Your Private Equity Partner in the Lower Middle Market

RCP ADVISORS

RCP Advisors | March 2017

North American Lower Middle Market Buyouts

Emerging Managers: Are the Returns Worth the Risk?

Notice

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Terms used herein such as top-tier, high caliber, high profile and top-quartile are based on RCP Advisors' qualitative assessment of a manager's team, strategy and track record (to the extent one exists). The words "expects," "intends," "anticipates," "believes," "estimates," "may," "might," "will," "would," "project," and "predict," and analogous expressions are intended to identify forward-looking statements and are not guarantees of future performance or results. Any forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or events to differ materially from those results or events predicted or anticipated by these statements, including any results described herein. Accordingly, investors should not rely on these statements.

Please note: Targets and/or projections are only estimates of future results based upon assumptions made at the time the projections are developed. There can be no assurance that the projected results are correct or will be obtained, and actual results may vary significantly from the projections. No investment or strategy implies a complete lack of risk. A private fund investment involves a high degree of risk as such investments are speculative, subject to high return volatility and will be illiquid on a long-term basis. Investors may lose their entire investment. An investment in the Fund will be subject to a variety of risks (which are described in the Fund's confidential offering memorandum), and there can be no assurance that the Fund will meet its investment objective or that the Fund will not incur losses. Diversification does not guarantee a profit or protect against a loss in declining markets.

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Any references herein to the number of RCP employees is to full-time employees only. In addition to its offices in Chicago and Newport Beach, RCP also leases a part-time commuter office in Conshohocken, Pennsylvania. Dave McCoy, Managing Director and Portfolio Manager, works part-time from the "for convenience" Pennsylvania office when he is not commuting to RCP's Chicago office.

Where appropriate, certain information contained herein excludes those funds managed by RCP which have a different investment focus, strategy, philosophy, or otherwise deviate from RCP's primary focus on North American lower middle market buyouts (including, without limitation, the RCP Graduate Funds, RCP SBIC Fund, RCP SEF Fund, non-discretionary advisory clients, and discretionary separately managed accounts), unless specified otherwise or unless the context otherwise requires. In addition, performance information for RCP's later vintage year funds-of-funds is not included in the table above; RCP believes that the results are not yet meaningful and analysis and comparison of later vintage fund returns may be irrelevant.

Please note: RCP launched its first SBIC fund-of-funds in December 2015 (RCP SBIC Opportunities Fund, LP) as well as a small and emerging manager fund in September 2016 (RCP Small and Emerging Fund, LP). As a result, the Firm's investment focus/philosophy may vary with respect to leveraged buyout transactions vs. SBIC and mezzanine private equity investments and funds sponsored by small and emerging managers. Because RCP expects that the investment strategy described herein would seek to make investments in private equity funds that focus on leveraged buyouts, any references to RCP's investment focus, strategy, philosophy, or any related matters contained herein pertain to RCP's focus on North American lower middle market buyouts, unless specified otherwise or unless the context otherwise requires.

On September 14, 2016, RCP Small and Emerging Fund, LP ("RCP SEF") was formed as a fund-of-funds to target investments in small North American lower middle market buyout-focused private equity funds sponsored by small and "emerging managers" – defined in RCP SEF's offering materials as generally including private equity managers raising institutional capital for their first or second fund, including funds under $250 million in size. The foregoing notwithstanding, any references to "emerging managers," their respective funds, investment strategies, performance metrics, or any related matters contained in this Presentation are entirely unrelated to RCP SEF. The sample set of emerging manager funds used in this study are based on categorizations and parameters which may be dissimilar (and in some instances, vary considerably) from the "emerging manager" fund investments targeted by RCP SEF.

This Presentation and the statements and information contained herein are made as of March 27, 2017, unless stated otherwise herein. The delivery of this Presentation shall not, under any circumstances, create an implication that the information contained herein is correct as of any time subsequent to the date hereof.

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Introduction

RCP, the Dataset, and Our Study

Overview

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A Leading Independent Private Equity Fund Sponsor since 2001

Consistent Strategy

- North American lower middle market buyouts
  - Primary Funds-of-Funds
  - Secondary Funds
  - Co-Investments

Extensive Portfolio

- ~$5.5B in committed capital*
- 20 RCP Funds**
- 200+ investments across 100+ fund managers
- 2,000+ portfolio companies
- 80+ advisory board seats

Experienced Team

- 44 professionals
- Investment Committee - Over 100 years of combined PE and transaction experience
- Independent Firm

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*Committed capital is calculated based on aggregate committed capital to all funds advised by RCP since the firm's inception in 2001 (including RCP's non-discretionary advisory accounts as well as RCP Funds that have since been sold, dissolved, or otherwise wound down). Does not include RCP's ancillary products and services. **Refers to RCP's discretionary funds currently under advisement.

Resource Tools

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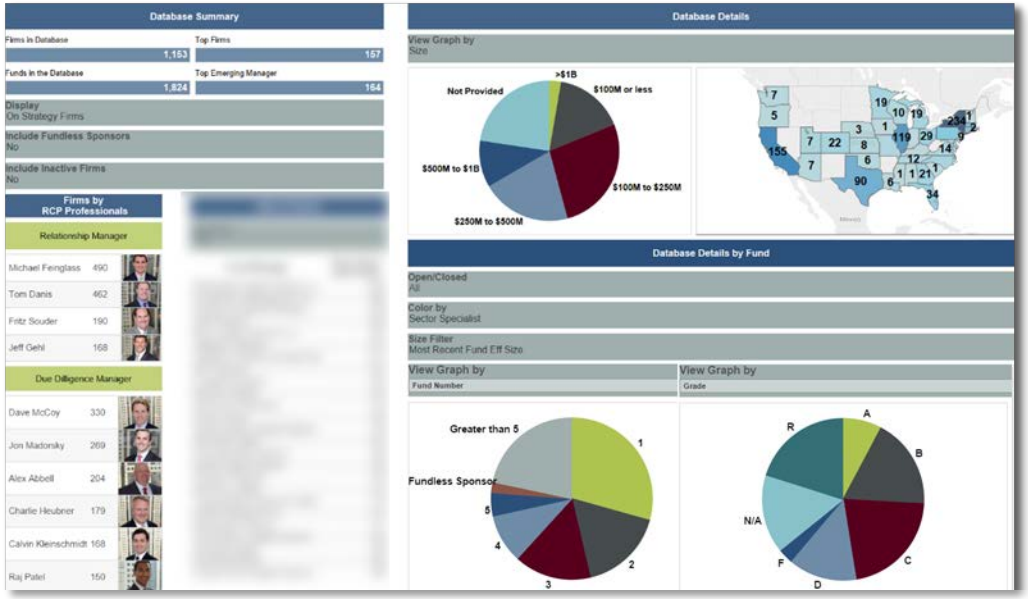
Customized Version of Salesforce.com Continues to be RCP's Primary Tool for the Collection of Market Intelligence

- An analytical tool to facilitate RCP's fund sourcing, fund selection, and portfolio management activities
- A flexible platform that stores and organizes information on RCP's universe of buyout managers (filterable, sortable, up-to-date)
- Extensive data collection at the General Partner, Fund, and Operating Company Level, as well as Internal Evaluations
  - 1,200+ private equity firms tracked
  - 2,000+ individual funds
  - 18,000+ transactions
  - Tracking metrics, such as Entry EBITDA Multiple, Debt Multiple, Enterprise Value, Holding period Revenue, EBITDA, and Net-Debt, and Exit EBITDA Multiple
  - 85,000+ unique entries relating to different PE metrics
  - Fund Evaluation Scorecards, Ongoing Portfolio Grades, Internal Comments/Meeting Notes



Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of October 1, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full. For illustrative purposes only.

RCP's Advantage in Data Collection

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Parameters	RCP	Other Institutional Investors	GPs	Public Data Providers (Preqin, GFData, CapIQ,etc.)	Private Data Providers (Cambridge, etc.)
Constant Market Exposure	●	◐	◔	●	●
Exposure to Multiple Sectors, Strategies	●	◐	◔	●	●
No Self-Reporting Bias/GPs Incentivized to Participate	●	●	●	◔	◔
Access to Private Information	●	●	●	◔	●
Cultural AND Financial Investment in Data Importance	●	◐	◔	●	●
Direct, In Person Meetings	●	●	○	○	○
Cultural AND Financial Investment in Technology	●	◐	◔	◕	◕
10+ Year History	●	◐	◐	◕	◕

"Advantages in Data Collection" reflect the opinions of RCP and have not been independently verified.

Our Study: Questions Addressed

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1) Fund Returns: How does a fund's return profile change as managers mature? Do "emerging manager" funds exhibit different patterns of returns compared to funds raised by more mature managers?
   - Do fund return profiles change if we consider different fund sizes? Sector specialization?
   - Are more established managers better suited to navigate difficult economic environments?
2) Deal Returns: Do deals executed by emerging managers exhibit a different risk profile from more established managers?
   - Do deal risk profiles change based on differences in company size or manager specialization?
   - What can we learn from an emerging manager's "attributed" track record that contains previous deals completed by investment professionals?

Note on "emerging managers": Although industry-accepted definitions of "emerging managers" vary considerably, for purposes of this Presentation, we generally categorize "emerging managers" from a purely quantitative perspective: managers raising institutional capital for their Fund 1 or Fund 2.

