 32.4% | 3.4x | 38.6% |
| $20mm - $40mm | 2 | 52.8 | 20.0% | 0.8x | -2.7% |
| $40mm - $60mm | 2 | 85.0 | 32.3% | 3.4x | 34.3% |
| $60mm - $80mm | 0 | 0.0 | 0.0% | 2.0x | 15.0% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

| Aggregate - Realized Performance by Entry Enterprise Value | | | | | |
|---|---|---|---|---|---|
| ($mm) Entry Enterprise Value | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| <$100mm | 13 | $231.7 | 87.9% | 2.9x | 29.7% |
| $100mm - $200mm | 1 | 31.8 | 12.1% | 1.3x | 5.4% |
| $200mm - $300mm | 0 | 0.0 | 0.0% | n/a | n/a |
| >$300mm | 0 | 0.0 | 0.0% | n/a | n/a |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

| Aggregate - Realized Performance by Entry Debt / EBITDA | | | | | |
|---|---|---|---|---|---|
| ($mm) Entry Debt / EBITDA | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| 0.0x | 8 | $112.8 | 42.8% | 1.9x | 19.1% |
| 0.0x - 2.0x | 2 | 30.0 | 11.4% | 4.7x | 43.3% |
| 2.0x - 4.0x | 3 | 77.7 | 29.5% | 2.4x | 42.7% |
| 4.0x - 6.0x | 1 | 43.0 | 16.3% | 4.2x | 32.2% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

## 2.9 Realized Attribution Analysis (continued)

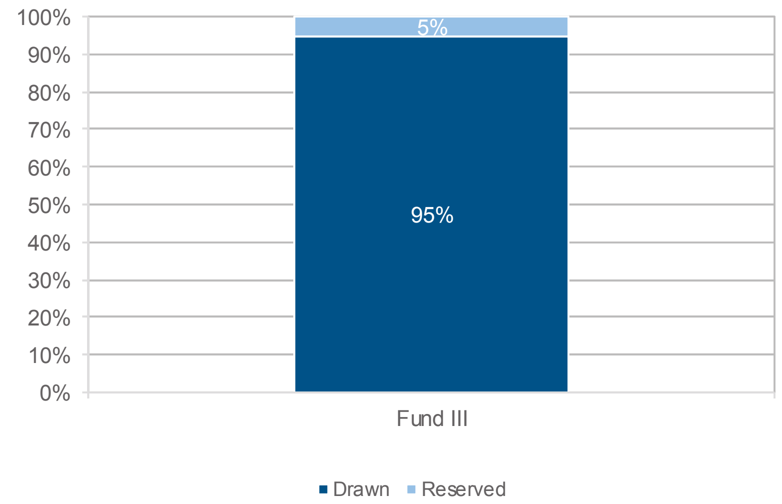
| Aggregate - Realized Performance by Gross Multiple | | | | | |
|---|---|---|---|---|---|
| ($mm) Gross Multiple | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| <0.5x | 3 | $34.5 | 13.1% | 0.1x | -34.9% |
| 0.5x - 1.0x | 0 | 0.0 | 0.0% | n/a | n/a |
| 1.0x - 2.0x | 4 | 71.7 | 27.2% | 1.2x | 4.9% |
| 2.0x - 3.0x | 3 | 69.3 | 26.3% | 2.6x | 44.2% |
| >3.0x | 4 | 88.0 | 33.4% | 5.1x | 41.5% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

| Aggregate - Realized Performance by Gross IRR | | | | | |
|---|---|---|---|---|---|
| ($mm) Gross IRR | No. of Trans. | Amount Invested | As % | Gross Mult. | Gross IRR |
| <0% | 3 | $34.5 | 13.1% | 0.1x | -34.9% |
| 0% - 20% | 4 | 70.7 | 26.8% | 1.4x | 5.9% |
| 20% - 40% | 3 | 72.0 | 27.3% | 3.7x | 32.8% |
| 40% - 60% | 4 | 86.3 | 32.8% | 4.1x | 44.9% |
| **Total** | **14** | **$263.5** | | **2.7x** | **28.5%** |

## 2.10 Remaining Fund Capital

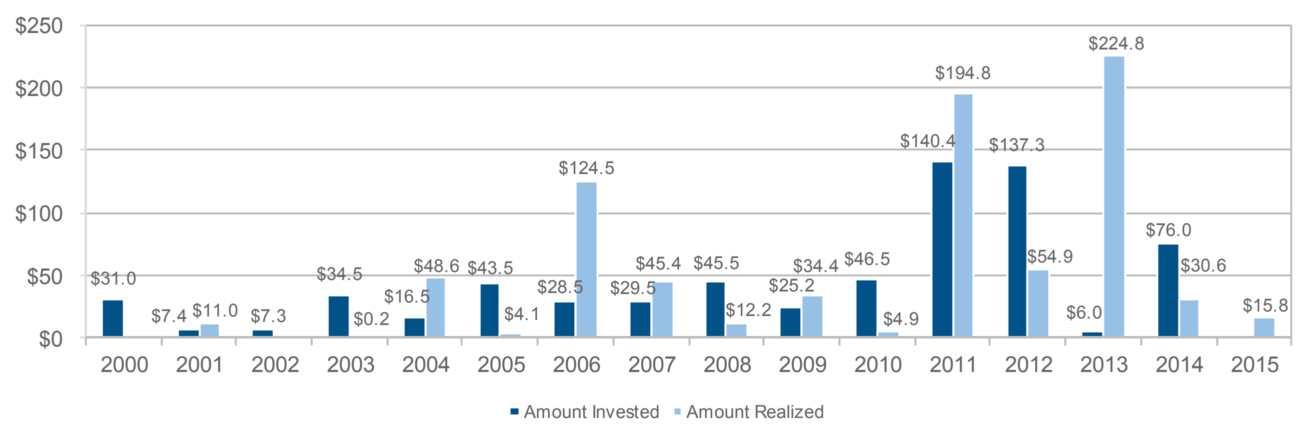
- Fund III is mostly drawn, with the remaining capital reserved for an investment that is expected to close in Q3 2015

**Fund III - Remaining Fund Capital**
**As of 3/31/15**




## 2.11 Investment Pacing

**Historical Investment Pace - By Year ($mm)**
**As of 3/31/15**




- The General Partner's historically concentrated investment approach has contributed to uneven investment pacing

