[DOC ID: 007 | DEAL: Crestline Credit Fund II – Commitment Recommendation]

Crestline Capital is marketing **Credit Fund II**, targeting $400 MM for lower-middle-market senior and unitranche loans. They're asking for a $10 MM LP commitment from us with an 8-year life, two-year investment period. Fund I (vintage 2018) returned 1.32× net, 7.8 % IRR, with residual NAV ≈ 0.18×. Top quartile for credit preservation but bottom half for realized yield.

The GP pitch centers on "direct originations with embedded equity optionality." In practice, the bulk of Fund I exposure was club participations—many sourced via intermediaries. Average hold per deal $7 MM, leverage ≈ 1.4×. Loss ratio 0.6 %, but returns dampened by extended durations and low prepay fees.

We ran a simplified re-underwrite of their new model. Target gross IRR 12–13 %, management fee 2 %, carry 20 %. Assuming same cost of leverage (6.5 %), we get closer to 9 % net in base case. DSCR at fund-level about 1.25× assuming current SOFR; every +50 bps rate bump knocks 0.3 % off yield.

Breakdown from the GP's deck (corrected for typo in Table B):

Metric	GP Model	Adjusted Calc
Gross IRR	13.1 %	≈ 10.6 % realistic
Net IRR	11 %	≈ 8.7 %
MOIC	1.55×	≈ 1.35×
Default Rate Assumed	2.5 %	likely 3.5 %

Fund pipeline as of April: 16 prospective deals (4 software recurring-rev, 3 healthcare RCF, 5 industrial services, 4 misc.), average EBITDA $18 MM, leverage 4.7×, coupon SOFR + 575 bps. Documentation quality varied; two deals flagged as "documentation incomplete—missing audit."

Observations:

- Fund I audit qualified for valuation of three legacy positions; NAV re-mark later validated lower by ≈ 5 %.
- Key person clause unchanged; still single-sponsor risk around M. Delgado.
- GP commitment ≈ 1.5 % ($6 MM), funded over time—not at first close.

We benchmarked against peers: 8–10 % net is acceptable but not compelling given small GP commit and leverage. If they closed 300 MM+ we could justify a token ticket, but they're at 180 MM soft circle. Real execution risk if they stall under 250 MM.

Recommendation: decline for now. Re-evaluate at final close if AUM > 300 MM and Fund I exits remaining legacy loans cleanly. If we ever do commit, size ≤ 5 MM and require side-letter ROFR on co-investments. Log internally as "monitor – non-core credit exposure."