Notes on the Data

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- RCP collected information from PE Firms, third party data providers (e.g., Preqin, Cambridge, etc.), and public data sources for inclusion in the dataset. RCP's strategy is focused primarily on North American lower-middle market buyouts, so a majority of managers analyzed operate in this segment of the market. RCP will only include funds with buyout, growth, and turnaround strategies based on internal categorization of manager strategy performed by RCP (venture, real estate, and other unrelated strategies are excluded).
- In total, RCP tracks information on more than 1,200 fund managers. The dataset contains between 600 and 800 funds with relevant return information. Fund sizes of these managers range from less than $50m to greater than $5b with an average fund size of ~$500M, reflecting RCP's bias toward middle market funds. Unless explicitly noted, attributed track records and 'pledge funds' (capital raised on a deal-by-deal basis) are excluded.
- The dataset contains more than 3,000 fully realized private equity transactions (deals). Deals analyzed range from enterprise values of less than $1m to greater than $20b with an average of ~$145m, once again reflecting RCP's bias toward lower middle market managers.
- All references to quartile metrics are based on performance benchmarking provided by Cambridge Associates.
- Exhibits will only include funds of maturities greater than 5 years (as of most recent available return date) and only fully realized individual deals. RCP believes that funds' performance metrics of less than 5 years of maturity may be less meaningful and are, therefore, excluded.
- Company counts reflect transactions rather than individual companies. For example, a single company receiving 3 investments by 3 PE firms will be counted as 3 individual transactions.
- Because analysis is often disaggregated by manager maturity, enterprise value size, manager strategy, etc., certain analyses may be performed on smaller sample sizes and may be biased by one or several data points. Sample of less than 25 funds (or deals) have been excluded.
- Although this presentation is focused on emerging manager performance, it is important to note, for purposes of conducting a comparative analysis between emerging managers and their more mature constituents, we have included managers that have sponsored more than two funds in our sample set data. The average fund number of the sample set is ~2.5.
- Past performance is not an indication of future performance, provides no guarantee for the future, and is not constant over time.

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Fund Returns: Dispersion

Fund Returns: Dispersion - Net ROIC

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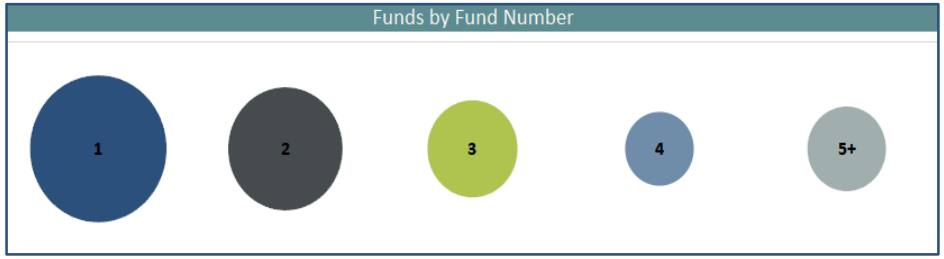

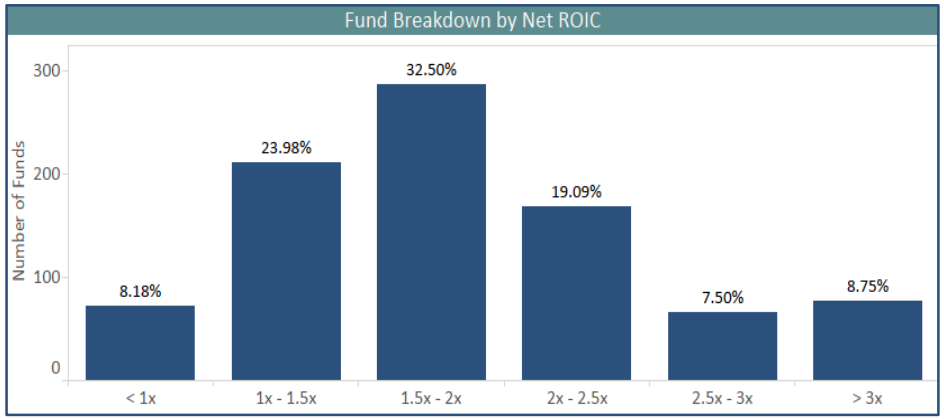

- **Sample Set Detail (Bubble Size):**
  - Fund 1: ~35%
  - Fund 2: ~25%
  - Fund 3: ~15%
  - Fund 4: ~10%
  - Funds 5+: ~15%
- **Histogram:** Image represents frequencies of Net ROIC for all funds regardless of number
  - Control Group: Dispersion of fund returns of entire market
  - Normally distributed with slight skew toward outlier results (>3x)
- **Biases**: Skew data both positively and negatively, but positive skew is more pronounced
  - Survivorship: Many poor performing funds are excluded from the data set as updated return information is unavailable, creating a positive skew
  - Maturity: Less mature funds included in the data set could subsequently appreciate beyond (or, to a lesser extent, depreciate below) current reported returns, creating a negative skew

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns by Fund Number: Dispersion - Net ROIC

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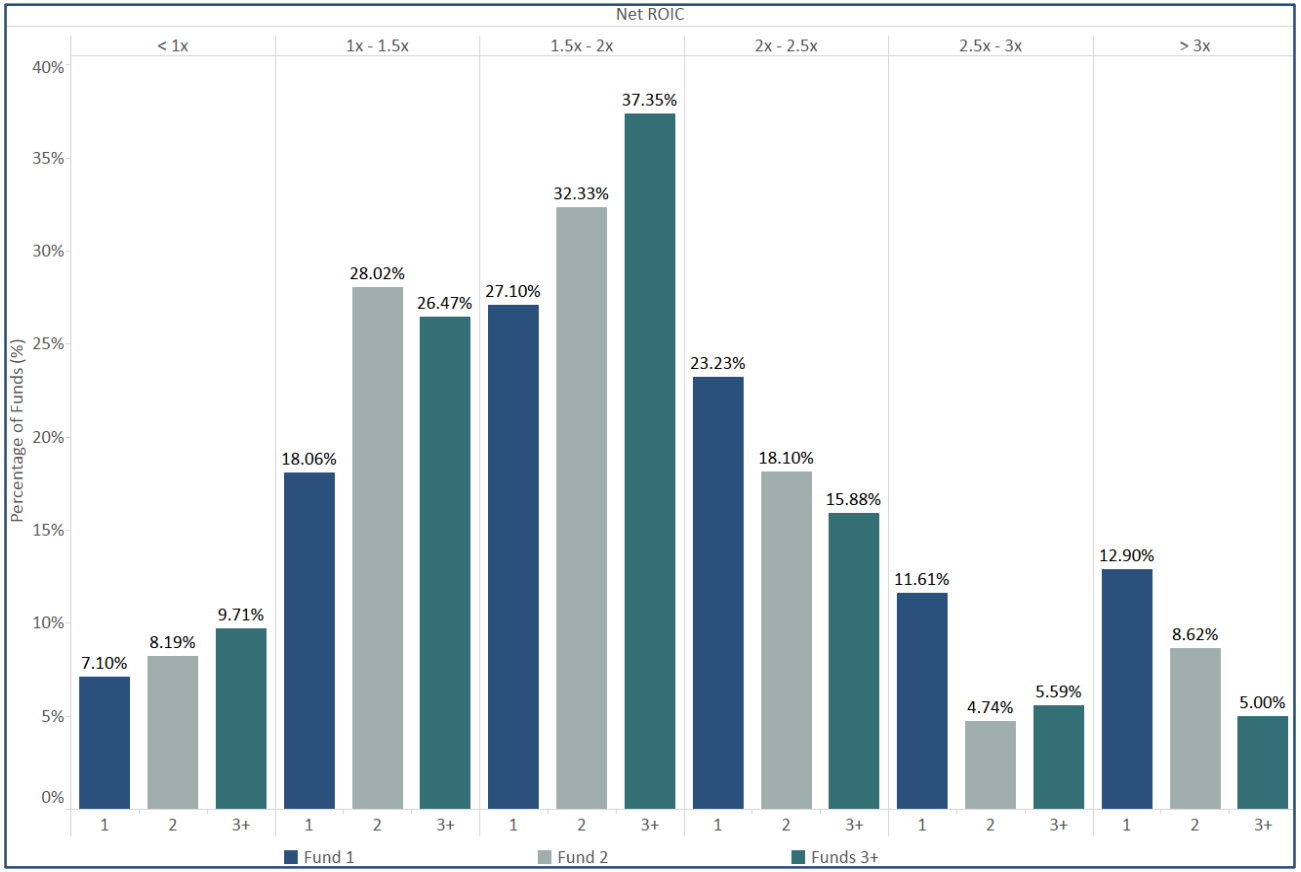
Frequency of Outlier Net ROICs Decrease as Funds Mature



Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns by Fund Number: Dispersion - Net ROIC Takeaways

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Returns of Fund 1s					
<1.0x	1.0x-1.5x	1.5x-2.0x	2.0x-2.5x	2.5x-3.0x	>3.0x
~7%	~17%	~27%	~23%	~13%	~13%

- **As Expected, Most Relative Opportunities For Upside, Especially For Outlier Outperformance:**
  - ~50% of Fund 1s return >2x vs. ~30% and ~25% of Fund 2s and 3+, respectively
  - Even greater at the >3x Net ROIC level
- **Central Tendency Mirrors Broader Market Behavior:**
  - Despite relatively higher frequency of outperformance, ~50% of Fund 1s still return between 1.5x and 2.5x
- **Lowest Occurrences of Underperformance (Likely More Indicative of Bias Rather Than An Asymmetric Return Profile):**
  - Higher risk associated with Fund 1s; would expect more underperformers (only ~25% of funds return <1.5x)
  - Important to recall Survivorship Bias: Funds that perform poorly often cannot raise subsequent vehicles and thus do not provide updated fund returns for inclusion in the sample set; this dynamic is logically most pronounced within Fund 1 subset

Returns of Fund 2s					
<1.0x	1.0x-1.5x	1.5x-2.0x	2.0x-2.5x	2.5x-3.0x	>3.0x
~7%	~27%	~33%	~17%	~5%	~10%

- **Decreased in Extreme Outcomes With Increased Maturity:**
  - Only ~15% of Fund 2s return >2.5x compared to ~26% of Fund 1s
- **More Instances of Moderate Returns:** Higher frequency of ROICs in the 1.5-2.0x range compared to Fund 1s
- **Underperformance:** Data may lead to deceptive conclusions
  - Increased observations of funds returning <1.5x when compared to Fund 1s
  - Likely more of a product of survivorship bias within Fund 1 subset than less favorable downside risk

Returns of Funds 3+					
<1.0x	1.0x-1.5x	1.5x-2.0x	2.0x-2.5x	2.5x-3.0x	>3.0x
~10%	~27%	~37%	~15%	~5%	~5%