## 2.12 Institutional Sponsorship

| Institutional Sponsors [1] | |
|---|---|
| Aegon Americas | Lincoln National Life Insurance Company |
| Arizona State Retirement System | National Bank of Canada Pension Fund |
| Eastman Kodak Company Pension Fund (US) | Nationwide Insurance |
| GCM Grosvenor Private Markets | PPM America Capital Partners |
| Gettysburg College Endowment | Private Advisors |
| Goldman Sachs AIMS Private Equity | Prudential Financial |
| Grable Foundation | Quilvest Private Equity |
| Hartford HealthCare Pension and Endowment Fund | RCP Advisors |
| H-E-B Investment and Retirement Plan Trust | Transamerica |
| HighVista Strategies | Twin Bridge Capital Partners |
| Houston Police Officers' Pension System | UFCW - Northern California Employers Joint Pension |
| Invesco Private Capital | Washington State University Foundation |
| J. Paul Getty Trust | Washington University in St. Louis Endowment |
| Jackson National Life Insurance Company | WP Global Partners |
| James S. McDonnell Foundation | |

[1] Provided by Preqin

# Section 3 | General Partner

- Strong senior team with significant experience working together
- Co-founders remain closely involved with day-to-day operations
- Supported by Senior Advisors with sector expertise
- Few departures since inception

## 3.1 Organization

### Firm background and history

- Messrs. Lovell and Minnick co-founded Putnam Lovell Capital Partners ("PLCP") in 1999 to invest in financial services companies
    - PLCP's parent company was bought by the National Bank of Canada in 2002, and PLCP spun out and was renamed Lovell Minnick Partners LLC in 2004
- Lovell Minnick has a total of 19 employees, with 11 based in Philadelphia area and 8 based in Los Angeles
- In the near future, the General Partner may seek to add a Chief Administrative Officer to oversee middle and back office functions
    - These functions are currently overseen by an Operating Committee consisting of five Managing Directors

| Lovell Minnick Partners LLC | | | |
|---|---|---|---|
| Philadelphia | | Los Angeles | |
| Managing Directors | | | |
| James Minnick | | Jeffrey Lovell | |
| Spencer Hoffman | Jennings Newcom | Robert Belke | John Cochran |
| Principals | | | |
| W. Bradford Armstrong | Jason Barg | Trevor Rich | |
| Senior Associate (1) | Associates (2) | | Associates (2) |
| Middle and Back Office Staff (3) | | Middle and Back Office Staff (2) | |
| | Senior Advisors (3) | | |

## 3.1 Organization (continued)

**Investment team and processes**

- Messrs. Lovell and Minnick continue to lead the investment team and are committed to remaining fully dedicated to the General Partner for the foreseeable future
- Deal teams typically include a Managing Director, a Principal or Senior Associate and an Associate
  - Investment professionals do not focus on particular geographies or subsectors
- The investment committee consists of five Managing Directors and excludes Mr. Newcom, who serves as the General Counsel
  - Investment decisions are iterative and consensus driven, with a majority vote required
- The investment team is supplemented by three Senior Advisors, all of whom have significant experience in the financial services sector
  - Senior Advisors are expected to generate deal flow and serve on boards
  - They are exclusive to the General Partner, paid on retainer by the management company, and receive a small carried interest allocation

## 3.1 Organization (continued)

**General Partner commitment and carried interest allocation**

- The General Partner has committed $15.25 million to the Fund, with up to $10.0 million from deferred management fees
  - The six Managing Directors account for most of the General Partner commitment
- Carried interest is primarily distributed among Managing Directors and Principals, with a small allocation for Senior Advisors
  - The Co-founders receive approximately half of the carried interest, and the other Managing Directors receive between 8% and 12% each

## 3.2 Experience

- The Managing Directors average 28 years of total experience and 12 years at Lovell Minnick

| Experience of Investment Professionals | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Title | Location | Age | Tot. Exp. (yrs.) | PE Exp. (yrs.) | Tenure (yrs.) | Prior Experience | Educational Background |
| Jeffrey Lovell | Managing Director | Los Angeles | 63 | 41 | 16 | 16 | • Putnam Lovell Group Inc., Co-founder<br>• SEI Investments, Managing Director | • University of Colorado (BS) |
| James Minnick | Managing Director | Philadelphia | 67 | 44 | 16 | 16 | • Morgan Grenfell Capital Management, CEO<br>• SEI Investments, EVP | • University of Denver (BA) |
| Robert Belke | Managing Director | Los Angeles | 45 | 21 | 15 | 15 | • TIAA-CREF, Associate<br>• Wilshire Associates, Senior Analyst | • University of Chicago (MBA)<br>• University of Wisconsin (BA) |
| John Cochran | Managing Director | Los Angeles | 43 | 18 | 15 | 8 | • SV Investment Partners, Principal<br>• J.W. Childs Associates, Associate | • Stanford University (MBA, MA)<br>• University of California, Los Angeles (BA) |
| Spencer Hoffman | Managing Director | Philadelphia | 42 | 18 | 14 | 7 | • Safeguard Scientifics Inc., Principal<br>• MicroStrategy, Inc., Manager of Corp. Affairs | • University of Pennsylvania (MBA)<br>• Brown University (BA) |

## 3.3 Tenure

| Name | Tot. Exp. (yrs.) | PE Exp. (yrs.) | Tenure (yrs.) | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Fund I | | | | | Fund II | | | Fund III | | | | | | | |
| Jeffrey Lovell | 41 | 16 | 16 | | | | | | | | | | | | | | | | | |
| James Minnick | 44 | 16 | 16 | | | | | | | | | | | | | | | | | |
| Robert Belke | 21 | 15 | 15 | | | | | | | | | | | | | | | | | |
| John Cochran | 18 | 15 | 8 | | | | | | | | | | | | | | | | | |
| Spencer Hoffman | 18 | 14 | 7 | | | | | | | | | | | | | | | | | |

= Tenure with the General Partner

= Private Equity Experience

= Total Experience

## 3.4. Departures

- Turnover has been limited, with no senior-level departures since 2010

| Turnover [1] | | | | | |
|---|---|---|---|---|---|
| Name | Title | Start Date | Leave Date | Tenure (yrs.) | Reason for Leaving |
| Takashi Moriuchi | Principal | Jan-00 | Aug-06 | 7 | Mutual Agreement |
| Cameron Miller | Principal | Jan-99 | Mar-08 | 9 | Mutual Agreement |
| Daniel Kang | Principal | Sep-00 | May-10 | 10 | Mutual Agreement |

