



October 28, 2024

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: Crayhill Principal Strategies Fund III \$50 Million Add-On Commitment and LPAC Representation

Dear Board Members:

NEPC and I jointly recommend Board approval of an additional \$50 million commitment to the Crayhill Principal Strategies Fund III, bringing the total fund commitment to \$75 million.

Background

The Board's adopted asset allocation of May 20, 2024 increased the target allocation to private credit from 8% to 10% for a globally diversified private credit program, with a targeted implementation over three years. At the Board's subsequent meeting of June 24, 2024, the Board approved a Private Credit Pacing Plan that called for a 2024 commitment target of \$275 million. The Board had committed \$25 million to Crayhill Principal Strategies III at its meeting in June 2023. Fund III is now approaching its final closing date, and the recommended \$50 million would be an add-on to VCERA's prior \$25 million fund commitment, will bring VCERA's total commitment to Fund III to \$75 million.

Crayhill Principal Strategies Fund III

As described in greater detail in NEPC's investment recommendation report and in Crayhill's presentation deck, Crayhill Principal Strategies Fund III (CPS III) is targeting \$1 billion (\$1.5 billion hard cap) in total commitments, an increase from a \$500 million target in its predecessor fund, CPS II. CPS III is targeting the same 1.4x-1.5x net Total Value to Paid-In capital equity multiple (TVPI), and a 13%-16% unlevered net Internal Rate of Return (net IRR), with strong cash yields. CPS III will not employ any fund-level leverage.

CPS III will invest in asset-based private credit investments backed by pools of real and financial assets. The strategy focuses on providing flexible and tailored capital solutions to specialty finance platforms and asset-heavy companies that originate, service and develop cash-flowing assets such as loans, leases, royalties, receivables, offtake agreements and subsidies. Moreover, like fund CPS II, CPS III's investments will be tightly structured and self-amortizing to help mitigate risk. The Fund seeks to structure deals that have first-loss protection, priority return waterfalls while incorporating upside optionality. The Fund is designed to generate

stable mid-teen net returns irrespective of the market environment. Investments are generally structured to include i) a current cash yield, ii) profit sharing realized through the performance of underlying assets and iii) in some cases, warrants that provide upside.

CPS III has a closed-end structure with an initial eight-year fund life from the date of the final close and is subject to two 1-year extensions. The Fund has a three-year investment period from the date of the final close, with a possible 6-month extension subject to Advisory Committee approval.

The fund focuses on sectors such as renewable energy, commercial finance, structured real estate and media, where the investment team has deep expertise and longstanding experience. The fund is targeting exposures that are differentiated, in part characterized by low correlations to traditional corporate lending, which will further diversify the portfolio. Further, companies targeted are often overlooked by generalist private credit firms, allowing for larger spreads and better covenant protections. CPS III is scaling rapidly and has made eight investments to date totaling allocated capital of \$550mm. Three of such investments are with repeat relationships that have been counterparties of Crayhill since CPS I. In addition, the fund has a large pipeline of investments it is working to close, including with three additional repeat relationships.

CPS III has been rated “1” by NEPC. VCERA’s additional commitment to CPS III is expected to result in additional fee discounts available to NEPC clients through aggregation over the next threshold of \$150 million, resulting in the following fees for VCERA’s total commitment to CPS III: fees on committed capital of 42.5 basis points stepping up to 127.5 basis points on invested capital, and 17% carry with a 7% hurdle rate with a European-style distribution waterfall. Additional NEPC client aggregated fee discounts are available if NEPC clients reach the \$200 million threshold.

Limited Partner Advisory Committee Membership

The role of a Limited Partner Advisory Committee (LPAC) is to consult with a general partner (GP) with respect to governance issues such as material conflicts of interest, valuation methodologies, approval of proposed investments that exceed certain concentration limits, and other myriad issues.

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The advantages to VCERA of LPAC membership include:

1. Interacting with general partners for insights that can be beneficial when considering future investment opportunities.
2. Direct voting rights to ensure VCERA’s best interests as an LP.
3. Networking with other limited partners to gain knowledge of additional market knowledge.

Limited Partnership Agreements entitle LPAC members to reimbursement for all reasonable out-of-pocket expenses incurred in connection with the member’s service on the LPAC, including expenses for airfare, lodging, meals and other travel expenses incurred to attend meetings.

The primary disadvantage of participation on a LPAC is additional staff time commitment. Staff time required typically is attendance at the actual LPAC meeting, plus one conference call per year.

The governing documents state that the Partnership shall indemnify each member of the LPAC and their designating Limited Partner (each, a "Covered Advisory Person") against any damages to which such Covered Advisory Person may become subject in connection with activities on behalf of the LPAC - but only to the extent that a court of competent jurisdiction (pursuant to a final, non-appealable determination) or a non-appealable arbitration determination has not determined that the Covered Advisory Person had acted in bad faith with respect to the impugned act or omission.

LPAC seats are highly coveted in the industry by limited partners for the reasons outlined above. These seats are generally offered to only a select subset of investors and are commonly required by and offered to the largest investors in the Fund.

Staff recommends that Board approval of the investment commitment includes acceptance of VCERA's representation on the LPAC if offered, and that the Board designate investment staff as VCERA's representative on the LPAC.

Subject to successful negotiation of terms and contract provisions, NEPC and I jointly recommend an additional \$50 million commitment to Fund III.

THEREFORE, IT IS RECOMMENDED THAT THE BOARD:

- 1. Approve a \$50 million add-on commitment to the Crayhill Principal Strategies Fund III, and acceptance of an LPAC seat if offered,**
- 2. Subject to successful contract negotiations, authorize the Board Chair or the Retirement Administrator, or if both unavailable, the Chief Investment Officer to approve and execute the required documentation.**

Respectfully submitted,



Dan Gallagher
Chief Investment Officer