- **Mature Funds Generate Slightly Less Outsized Outperformance:**
  - ~10% of Funds 3+ return >2.5x, only slightly below outsized performance generated by Fund 2s
- **Highest Propensity for Generating At-Market Returns:**
  - Reflecting expected lower risk profile, mature funds very frequently return between 1.5x and 2.0x (~37% of funds)

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net IRR

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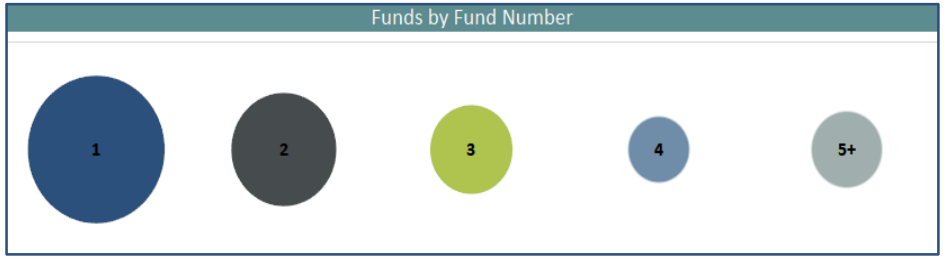

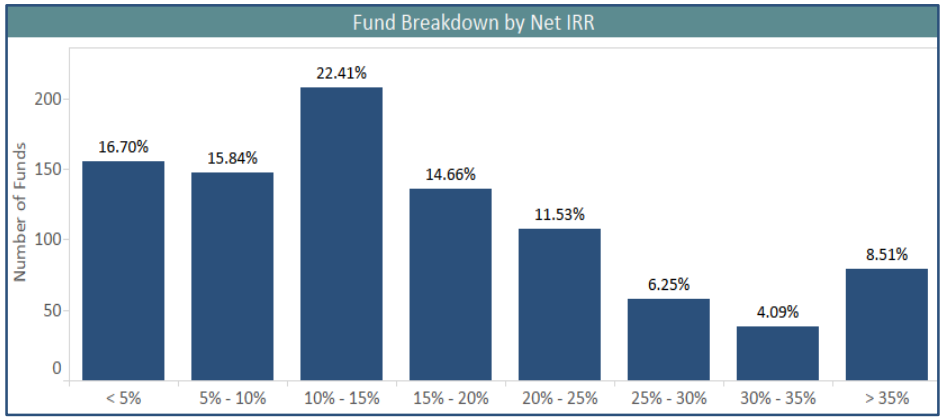

- **Sample Set Detail (Bubble Size):**
  - Fund 1: ~35%
  - Fund 2: ~25%
  - Fund 3: ~15%
  - Fund 4: ~10%
  - Funds 5+: ~15%
- **Histogram:** Image represents frequencies of Net IRR for all funds regardless of number
  - Control Group: Dispersion of fund returns of entire market
  - Right skewed distribution
    - ~50% of funds generate <15% Net IRR
    - ~20% of funds generate >25% Net IRRs
- **Biases:** Survivorship and maturity biases remain

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns by Fund Number: Dispersion - Net IRR

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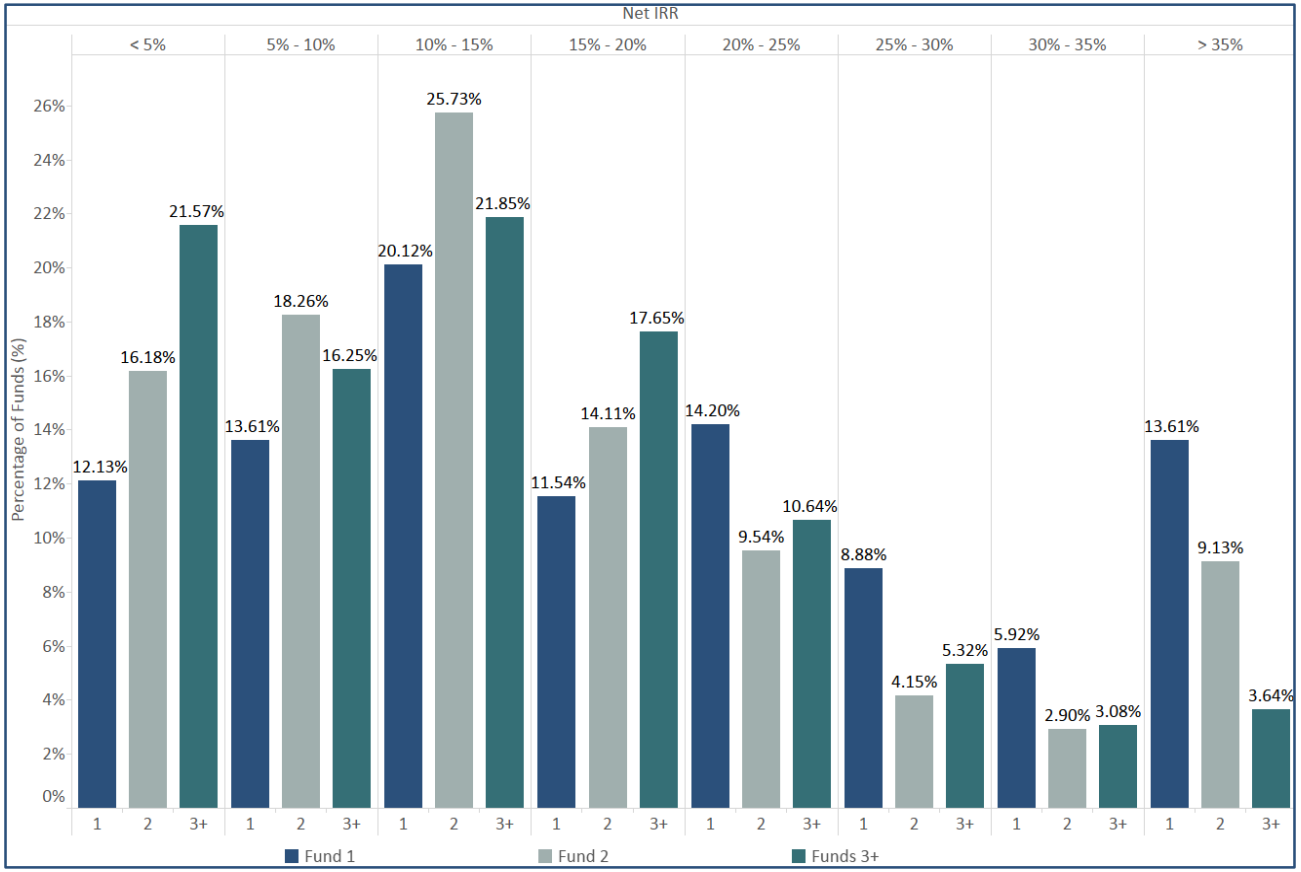
Consistent Patterns with Net ROIC Observations: Highest Net IRRs Achieved By Emerging Managers



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Fund Returns: Dispersion - Net ROIC and Net IRR Quartiles

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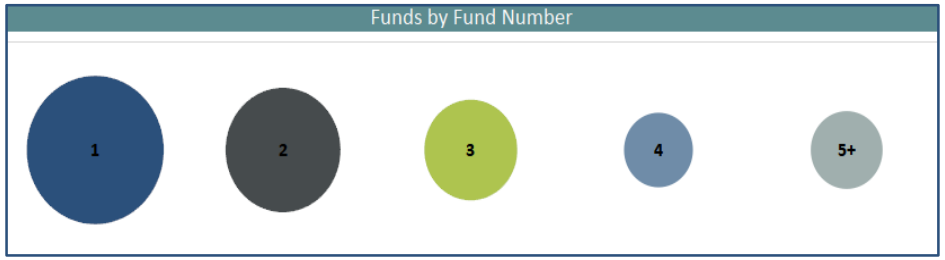

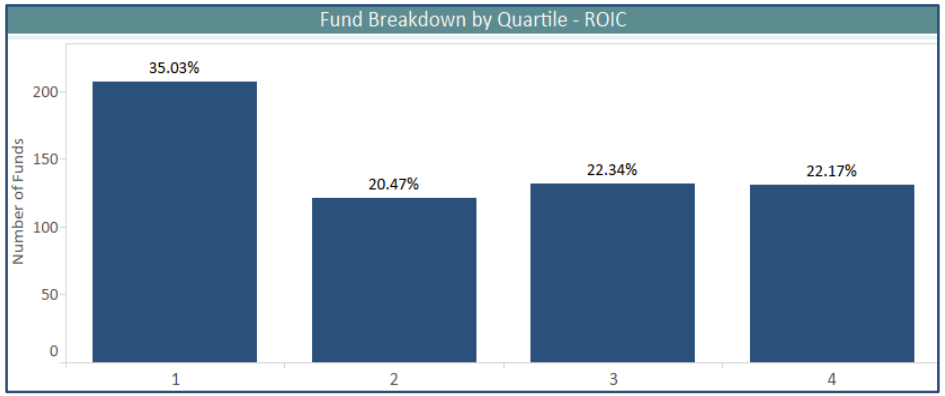

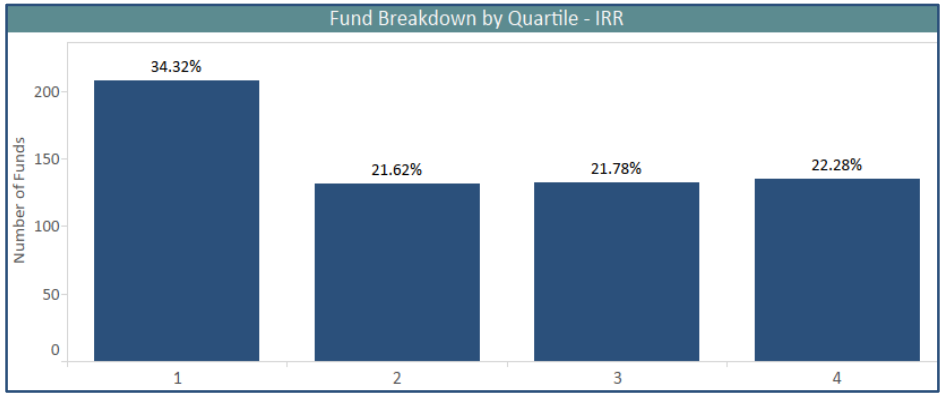

- **Sample Set Detail (Bubble Size):** Similar breakdown
- **Histogram:** Images represent frequencies of Net ROIC and Net IRR quartiles, as provided by Cambridge Associates, for all funds regardless of number
  - Obvious skew toward 1st Quartile (see biases)
- **Biases:**
  - Survivorship bias remains, first quartile performers are in best position to raise subsequent funds and provide updated return information for inclusion in the dataset
  - Maturity bias is mitigated
    - Funds are compared to peer vehicles of the same vintage year
    - Still potential for movement as portfolios subsequently appreciate or depreciate, but less dramatic compared to analysis of absolute returns