[1] Represents turnover at the Principal and Managing Director levels

# Section 4 | Investment Recommendation

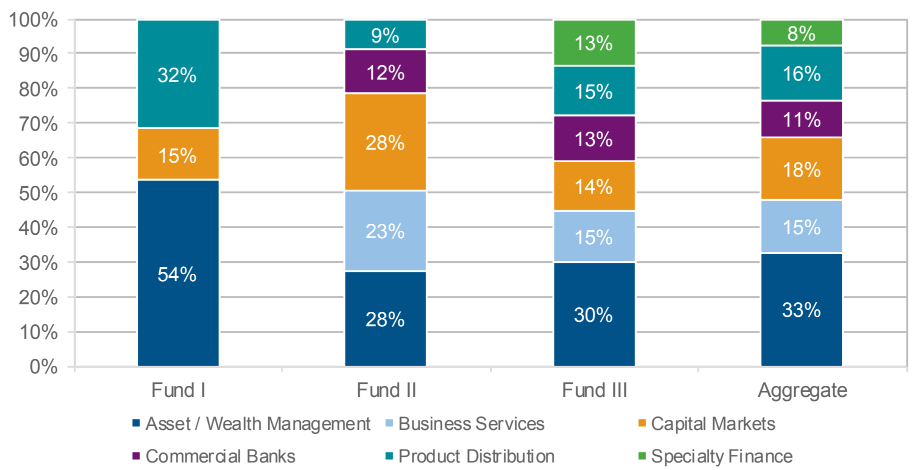
- Continued focus on financial services companies operating in the lower middle-market
- Consistent performance across Prior Funds with limited write-offs
- Experienced and tenured team with relevant skillsets and established professional networks

## 4.1 Conclusion

**Continued focus on financial services companies operating in the lower middle-market**

- Lovell Minnick has an established presence in the financial services sector, and expected deal and target company sizes are not expected to change significantly from Prior Funds
- The investment team utilizes top-down research to identify attractive subsectors and then leverages its network to locate actionable opportunities
  - Subsectors of focus include asset / wealth management, product distribution and specialty finance
- The flexible strategy allows the General Partner to pursue both control and minority investments, thus diversifying the risk profile across the portfolio

**Prior Investments - % by Subsector**
**As of 3/31/15**



## 4.1 Conclusion (continued)

**Consistent performance across Prior Funds with limited write-offs**

- Lovell Minnick has generated consistent performance since inception, with top quartile performance in two of three Prior Funds
- The General Partner's focus on stable businesses with strong management teams is demonstrated by the below average aggregate write-off ratio of 16%
- An increased focus on IRR management is expected to mitigate the Fund's j-curve and narrow the gross-net spread

| Lovell Minnick Partners LLC<br>Prior Investment Performance<br>As of 3/31/15 | | | | | | | | | | | | | HL<br>N. Am Buyout<br>Benchmark [2] | Thom./Camb.[1]<br>U.S. Buyout<br>Benchmark [2] | Preqin<br>U.S. Buyout<br>Benchmark [2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) | | # of Inv. | | | | | | Realized | | Total | | | Top-Quartile | Top-Quartile | Top-Quartile |
| Fund | Vintage | Total | Real. | Fund Size | Amount Invested | Realized Value | Unrealized Value | Gross Mult. | Gross IRR | Gross Mult. | Gross IRR | Net IRR | Net IRR | Net IRR | Net IRR |
| Fund I | 2000 | 8 | 8 | $105.4 | $102.3 | $275.0 | $0.0 | 2.7x | 29.2% | 2.7x | 29.2% | 20.7% | 19.6% | 20.6% | 24.5% |
| Fund II | 2005 | 7 | 5 | 223.5 | 185.3 | 349.2 | 90.0 | 2.8x | 25.3% | 2.4x | 20.8% | 14.1% | 11.9% | 13.6% | 14.7% |
| Fund III | 2008 | 9 | 1 | 455.8 | 387.5 | 182.1 | 523.0 | 2.6x | 56.2% | 1.8x | 25.5% | 14.4% | 21.8% | 21.7% | 28.0% |
| **Total** | | **24** | **14** | | **$675.1** | **$806.3** | **$613.0** | **2.7x** | **28.5%** | **2.1x** | **25.9%** | **16.7%** | | | |

[1] Represents Cambridge benchmark data w hich w as obtained through ThomsonOne

[2] The benchmark data show n is the most recent data available at this time; Hamilton Lane benchmarks as of 3/31/15; ThomsonOne benchmarks as of 3/31/5; and Preqin benchmarks as of most up to date

## 4.1 Conclusion (continued)

**Experienced and tenured team with relevant skillsets and established professional networks**

- The senior team has worked together at Lovell Minnick for an extended period, with an average tenure of 12 years
- Members of the investment team have relevant experience in financial services from both principal investing and investment banking
- The General Partner focuses on developing employees within the organization, with all three Principals having joined as Senior Associates
- The General Partner has experienced limited turnover at the senior level, with no Principal or Managing Director departures since 2010

## 4.2 Recommendation

Taking into consideration the investment strategy and portfolio diversification objectives of the Massachusetts Pension Reserves Investment Trust (PRIT) Fund's Private Equity program, Hamilton Lane recommends a commitment of up to $100.0 million to this Fund by the Massachusetts Pension Reserves Investment Management (PRIM) Board.