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net ROIC Quartiles

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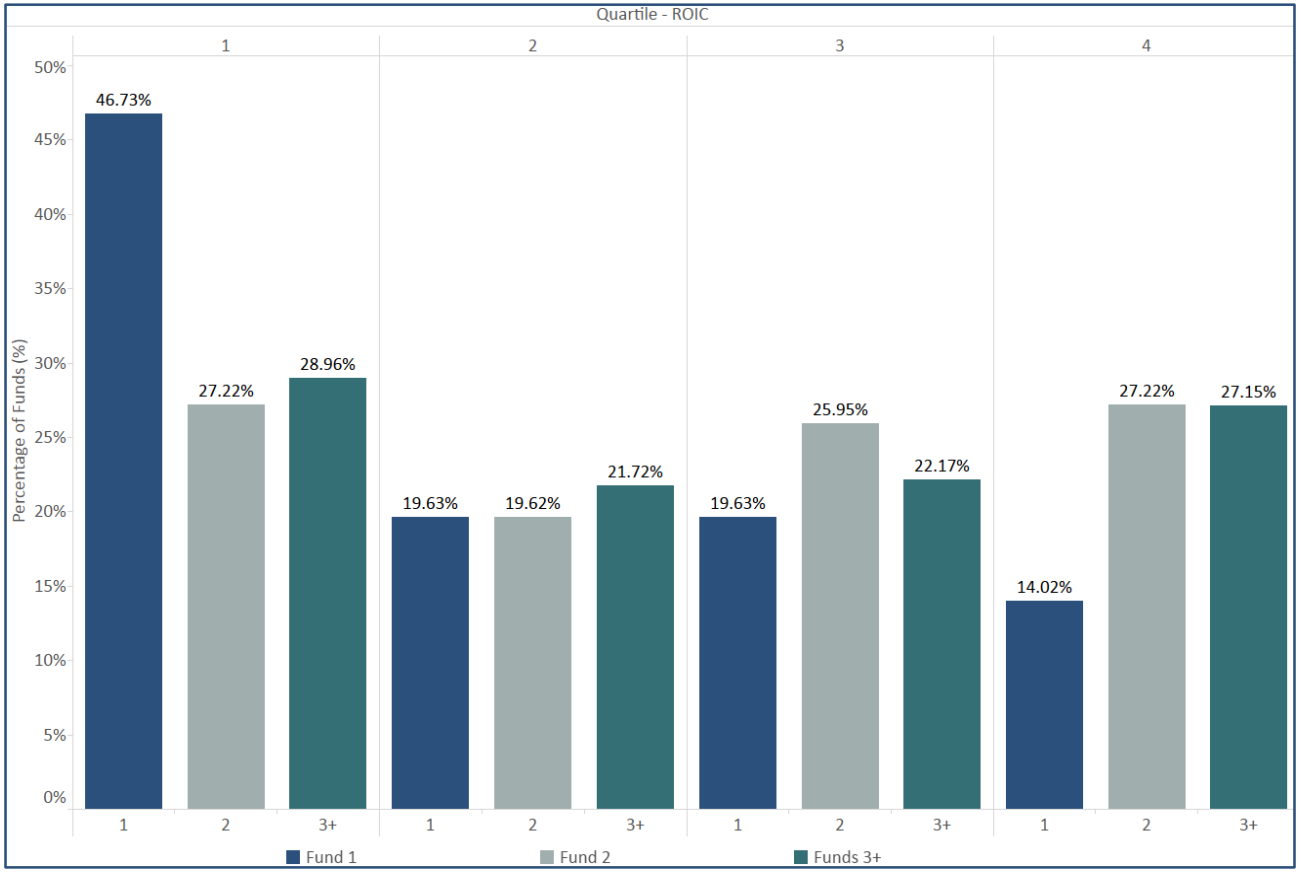
Although Likely Overstated, Fund 1s Outperform



Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net ROIC Quartiles Takeaways

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Returns of Fund 1s			
1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
~47%	~20%	~20%	~13%

- **Notable Concentration in Top Quartile Performance: ~45% in 1st Quartile**
  - Large delta between proportion of 1st and 2nd quartile performance denotes that modestly positive returns are rare; when Fund 1s succeed, they are likely to do so in a meaningful way
  - Meaningful difference compared to more mature funds
- **Understated Downside Risk: Likely greater than ~13% (as observed) of Fund 1s generate bottom quartile performance**
  - Once again, survivorship bias plays a significant role in both the high concentration of 1st quartile performers and the lack of observations in the 4th quartile
  - Despite bias, the magnitude of concentration in top quartile performance may suggest that Fund 1s exhibit more favorable risk-reward profiles compared to more mature vehicles

Returns of Fund 2s			
1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
~27%	~20%	~25%	~27%

- **Much More Evenly Distributed Compared to Fund 1s:**
  - Fund 2s have difficulty replicating Fund 1 success
  - Biases have less of an effect on data
- **More in line with expected distribution of "quartiled" returns**

Returns of Funds 3+			
1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
~30%	~20%	~23%	~27%

- **As Expected, Uniform Distribution: Similar frequencies of both outperformance and underperformance**
- **Implication for Defining "Emerging Manager":**
  - Similarities between distributions of quartiles for Funds 3+ and Fund 2s may suggest that Fund 1s truly represent a specifically different risk-reward profile more commonly associated with the idea behind investing in an "Emerging Manager"

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net IRR Quartiles

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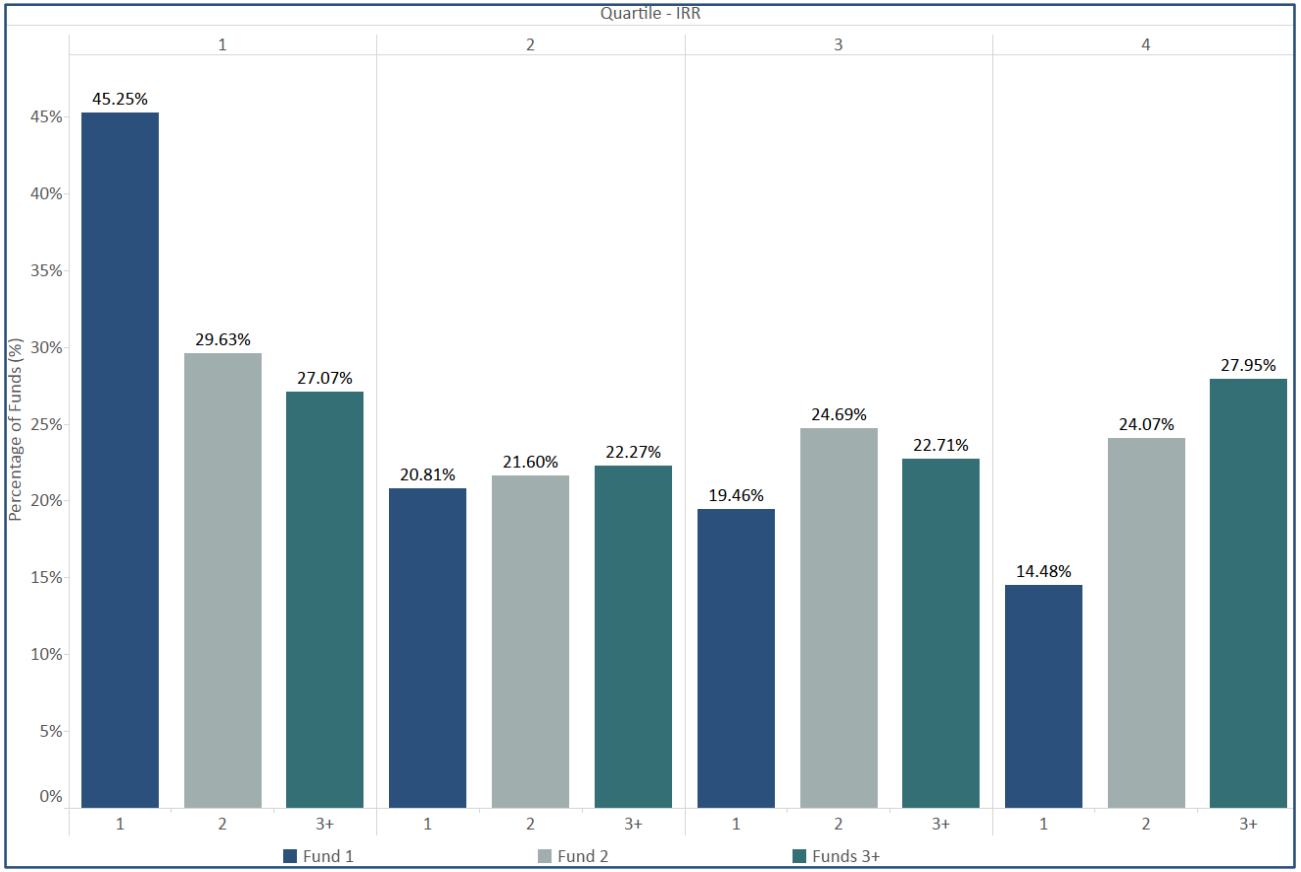
Similar Findings for Net IRR Quartiles