# Section 5 | Appendices

## 5.1 Additional Benchmark Analysis

| Lovell Minnick Partners LLC Prior Investment Performance | | | | | | HL N. Am Buyout Benchmark[2] | Thom./Camb.[1] U.S. Buyout Benchmark[2] | Preqin U.S. Buyout Benchmark[2] | HL N. Am Buyout Benchmark[2] | Thom./Camb.[1] U.S. Buyout Benchmark[2] | Preqin U.S. Buyout Benchmark[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Fund | Vintage | Fund Size | As of Date | TVPI | Net IRR | Top-Quartile TVPI | Top-Quartile TVPI | Top-Quartile TVPI | Top-Quartile Net IRR | Top-Quartile Net IRR | Top-Quartile Net IRR |
| GTCR Fund VII, L.P. | 2000 | $1,517 | Mar-15 | 2.4x | 21.8% | 2.1x | 2.2x | 2.6x | 19.6% | 20.6% | 20.4% |
| **Fund I** | **2000** | **105** | **Mar-15** | **2.1x** | **20.7%** | **2.1x** | **2.2x** | **2.6x** | **19.6%** | **20.6%** | **20.4%** |
| Parthenon Investors II, L.P. | 2001 | 758 | Mar-15 | 1.7x | 12.9% | 2.3x | 2.3x | 2.8x | 24.6% | 26.6% | 23.1% |
| FTV II, L.P. | 2001 | 424 | Mar-15 | 1.8x | 8.2% | 2.3x | 2.3x | 2.8x | 24.6% | 26.6% | 23.1% |
| GTCR Fund VIII, L.P. | 2003 | 1,563 | Mar-15 | 1.7x | 22.3% | 2.2x | 2.3x | 2.2x | 26.1% | 21.3% | 15.0% |
| Kelso Investment Associates VII, L.P. | 2004 | 2,100 | Mar-15 | 1.6x | 11.3% | 1.8x | 2.3x | 3.0x | 14.2% | 21.3% | 16.2% |
| Genstar Capital Partners IV, L.P. | 2004 | 485 | Mar-15 | 1.5x | 8.5% | 1.8x | 1.9x | 3.0x | 14.2% | 14.8% | 16.2% |
| Flexpoint Fund I, L.P. | 2005 | 225 | Dec-14 | 2.4x | 19.7% | 1.7x | 1.9x | 2.2x | 11.9% | 13.6% | 10.7% |
| **Fund II** | **2005** | **224** | **Mar-15** | **1.8x** | **14.1%** | **1.7x** | **1.9x** | **2.2x** | **11.9%** | **13.6%** | **10.7%** |
| Parthenon Investors III, L.P. | 2005 | 700 | Mar-15 | 1.5x | 8.3% | 1.7x | 1.9x | 2.2x | 11.9% | 13.6% | 10.7% |
| GTCR Fund IX, L.P. | 2006 | 2,357 | Mar-15 | 1.8x | 14.3% | 1.7x | 2.0x | 1.8x | 13.9% | 15.2% | 8.9% |
| Lightyear Fund II, L.P. | 2006 | 858 | Dec-14 | 1.5x | 7.1% | 1.7x | 2.0x | 1.8x | 13.9% | 15.2% | 8.9% |
| FTV III, L.P. | 2007 | 504 | Mar-15 | 2.0x | 17.1% | 1.7x | 1.8x | 2.3x | 14.7% | 15.9% | 15.2% |
| Kohlberg Investors VI, L.P. | 2007 | 1,553 | Mar-15 | 1.7x | 16.3% | 1.7x | 1.8x | 2.3x | 14.7% | 15.9% | 15.2% |
| Trident IV, L.P. | 2007 | 2,202 | Dec-14 | 1.7x | 16.1% | 1.7x | 1.8x | 2.3x | 14.7% | 15.9% | 15.2% |
| Genstar Capital Partners V, L.P. | 2007 | 1,582 | Mar-15 | 1.7x | 13.8% | 1.7x | 1.8x | 2.3x | 14.7% | 15.9% | 15.2% |
| Kelso Investment Associates VIII, L.P. | 2007 | 2,100 | Mar-15 | 1.4x | 11.2% | 1.7x | 1.8x | 2.3x | 14.7% | 15.9% | 15.2% |
| Pine Brook Capital Partners, L.P. | 2007 | 1,150 | Mar-15 | 1.3x | 9.8% | 1.7x | 1.8x | 2.3x | 14.7% | 15.9% | 15.2% |
| Aquiline Financial Services Fund, L.P. | 2007 | 1,106 | Mar-15 | 1.5x | 7.9% | 1.7x | 1.8x | 2.3x | 14.7% | 15.9% | 15.2% |
| Crestview II | 2008 | 2,429 | Mar-15 | 1.5x | 15.1% | 1.7x | 1.8x | 2.3x | 21.8% | 21.7% | 20.6% |
| **Fund III** | **2008** | **456** | **Mar-15** | **1.4x** | **14.4%** | **1.7x** | **1.8x** | **2.3x** | **21.8%** | **21.7%** | **20.6%** |
| Carlyle Global Financial Services Partners, L.P. | 2008 | 1,100 | Dec-14 | 1.5x | 12.2% | 1.7x | 1.8x | 2.3x | 21.8% | 21.7% | 20.6% |
| Flexpoint Fund II, L.P. | 2009 | 756 | Dec-14 | 1.4x | 16.9% | 1.8x | 1.9x | 2.3x | 24.3% | 28.3% | 26.0% |

1 Represents Cambridge benchmark data w hich w as obtained through ThomsonOne

Sources:

Funds - Hamilton Lane database and Preqin as of most up-to-date

Benchmarks - Hamilton Lane N. Am Buyout benchmarks as of 3/31/15; ThomsonOne U.S. Buyout benchmarks as of 3/31/15; Preqin U.S. Buyout benchmarks as of most up to date

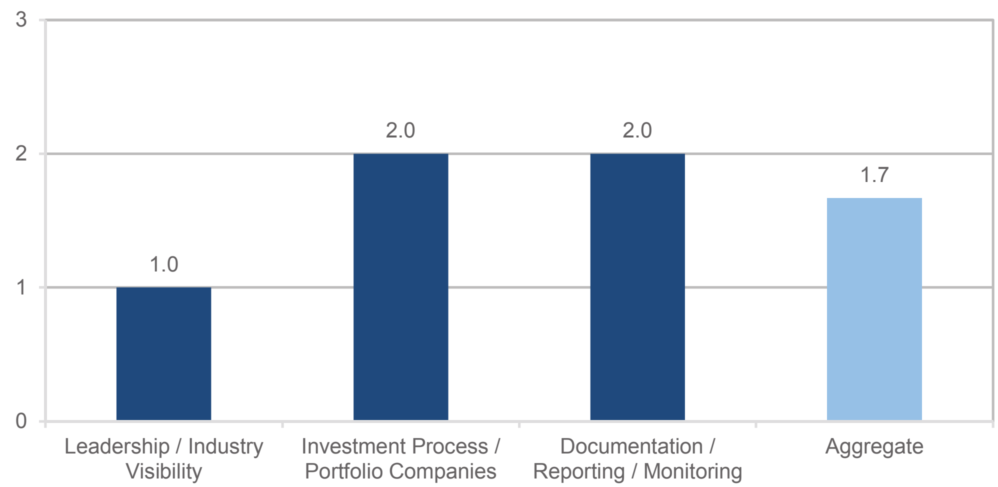
## 5.2 Litigation

- The General Partner has indicated that neither it, nor any members of the senior team are involved in, or have in the past been involved in, any pending or threatened: (i) criminal proceeding; (ii) regulatory investigation; or (iii) any action or proceeding involving their management of any private equity vehicle, other than in an ordinary course of business

### 5.3 Environmental, Social and Governance Policies ("ESG")

- The General Partner is not a signatory to the Principles for Responsible Investment (PRI)
- Lovell Minnick considers ESG concerns or opportunities identified during due diligence; where an ESG concern or opportunity is identified, the approval of the investment will include a plan to address it as part of the operating improvement activities developed for that investment
- Lovell Minnick Partners' personnel who are members of portfolio company boards of directors report to Lovell Minnick any material ESG issues that arise during oversight of a portfolio company's business, including the portfolio company's plans to remediate them.