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Fund Returns: Dispersion - Net ROIC Quartile (Comparing by Size)

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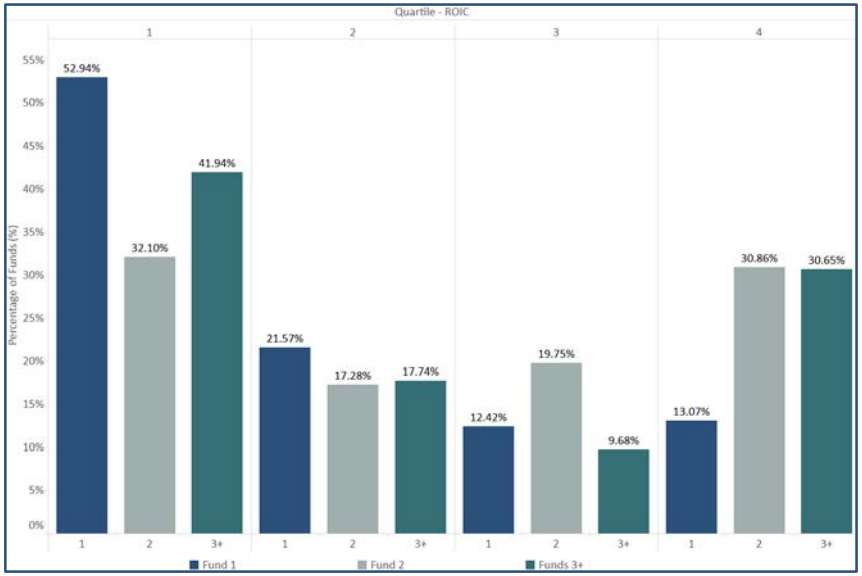
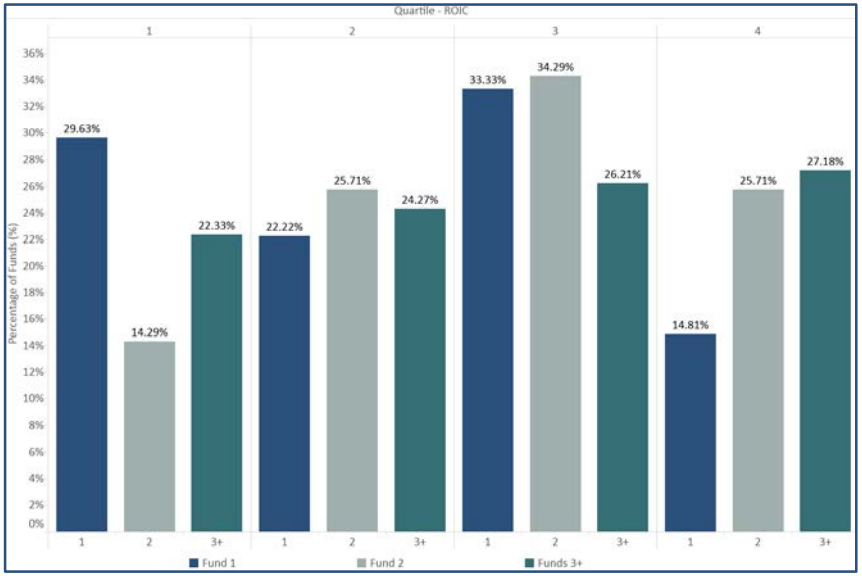
Smaller Funds are Higher Risk-Reward (and Generally Perform Better)

Fund Size <$250M



Fund Size >$500M



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Fund Returns: Dispersion - Net ROIC Quartile (Comparing By Size) Takeaways

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Returns of Fund 1s				
	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
<$250M	~53%	~20%	~13%	~13%
>$500M	~30%	~23%	~33%	~15%

- **Fund 1 outperformance is most commonly achieved at smaller fund sizes (~53% in 1st Quartile for funds <$250M vs. ~30% in 1st Quartile for funds >$500M)**
- **Distribution of returns of Fund 1s at larger fund sizes suggests lower risk-reward profile not usually associated with a typical "Emerging Manger" investment**

Returns of Fund 2s				
	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
<$250M	~33%	~17%	~20%	~30%
>$500M	~15%	~25%	~35%	~25%

- **At smaller fund sizes, Fund 2s display a "U-shaped" distribution**
  - Fund 2s raising <$250M more frequently generate top performance than Fund 2s that raise >$500M (~33% in 1st Quartile vs. ~15% in 1st Quartile); outperformance pattern mirrors Fund 1s with lower magnitude of difference
  - However, higher frequency of 4th Quartile returns (compared to 2nd and 3rd Quartile) also implies a greater risk
- **At larger fund sizes, the shape of the distribution is largely reversed, skewing toward more negative results**
  - Most unfavorable distribution: ~15% in top quartile with >50% in bottom half
  - Fund 2s' difficulty in replicating Fund 1 success (as previously observed) is magnified when Fund 2s raise larger funds

Returns of Funds 3+				
	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
<$250M	~43%	~17%	~10%	~30%
>$500M	~23%	~25%	~25%	~27%

- **Smaller Funds 3+ returns exhibit a slightly more dramatic "U-shaped" distribution**
  - Favorable distribution with high tendency toward top quartile performance (>40% of funds), but risks are inherent as a high number of funds also generate 4th quartile performance (~30% of funds)
  - Surprising result: Would generally associate this distribution with an emerging manager
- **Mature funds raising >$500M demonstrate a uniform distribution, reflecting a mature, more efficient market in which outperformance is just as likely as underperformance**

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net IRR Quartile (Comparing by Size)

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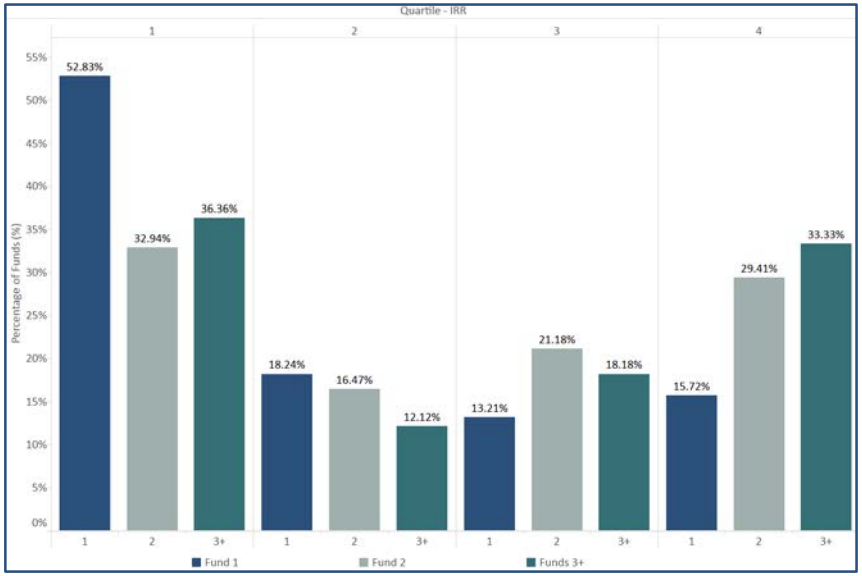
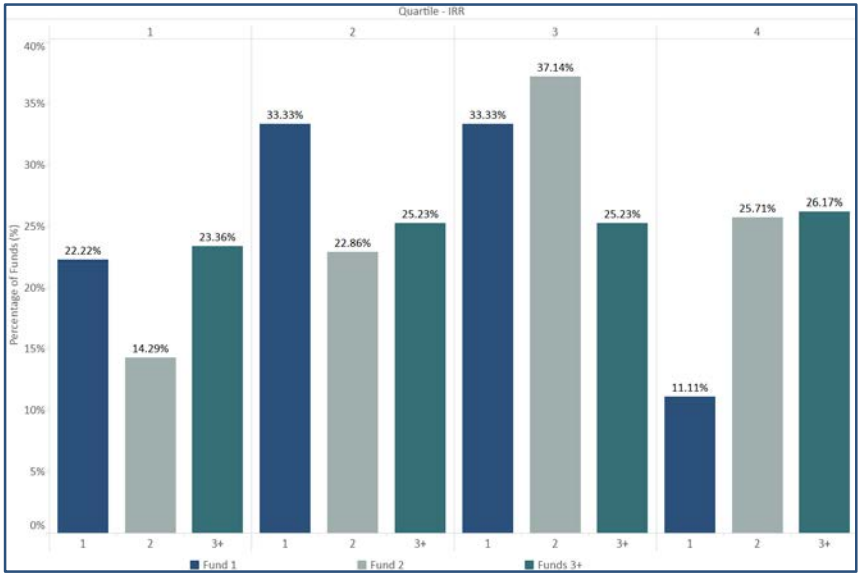
Similar Findings for Net IRR Quartiles

Fund Size <$250M



Fund Size >$500M



Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net ROIC Quartile (Vintages 2004 - 2006)

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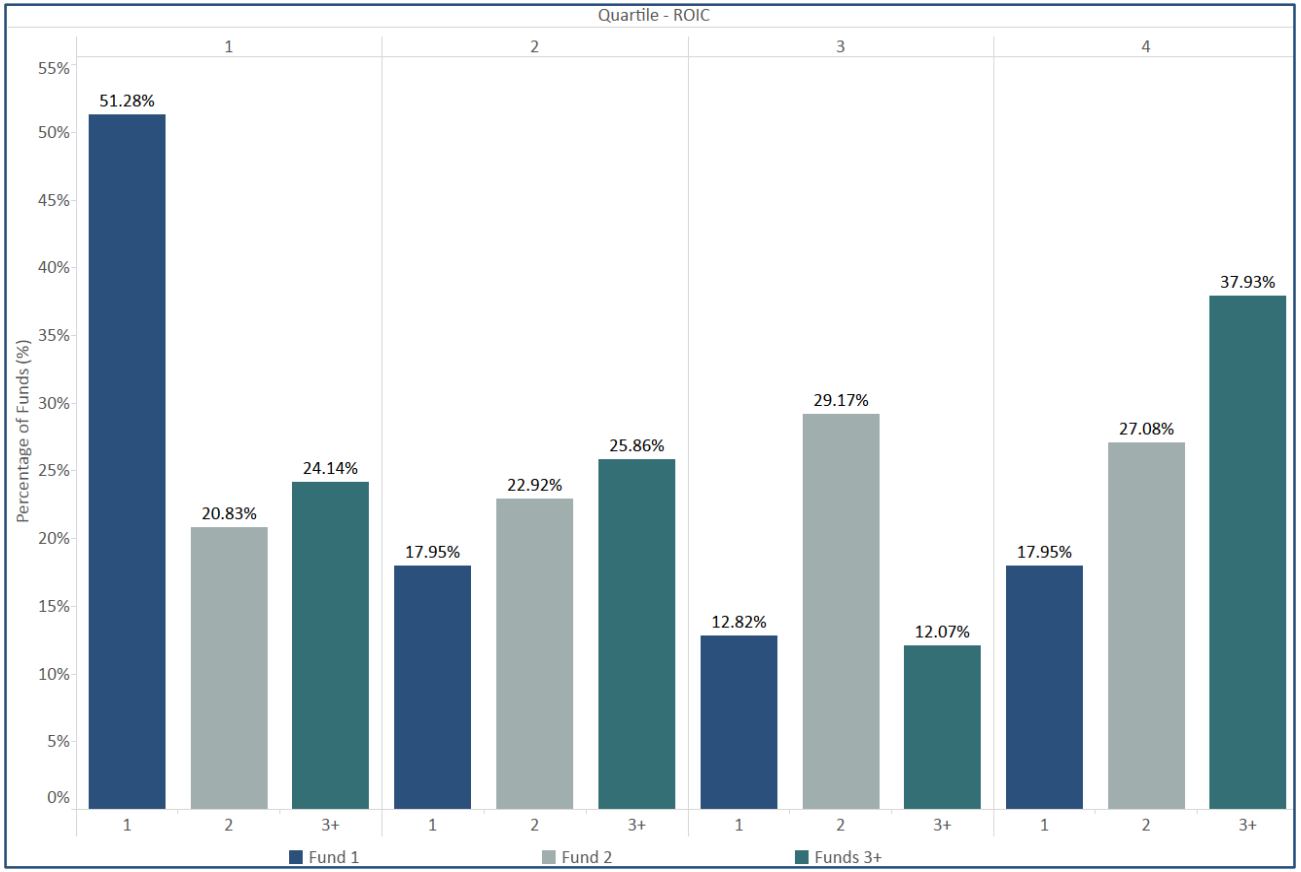
Surprising Result: Fund 1s Outperform More Mature Peers During Difficult Vintages



Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net ROIC Quartile (Vintages 2004 - 2006) Takeaways

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Returns of Fund 1s			
1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
~50%	~17%	~13%	~17%

- **Fund 1 Performance Remains Largely Positive Despite Difficult Economic Environments**
  - Notable concentration in top performance, meaningfully different than more mature funds
  - Dynamic regarding Fund 1s tendency toward high outperformance when successful is accentuated
  - Strong alignment ("succeed or go bankrupt" mentality) and creativity/flexibility (not overly committed to the "tried and true") likely contribute to observed successes
- **However, Greatest Understatement of Downside Risk:**
  - Relatively highest number of Fund 1s are excluded from this subset due to the known large failure rate of fund managers during this time (again, survivorship bias), leading to both overstatement of top and understatement of bottom quartile performance
  - However, magnitude of discrepancy compared to more mature funds implies validity of initial conclusion that Fund 1s are, at the very least, just as capable of navigating difficult environments compared to more mature managers

Returns of Fund 2s			
1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
~20%	~23%	~30%	~27%

- **Relatively uniform distribution with negative skew**
- **Many Fund 2s likely lack the experience necessary to succeed in more difficult environments as Fund 1 successes (that allowed for the ability to raise a subsequent Fund 2) may have been more of a product of fortunate timing rather than investment acumen**

Returns of Funds 3+			
1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
~25%	~25%	~13%	~37%

- **Equal amount of top half and bottom half performers with poor performers concentrated in 4th Quartile**
- **Mature managers show no signs of superior ability to succeed in difficult vintages with equal chances of success and failure**
  - Top-half performers are distributed equally between 1st and 2nd Quartiles, as expected
  - Many mature managers, (like Fund 2s mentioned above) that had previously benefitted from favorable tailwinds during earlier funds, fail to adapt 'proven' strategies to changing market conditions and performance suffers meaningfully, leading to more 4th quartile performance compared to 3rd

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Dispersion - Net IRR Quartile (Vintages 2004 - 2006)

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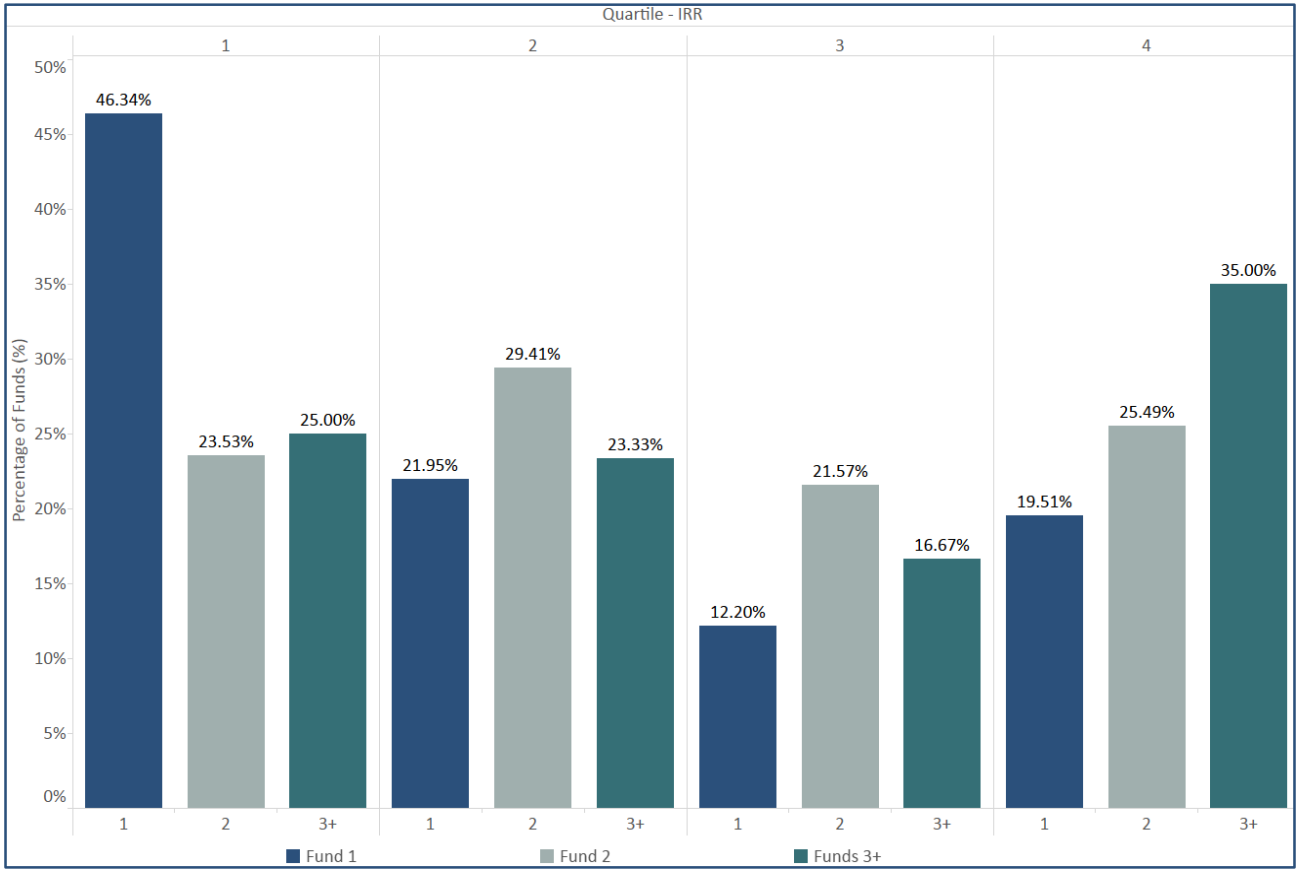
Similar Findings for IRR Quartiles During Difficult Vintages



Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information) and Cambridge Associates, LLC. As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

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Fund Returns: Risk-Reward

Fund Returns: Risk-Reward

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Evaluating Fund Returns Across Basic Parameters of "Risk" and "Reward"

- **Funds are evaluated based on the two fundamental factors used in investment allocation decisions: Risk and Reward**
- **We attempt to express these two ideas quantitatively:**
  - Risk: standard deviation of returns
    - In the absence of useful, available, and reliable time series data, we approximate risk by measuring the standard deviation of returns within defined subsets (organized by fund number) as opposed to the more traditional practice of measuring standard deviation over time
    - Risk may be overstated in cases where outlier results, concentrated in best returning funds, affect the standard deviation calculation
  - Reward: average (or median, in cases where sample set is smaller) of return metrics
- **How to read the following analysis:**
  - Each subset of funds' statistics is presented on a X-Y plane where the X axis represents risk and the Y axis represents reward
  - "Best" funds will be concentrated in the upper left of the plane as they show a high return with relatively lower associated risk
  - "Worst" funds will be concentrated in the bottom right as they display lower returns with relatively higher associated risk
  - A data point directly above or above and to the left suggests a superior option, as it will, on average, generate a better return with equal or lower variation in outcomes

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns by Fund Number: Risk-Reward