**ESG Rating System - Lovell Minnick Partners LLC**




About ESG Rating System: The ESG Rating System is a proprietary model developed by Hamilton Lane to evaluate each General Partner ESG activities and provide a means to compare one fund to another on a more quantitative basis. Each of the three categories are weighted evenly and totaled to create an overall value for the fund.

The ratings for each category are 1 through 3, with 3 being the best.

### 5.4 ECI / UBTI

- The Partnership may make investments that will cause a tax-exempt partner to have UBTI or ECI. If the General Partner proposes to make an investment that would result in UBTI or ECI, the Blocker Fund will use one or more blocker corporations (or other structures) designed to prevent tax-exempt partners and non-U.S. partners investing through the Blocker Fund from recognizing UBTI and ECI.

## 5.5 Summary of Terms

| Term | Full Detail | Rating |
|---|---|---|
| Investment Period: | At the end of the period commencing on the initial closing date and ending on the sixth anniversary of the initial closing date (the “Investment Period”), all Partners will be released from any further obligation to fund investments, except to the extent necessary to: (i) cover expenses, liabilities and obligations of the Partnership, including Management Fees (as defined below), obligations under any guarantees executed by the Partnership and indemnification obligations; (ii) fund then existing commitments and complete investments by the Partnership in transactions that were in process as of the end of the Investment Period that are funded within one year following expiration of the Investment Period; and (iii) effect follow-on investments (in addition to any included in (ii)) in existing portfolio companies (with such follow-on investments after the expiration of the Investment Period not to exceed 20% of aggregate Commitments unless a majority in interest of Limited Partners approve otherwise). | Neutral |
| Term: | The term of the Partnership will terminate on the tenth anniversary of the Effective Date but may be extended for up to a maximum of three consecutive one-year periods, the first of which is at the discretion of the General Partner and the second and third of which are at the discretion of the General Partner with the consent of the Advisory Board. The Partnership’s term is subject to early termination upon certain circumstances as set forth in the Partnership Agreement, including, as described in the Partnership Agreement, upon the requisite vote of the Limited Partners to terminate the Partnership for any reason. | Neutral |
| Minimum Investment: | The minimum Commitment of a limited partner (collectively, the “Limited Partners”) will be $5 million, although individual Commitments of lesser amounts may be accepted at the discretion of the General Partner. The General Partner and the Limited Partners are sometimes referred to collectively as the “Partners.” | n/a |
| GP Commitment: | The General Partner, its partners, the Managing Directors and related parties will commit to the Partnership an aggregate of at least $15.25 million. | Neutral |
| Management Fee: | Commencing on the date that is the later of: (i) the initial closing or (ii) when the Partnership enters a letter of intent or definitive agreement to make its first investment (the “Effective Date”), the Partnership will pay the General Partner an annual management fee, payable semi-annually, partially in advance and partially in arrears for each Management Fee period, equal to 2% of aggregate Commitments held by Partners not designated an “affiliated partner” by the General Partner. Commencing with the first Management Fee due date after the expiration of the Investment Period or earlier upon the occurrence of certain events as set forth in the Partnership Agreement, the Management Fee will equal 2% of (i) the aggregate investment contributions, less (ii) the aggregate amount of investment contributions with respect to the portion of each investment that has been disposed of or completely written-off, and less (iii) the aggregate amount of any permanent write- downs of investments that have not been disposed of or completely written-off as set forth in the Partnership Agreement; provided that investments in a portfolio company shall be treated as having been disposed of only to the extent the fair market value of the Partnership’s remaining interest in such portfolio company at the time of such distribution is less than the Partnership’s aggregate investment contributions made with respect to all investments in such portfolio company. | Neutral |

## 5.5 Summary of Terms (continued)

| Term | Full Detail | Rating |
|---|---|---|
| Fee Offset: | The Management Fee will be reduced by 100% of any (i) directors' fees, financial consulting fees, advisory fees, transaction fees and monitoring fees paid to the General Partner with respect to any Partnership investment and (ii) break-up fees with respect to Partnership transactions not completed that are paid to the General Partner, in each case attributable to Partners not designated as "affiliated partners" by the General Partner; but not including, in any event, any amount received by the General Partner or other person from a portfolio company as reimbursement for expenses directly related to such portfolio company, as payment for services provided to any portfolio company in the ordinary course of such portfolio company's business or as compensation for services provided by the General Partner or other person as an employee of or in a similar capacity for such portfolio company. | Neutral |
| Distribution of Profits and Losses: | Distributions of cash proceeds from the sale of securities and distributions of securities in kind, together with any other distributions, dividends and interest income received with respect to investments in portfolio companies, generally will be preliminarily apportioned among the Partners participating in the applicable investment in proportion to their respective participation in funding such investment. The amount so apportioned to the General Partner generally will be distributed to it. The amount so apportioned to a Limited Partner generally will be distributed as follows:<br><br>a) first, 100% to such Limited Partner until the cumulative amount distributed in respect of investments then and previously disposed of equals the aggregate of the following:<br><br>i. such Limited Partner's funded Commitment attributable to all realized investments, plus the amount of permanent write-down, if any, with respect to each unrealized investment permanently written down as of that time;<br>ii. such Limited Partner's funded Commitment attributable to all organizational expenses, management fees and other expenses paid to date; and<br>iii. a preferred return on amounts included in (i) and (ii) above at the rate of 8% per annum compounded annually (the "Preferred Return");<br><br>b) second, 100% to the General Partner until such time as the General Partner has received, as its carried interest, 20% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph (b); and<br><br>c) thereafter, 80% to such Limited Partner and 20% to the GeneralPartner as carried interest<br><br>Notwithstanding the foregoing, the Management Fees and carried interest otherwise attributable to Limited Partners may, in the sole discretion of the General Partner, be waived with respect to Commitments by the partners of the General Partner (including the Managing Directors) or their respective affiliates. A distribution relating to a partial disposition of an investment will be subject to the above formula, with the Preferred Return and the carried interest based pro rata on the original cost of, and the cumulative distributions made with respect to, the disposed portion of such investment. | Neutral |
| Organizational Expenses: | The Partnership will reimburse the General Partner for up to $2 million of the Partnership's and its affiliated entities' organizational and startup expenses, including legal, travel, accounting, filing, printing, capital raising and other organizational expenses. The General Partner will bear the cost (which may be offset against the Management Fee) of all organizational expenses in excess of this amount, if any, and of any placement fees payable to any placement agent in connection with the formation of the Partnership. | Neutral |