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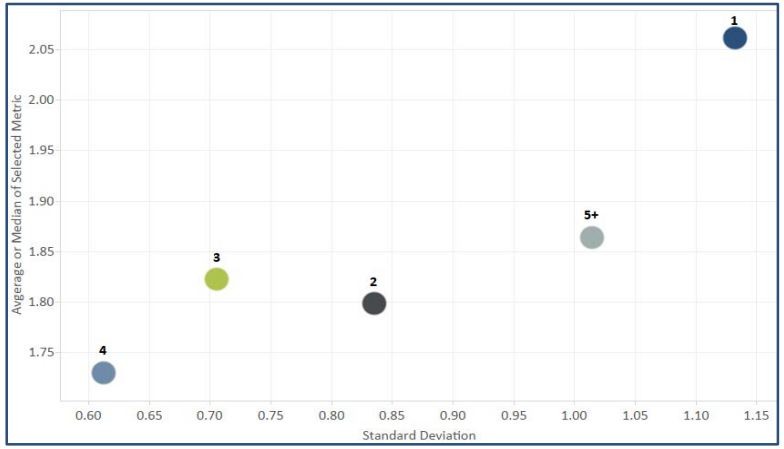
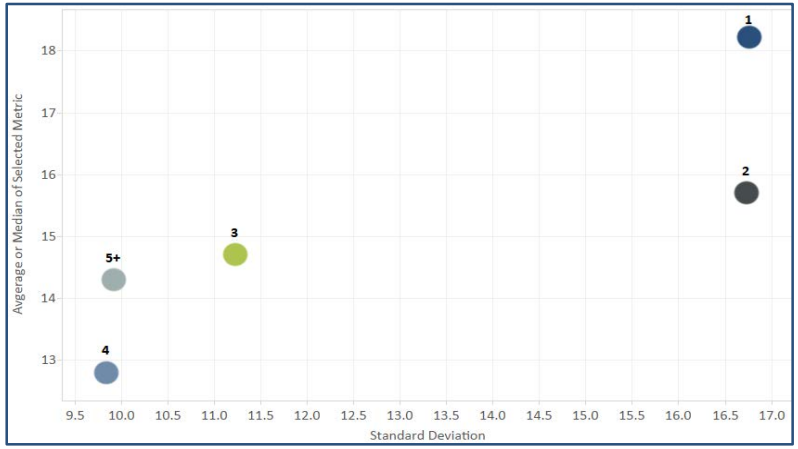
As Expected, Fund 1s Display Highest Risk-Reward

Net ROIC



Net IRR



- **Fund 1s:** Achieve both highest average return as well as highest variation of outcomes across both Net ROIC and IRR, confirming the widely-accepted industry perception that these funds exhibit the highest risk-reward behavior
- **Fund 2s:** Despite common categorization within the same "emerging manager" category as Fund 1s, notably different return profile
  - Average returns are lower than Fund 1s across both measures
  - Less variation in ROICs and similar variation in IRRs compared to Fund 1s
- **Funds 3+:** With the exception of the observation of ROIC variation for Funds 5+, generally follow expected pattern of decreasing risk-reward as maturity increases
  - Note: From a maturity perspective, Fund 4s consistently constitute lowest risk-reward among other options

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Risk-Reward (Comparing by Size)

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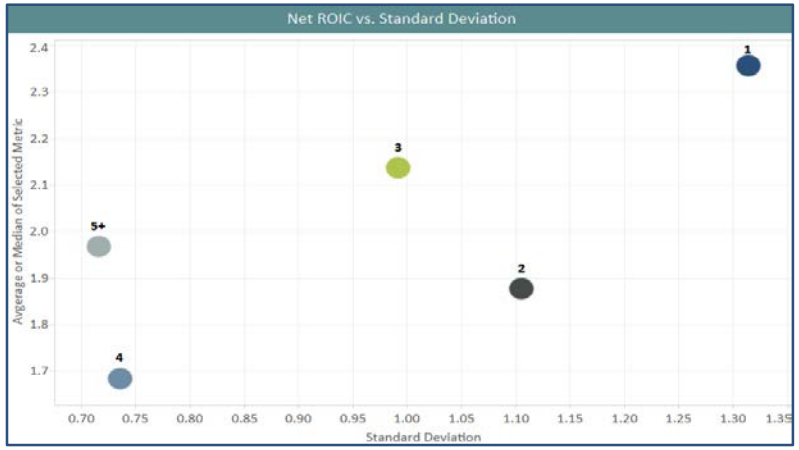
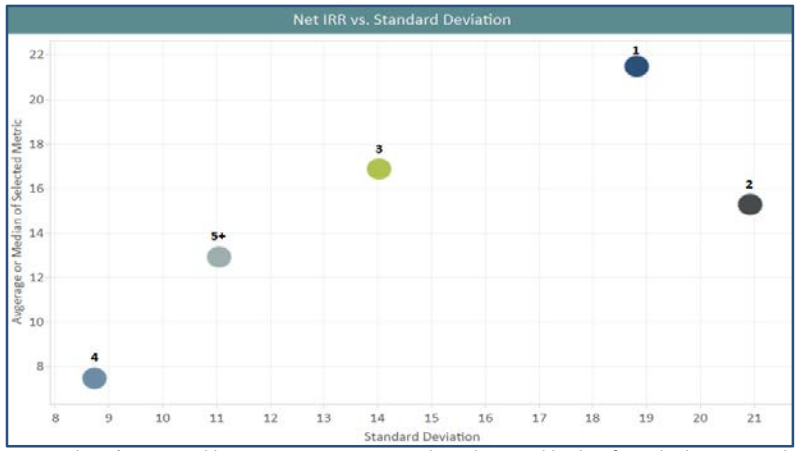
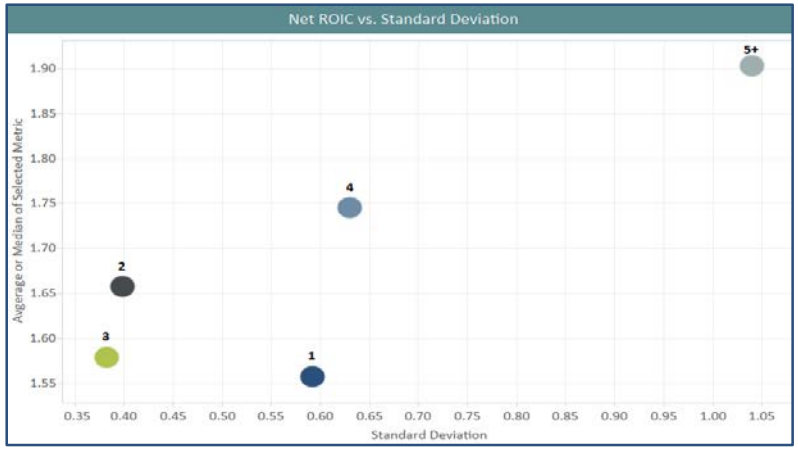
Consistent with Earlier Findings, Emerging Managers Tend to Struggle at Larger Fund Sizes

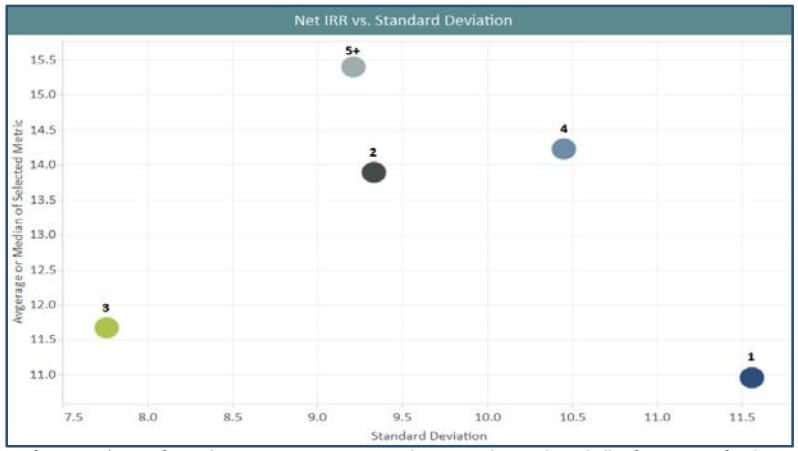
Fund Size <$250M





Fund Size >$500M





Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Risk-Reward (Comparing by Size) Takeaways

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Fund 1s		Net ROIC Average Return	Net ROIC Standard Deviation	Net IRR Average Return	Net IRR Standard Deviation
<$250M EV		2.35x	1.35x	21%	19%
>$500M EV		1.56x	0.59x	10.9%	11.7%

- Meaningfully lower risk reward profile for fund 1s raising larger pools of capital compared to smaller fund 1s
- Smaller Fund 1s display expected comparative higher risk-reward than more mature funds
- Larger Fund 1s are less attractive; lowest expected return with higher observed risk

Fund 2s					
<$250M EV		1.88x	1.11x	15%	21%
>$500M EV		1.66x	0.40x	13.8%	9.4%

- Once again, risk-reward decreases in large fund environment, but magnitude of change is less than in Fund 1s of different sizes
- At larger fund sizes, Fund 2s return less on average than more mature vehicles with generally lower variation than expected

Funds 3+					
<$250M EV	Fund 3	2.15x	0.99x	17%	14%
	Fund 4	1.60x	0.73x	7%	8.8%
	Fund 5+	1.95x	0.72x	13%	11%
>$500M EV	Fund 3	1.58x	0.38x	11.6%	7.75%
	Fund 4	1.74x	0.63x	14.2%	10.4%
	Fund 5+	1.90x	1.04x	15.4%	9.2%

- Fund 3s behave as expected when comparing across fund sizes: larger fund size, lower risk-reward
- Mature funds at smaller sizes all display expected characteristic of lower risk in comparison to Fund 1s and 2s, but average return behavior reveals more unexpected trends: both Fund 3s and Funds 5+ are relatively equivalent to Fund 2s
- At >$500M in fund size, Fund 4s and 5+ achieve better comparative average returns than "emerging managers" with mixed results as it relates to risk

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Fund Returns: Risk-Reward (Sector Specialists)