## 5.5 Summary of Terms (continued)

| Term | Full Detail | Rating |
| --- | --- | --- |
| Key Man Provision: | The General Partner shall give the Limited Partners and the Parallel Fund Limited Partners written notice promptly after there ceases to be at least (a) two Approved Executive Officers (Jeffrey Lovell and James Minnick) or (b) two Approved Other Principals (Spencer Hoffman, Robert Belke and John Cochran) active in the Partnership's affairs. Thereafter, the Partnership shall not deliver a Capital Call Notice to fund any Investments, except for Pending Investments, without the approval of Limited Partners and Parallel Fund Limited Partners holding a majority of the Aggregate Commitments held by such Persons or, if such Cessation Event resulted pursuant to clause (b), the Advisory Board (such approval, "Continuing Investment Approval"), which approval must be given within 90 days after the date of such Cessation Event. Following a Cessation Event, the General Partner shall provide the Advisory Board at its request a list of any then existing commitments to make Investments and any transactions that are in process. | Neutral |
| Investment Limitations: | The Partnership will not invest (i) in securities of any single portfolio company and its subsidiaries more than (a) 20% of the Partnership's aggregate Commitments (excluding Bridge Financings without the consent of the Advisory Board (and in no event more than 25% of the Partnership's aggregate Commitments with such Advisory Board consent) or (b) 30% of the Partnership's aggregate Commitments (including Bridge Financings) without the consent of the Advisory Board (and in no event more than 35% of the Partnership's aggregate Commitments with such Advisory Board consent) or (ii) in non-U.S. investments in the aggregate more than (a) 20% of the Partnership's aggregate Commitments (excluding Bridge Financings) or (b) 30% of the Partnership's aggregate Commitments (including Bridge Financings); provided that for purposes of such limitations, prior to the final closing date, the Partnership's Commitments shall be deemed to be no less than $550 million. | Neutral |
| No Fault Divorce: | At any time after the second anniversary of the Effective Date, Limited Partners and Parallel Fund Limited Partners holding at least 80% of the Aggregate Commitments may dissolve the Partnership and the Parallel Fund for any reason by delivering a written notice to such effect to the General Partner. | Neutral |
| Clawback: | Upon the final distribution of the Partnership's assets, the General Partner will be required to restore distributions to the Partnership for distribution to the applicable Partner to the extent that it received cumulative carried interest distributions in excess of amounts otherwise distributable to the General Partner pursuant to the distribution formula set forth above, applied on an aggregate basis for such Partner covering all transactions of the Partnership, but in no event more than the cumulative distributions received by the General Partner with respect to its 20% carried interest with respect to such Partner, less income taxes thereon. In addition, the General Partner has a similar obligation to restore distributions to the Partnership on an "interim giveback" basis prior to such time as set forth in the Partnership Agreement. | Neutral |

## 5.6 Summary of Portfolio Companies

### Fund I – Alphabetical

| By Fund - Alphabetical | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| AssetMark Investment Services | Fund I | Sep-00 | Oct-08 | 8.1 | $15.0 | $125.3 | $0.0 | 8.4x | 43.7% | Yes |
| Atlantic Asset Management | Fund I | Jun-03 | Jan-12 | 8.6 | 14.5 | 15.0 | 0.0 | 1.0x | 0.7% | Yes |
| Berkeley Capital Management | Fund I | May-03 | Dec-11 | 8.6 | 21.0 | 2.7 | 0.0 | 0.1x | -31.4% | Yes |
| Centurion Capital Group | Fund I | Dec-00 | Dec-01 | 1.0 | 9.0 | 11.0 | 0.0 | 1.2x | 22.0% | Yes |
| Duff & Phelps - Fund I | Fund I | Mar-04 | Dec-12 | 8.8 | 10.0 | 65.8 | 0.0 | 6.6x | 46.8% | Yes |
| PowellJohnson | Fund I | Jun-03 | Aug-04 | 1.1 | 8.3 | 0.0 | 0.0 | 0.0x | -100.0% | Yes |
| Stein Roe Investment Counsel | Fund I | Dec-00 | May-07 | 6.4 | 19.3 | 54.9 | 0.0 | 2.8x | 46.3% | Yes |
| UNX | Fund I | Aug-01 | May-09 | 7.8 | 5.2 | 0.4 | 0.0 | 0.1x | -100.0% | Yes |
| Total | | | Average: | 6.3 | $102.3 | $275.0 | $0.0 | 2.7x | 29.2% | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund I – Chronological

| By Fund - Chronological | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| AssetMark Investment Services | Fund I | Sep-00 | Oct-08 | 8.1 | $15.0 | $125.3 | $0.0 | 8.4x | 43.7% | Yes |
| Centurion Capital Group | Fund I | Dec-00 | Dec-01 | 1.0 | 9.0 | 11.0 | 0.0 | 1.2x | 22.0% | Yes |
| Stein Roe Investment Counsel | Fund I | Dec-00 | May-07 | 6.4 | 19.3 | 54.9 | 0.0 | 2.8x | 46.3% | Yes |
| UNX | Fund I | Aug-01 | May-09 | 7.8 | 5.2 | 0.4 | 0.0 | 0.1x | -100.0% | Yes |
| Berkeley Capital Management | Fund I | May-03 | Dec-11 | 8.6 | 21.0 | 2.7 | 0.0 | 0.1x | -31.4% | Yes |
| Atlantic Asset Management | Fund I | Jun-03 | Jan-12 | 8.6 | 14.5 | 15.0 | 0.0 | 1.0x | 0.7% | Yes |
| PowellJohnson | Fund I | Jun-03 | Aug-04 | 1.1 | 8.3 | 0.0 | 0.0 | 0.0x | -100.0% | Yes |
| Duff & Phelps - Fund I | Fund I | Mar-04 | Dec-12 | 8.8 | 10.0 | 65.8 | 0.0 | 6.6x | 46.8% | Yes |
| Total | | | Average: | 6.3 | $102.3 | $275.0 | $0.0 | 2.7x | 29.2% | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund I – Returns

| By Fund - Returns | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| AssetMark Investment Services | Fund I | Sep-00 | Oct-08 | 8.1 | $15.0 | $125.3 | $0.0 | 8.4x | 43.7% | Yes |
| Duff & Phelps - Fund I | Fund I | Mar-04 | Dec-12 | 8.8 | 10.0 | 65.8 | 0.0 | 6.6x | 46.8% | Yes |
| Stein Roe Investment Counsel | Fund I | Dec-00 | May-07 | 6.4 | 19.3 | 54.9 | 0.0 | 2.8x | 46.3% | Yes |
| Centurion Capital Group | Fund I | Dec-00 | Dec-01 | 1.0 | 9.0 | 11.0 | 0.0 | 1.2x | 22.0% | Yes |
| Atlantic Asset Management | Fund I | Jun-03 | Jan-12 | 8.6 | 14.5 | 15.0 | 0.0 | 1.0x | 0.7% | Yes |
| Berkeley Capital Management | Fund I | May-03 | Dec-11 | 8.6 | 21.0 | 2.7 | 0.0 | 0.1x | -31.4% | Yes |
| UNX | Fund I | Aug-01 | May-09 | 7.8 | 5.2 | 0.4 | 0.0 | 0.1x | -100.0% | Yes |
| PowellJohnson | Fund I | Jun-03 | Aug-04 | 1.1 | 8.3 | 0.0 | 0.0 | 0.0x | -100.0% | Yes |
| Total | | | Average: | 6.3 | $102.3 | $275.0 | $0.0 | 2.7x | 29.2% | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund II – Alphabetical

| By Fund - Alphabetical | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| ALPS Holdings | Fund II | Sep-05 | May-13 | 7.6 | $43.0 | $182.5 | $0.0 | 4.2x | 32.2% | Yes |
| ClariVest Asset Management | Fund II | Mar-06 | Jan-14 | 7.8 | 8.0 | 17.6 | 0.0 | 2.2x | 15.2% | Yes |
| Duff & Phelps - Fund II | Fund II | Sep-05 | Apr-13 | 7.6 | 20.0 | 73.9 | 0.0 | 3.7x | 39.5% | Yes |
| Leerink Swann Holdings | Fund II | Sep-07 | Nov-13 | 6.2 | 31.8 | 41.7 | 0.0 | 1.3x | 5.4% | Yes |
| Mercer Advisors | Fund II | May-08 | Mar-15 | 6.8 | 43.1 | 11.8 | 56.0 | 1.6x | 7.4% | No |
| PlanMember Financial | Fund II | Nov-06 | Oct-13 | 6.9 | 16.4 | 21.7 | 0.0 | 1.3x | 5.3% | Yes |
| Seaside National Bank & Trust | Fund II | Nov-09 | Mar-15 | 5.4 | 23.0 | 0.0 | 34.0 | 1.5x | 8.8% | No |
| Total | | | Average: | 6.9 | $185.3 | $349.2 | $90.0 | 2.4x | 20.8% | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund II – Chronological

| By Fund - Chronological | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| ALPS Holdings | Fund II | Sep-05 | May-13 | 7.6 | $43.0 | $182.5 | $0.0 | 4.2x | 32.2% | Yes |
| Duff & Phelps - Fund II | Fund II | Sep-05 | Apr-13 | 7.6 | 20.0 | 73.9 | 0.0 | 3.7x | 39.5% | Yes |
| ClariVest Asset Management | Fund II | Mar-06 | Jan-14 | 7.8 | 8.0 | 17.6 | 0.0 | 2.2x | 15.2% | Yes |
| PlanMember Financial | Fund II | Nov-06 | Oct-13 | 6.9 | 16.4 | 21.7 | 0.0 | 1.3x | 5.3% | Yes |
| Leerink Swann Holdings | Fund II | Sep-07 | Nov-13 | 6.2 | 31.8 | 41.7 | 0.0 | 1.3x | 5.4% | Yes |
| Mercer Advisors | Fund II | May-08 | Mar-15 | 6.8 | 43.1 | 11.8 | 56.0 | 1.6x | 7.4% | No |
| Seaside National Bank & Trust | Fund II | Nov-09 | Mar-15 | 5.4 | 23.0 | 0.0 | 34.0 | 1.5x | 8.8% | No |
| Total | | | Average: | 6.9 | $185.3 | $349.2 | $90.0 | 2.4x | 20.8% | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund II – Returns

| By Fund - Returns | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| ALPS Holdings | Fund II | Sep-05 | May-13 | 7.6 | $43.0 | $182.5 | $0.0 | 4.2x | 32.2% | Yes |
| Duff & Phelps - Fund II | Fund II | Sep-05 | Apr-13 | 7.6 | 20.0 | 73.9 | 0.0 | 3.7x | 39.5% | Yes |
| ClariVest Asset Management | Fund II | Mar-06 | Jan-14 | 7.8 | 8.0 | 17.6 | 0.0 | 2.2x | 15.2% | Yes |
| Mercer Advisors | Fund II | May-08 | Mar-15 | 6.8 | 43.1 | 11.8 | 56.0 | 1.6x | 7.4% | No |
| Seaside National Bank & Trust | Fund II | Nov-09 | Mar-15 | 5.4 | 23.0 | 0.0 | 34.0 | 1.5x | 8.8% | No |
| PlanMember Financial | Fund II | Nov-06 | Oct-13 | 6.9 | 16.4 | 21.7 | 0.0 | 1.3x | 5.3% | Yes |
| Leerink Swann Holdings | Fund II | Sep-07 | Nov-13 | 6.2 | 31.8 | 41.7 | 0.0 | 1.3x | 5.4% | Yes |
| Total | | | Average: | 6.9 | $185.3 | $349.2 | $90.0 | 2.4x | 20.8% | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund III – Alphabetical

| By Fund - Alphabetical | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| 361 Capital | Fund III | Jun-14 | Mar-15 | 0.8 | $18.0 | $0.0 | $18.0 | 1.0x | 0.0% | No |
| Commercial Credit Group | Fund III | May-12 | Mar-15 | 2.9 | 51.0 | 0.0 | 170.0 | 3.3x | 51.7% | No |
| Dahlman Rose & Company | Fund III | Sep-10 | Mar-15 | 4.6 | 55.3 | 13.6 | 4.6 | 0.3x | -33.1% | No |
| First Allied Holdings | Fund III | Nov-11 | Mar-15 | 3.4 | 42.0 | 88.7 | 20.0 | 2.6x | 56.2% | Yes |
| H.D. Vest | Fund III | Sep-11 | Mar-15 | 3.5 | 15.0 | 22.1 | 23.7 | 3.1x | 45.8% | No |
| Kanaly Trust | Fund III | Dec-12 | Mar-15 | 2.3 | 21.1 | 1.4 | 21.7 | 1.1x | 4.1% | No |
| Keane Holdings | Fund III | Feb-14 | Mar-15 | 1.1 | 58.0 | 0.0 | 58.0 | 1.0x | 0.0% | No |
| Matthews Int'l Capital Mgmt. | Fund III | Jan-11 | Mar-15 | 4.2 | 77.1 | 56.2 | 155.9 | 2.8x | 32.2% | No |
| TriState Capital Holdings | Fund III | Aug-12 | Mar-15 | 2.6 | 50.0 | 0.0 | 51.1 | 1.0x | 0.8% | No |
| Total | | | Average: | 2.8 | $387.5 | $182.1 | $523.0 | 1.8x | 25.5% | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund III – Chronological

| By Fund - Chronological | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| Dahlman Rose & Company | Fund III | Sep-10 | Mar-15 | 4.6 | $55.3 | $13.6 | $4.6 | 0.3x | -33.1% | No |
| Matthews Int'l Capital Mgmt. | Fund III | Jan-11 | Mar-15 | 4.2 | 77.1 | 56.2 | 155.9 | 2.8x | 32.2% | No |
| H.D. Vest | Fund III | Sep-11 | Mar-15 | 3.5 | 15.0 | 22.1 | 23.7 | 3.1x | 45.8% | No |
| First Allied Holdings | Fund III | Nov-11 | Mar-15 | 3.4 | 42.0 | 88.7 | 20.0 | 2.6x | 56.2% | Yes |
| Commercial Credit Group | Fund III | May-12 | Mar-15 | 2.9 | 51.0 | 0.0 | 170.0 | 3.3x | 51.7% | No |
| TriState Capital Holdings | Fund III | Aug-12 | Mar-15 | 2.6 | 50.0 | 0.0 | 51.1 | 1.0x | 0.8% | No |
| Kanaly Trust | Fund III | Dec-12 | Mar-15 | 2.3 | 21.1 | 1.4 | 21.7 | 1.1x | 4.1% | No |
| Keane Holdings | Fund III | Feb-14 | Mar-15 | 1.1 | 58.0 | 0.0 | 58.0 | 1.0x | 0.0% | No |
| 361 Capital | Fund III | Jun-14 | Mar-15 | 0.8 | 18.0 | 0.0 | 18.0 | 1.0x | 0.0% | No |
| **Total** | | | **Average:** | **2.8** | **$387.5** | **$182.1** | **$523.0** | **1.8x** | **25.5%** | |

## 5.6 Summary of Portfolio Companies (continued)

### Fund III – Returns

| By Fund - Returns | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($mm) Company | Fund | Inv. Date | Exit / Curr. Date | Holding Period (yrs.) | Amount Invested | Amount Realized | Unrealized Value | Gross Mult. | Gross IRR | Realized |
| Commercial Credit Group | Fund III | May-12 | Mar-15 | 2.9 | $51.0 | $0.0 | $170.0 | 3.3x | 51.7% | No |
| H.D. Vest | Fund III | Sep-11 | Mar-15 | 3.5 | 15.0 | 22.1 | 23.7 | 3.1x | 45.8% | No |
| Matthews Int'l Capital Mgmt. | Fund III | Jan-11 | Mar-15 | 4.2 | 77.1 | 56.2 | 155.9 | 2.8x | 32.2% | No |
| First Allied Holdings | Fund III | Nov-11 | Mar-15 | 3.4 | 42.0 | 88.7 | 20.0 | 2.6x | 56.2% | Yes |
| Kanaly Trust | Fund III | Dec-12 | Mar-15 | 2.3 | 21.1 | 1.4 | 21.7 | 1.1x | 4.1% | No |
| TriState Capital Holdings | Fund III | Aug-12 | Mar-15 | 2.6 | 50.0 | 0.0 | 51.1 | 1.0x | 0.8% | No |
| 361 Capital | Fund III | Jun-14 | Mar-15 | 0.8 | 18.0 | 0.0 | 18.0 | 1.0x | 0.0% | No |
| Keane Holdings | Fund III | Feb-14 | Mar-15 | 1.1 | 58.0 | 0.0 | 58.0 | 1.0x | 0.0% | No |
| Dahlman Rose & Company | Fund III | Sep-10 | Mar-15 | 4.6 | 55.3 | 13.6 | 4.6 | 0.3x | -33.1% | No |
| **Total** | | | **Average:** | **2.8** | **$387.5** | **$182.1** | **$523.0** | **1.8x** | **25.5%** | |

## Definitions

| | |
|---|---|
| Benchmark Analysis: | An analysis which compares the net IRR of the prior funds to the top-quartile net IRR benchmarks for similar funds (based on strategy and vintage) as reported by the Hamilton Lane, Thomson One and/or Preqin databases. |
| DPI: | Distributed-to-Paid In = (Amount of Distributions Received) / (Total Amount of Capital Paid-In) |
| Gross IRR: | Internal Rate of Return ("IRR") of investments at the 'fund level', excludes fees paid by LPs to the General Partner such as management fees and carried interest. For investments held less than one year, Hamilton Lane nominalizes the IRR to match the hold period of the investment, in order to represent a more meaningful number. |
| Investment Pacing: | An analysis of the total capital invested during the given years. Includes all prior investments, realized or unrealized. |
| Loss Ratio Analysis: | An analysis of the capital invested in realized transactions generating different multiples of invested capital. |
| Net IRR: | Annualized Internal Rate of Return ("IRR") of investments at the 'LP level', inclusive of fees such as management fees and carried interest paid to the General Partner. |
| Net Returns to Limited Partners: | The performance of the General Partner's prior investment vehicles at the net LP level, inclusive of all fees, carried interest and expenses. Performance data is as reported by the General Partner, using actual capital contributions, distributions and net asset value for either all limited partners, or a sample set of limited partners, in the respective funds. |
| PME Analysis: | Calculated by taking the fund cash flows and investing them in the relevant Total Return Index (where all dividends are re-invested). Contributions were scaled by a factor such that the ending portfolio balance would be equal to the private equity net asset value (equal ending exposures for both portfolios). This prevents shorting of the public market equivalent portfolio in order to match the performance of an outperforming private equity portfolio. Distributions were not scaled by this factor. The IRRs were then calculated based off of these adjusted cash flows. |
| Outlier Analysis: | An analysis of the gross returns of investments in prior funds, comparing overall performance against the performance when certain 'outlier' transactions are excluded. Outliers are defined as transactions which generate exceptionally positive or negative results. |
| Realized Attribution Analysis: | Analysis of the capital invested in, and performance of, the prior realized transactions according to the criteria indicated. |
| Realized Investments: | Hamilton Lane classifies investments as 'realized' if it has i) an unrealized value of less than 20% of the total value; ii) a carrying value that has been written to zero or has been previously written-off; or iii) been fully exited and the GP has no remaining interest in the company. |
| RVPI: | Remaining Value-to-Paid In = (Current Net Asset Value) / (Total Amount of Capital Paid-In) |
| TVPI: | Total Value-to-Paid In = (Amount of Distributions Received + Current Net Asset Value) / (Total Amount of Capital Paid-In) |
| Write-Down Ratio: | The ratio of capital invested in realized investments that have been sold for a value that is less than 1.0x their original cost basis, divided by the total capital invested in all realized investments. |
| Write-Off Ratio: | The ratio of capital invested in realized investments that have been sold for a value that is less than 0.5x their original cost basis, divided by the total capital invested in all realized investments. |

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