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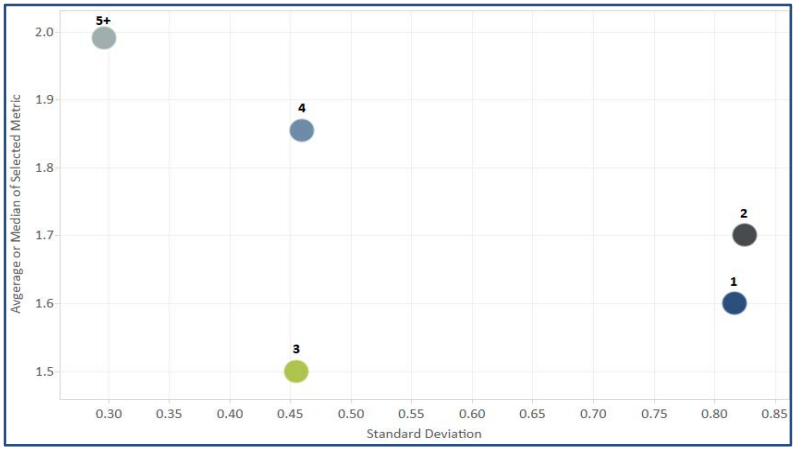
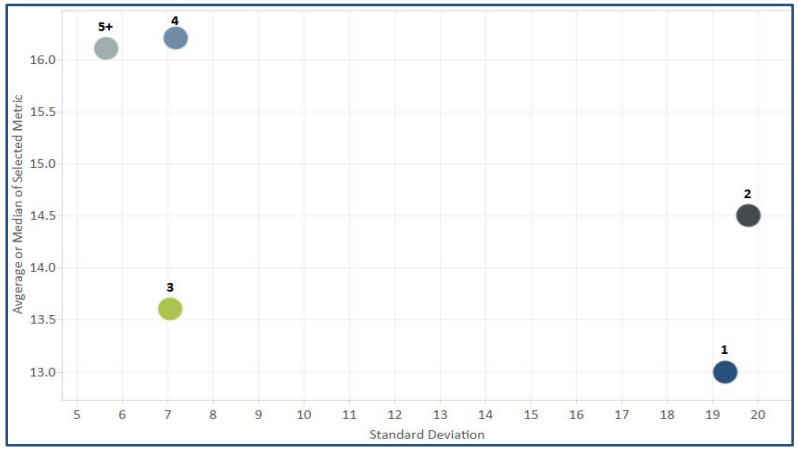
Sector Focus Does Not Mitigate Risk Inherent in Emerging Managers

Net ROIC



Net IRR



- **Fund 1s:** With a generally unfavorable return profile (high risk, low reward), data suggests that fund managers' inexperience is not mitigated by an industry focus
- **Fund 2s:** Although better from an expected return perspective compared to Fund 1s, Fund 2s' risk further supports above conclusion
- **Funds 3+:** Notably less risky than both Fund 1s and 2s and, with the exception of Fund 3s; better expected outcomes would suggest that sector specialization begins to aid in yielding better results as fund managers mature
  - Note: Highly experienced sector specialists (Funds 5+) exhibit extremely attractive return profile with high expected return coupled with low variation of outcomes

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

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Deal Returns

Deal Returns: Introduction

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Analysis Approach / Considerations

- Evaluation of deal by deal performance rather than fund performance provides an additional avenue to assess expectations for emerging managers against more mature funds
- Will compare realized returns of transactions completed by managers of varying maturities to determine if any patterns are revealed
- Better data reliability
  - Use of realized deals eliminates "maturity" bias present in fund analysis
  - Significantly greater number of observations
  - Less survivorship bias (although still present) as many firms experience write-offs and maintain ability to raise subsequent funds

For Detail on Sample Set, refer to "Notes on Data" (page 9)

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Deal Returns by Fund Number

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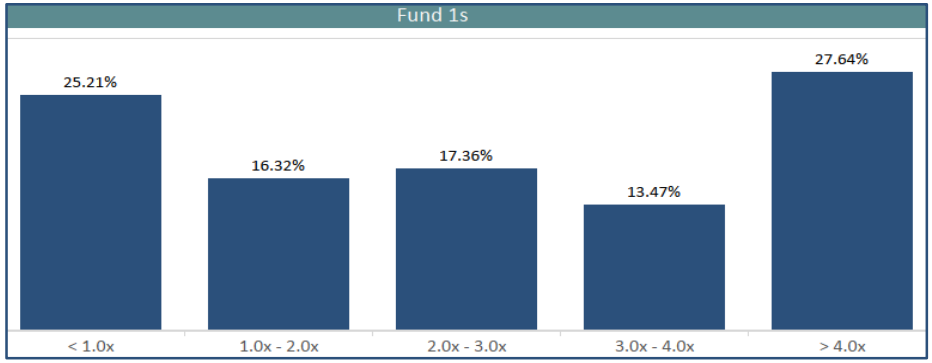
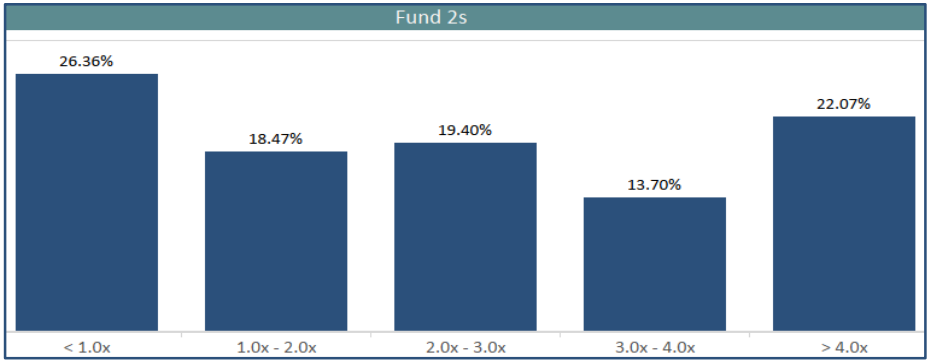
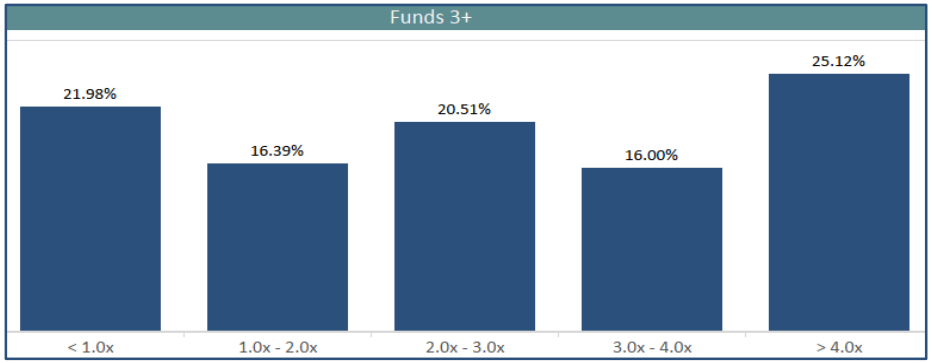
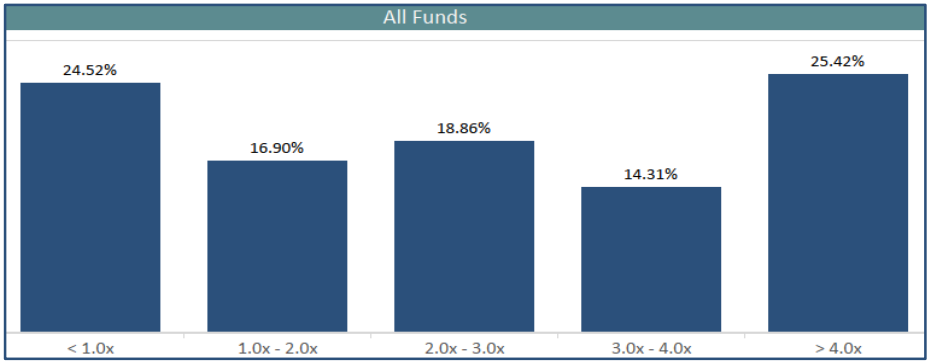
*Central Convergence for Mature Funds' Deals Suggests **Slightly** More Risk in Emerging Managers*









Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Deal Returns by Fund Number (Sector Specialists)

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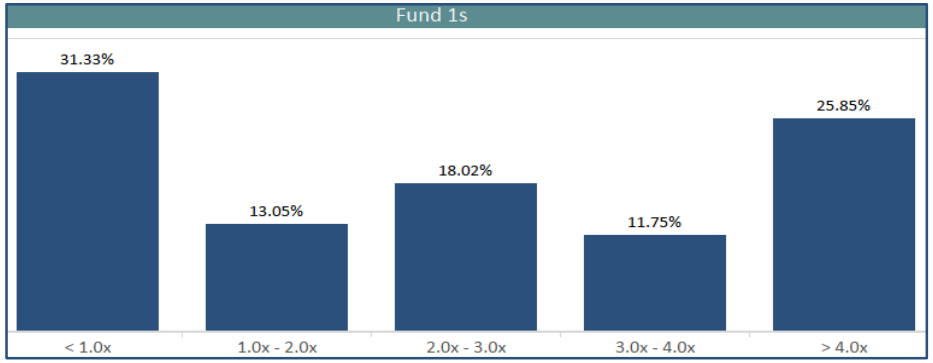
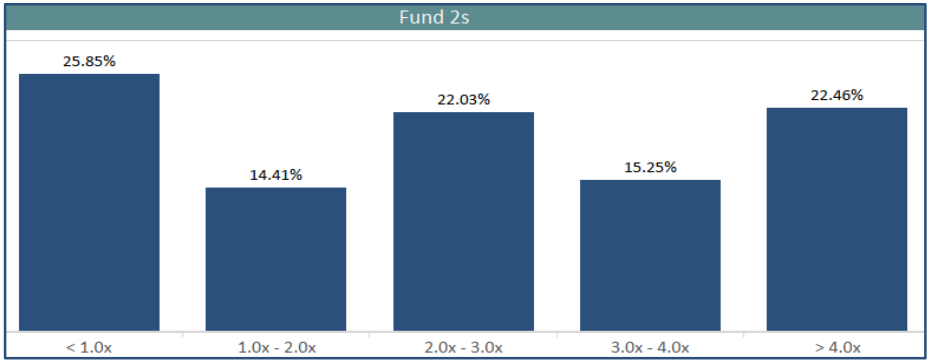
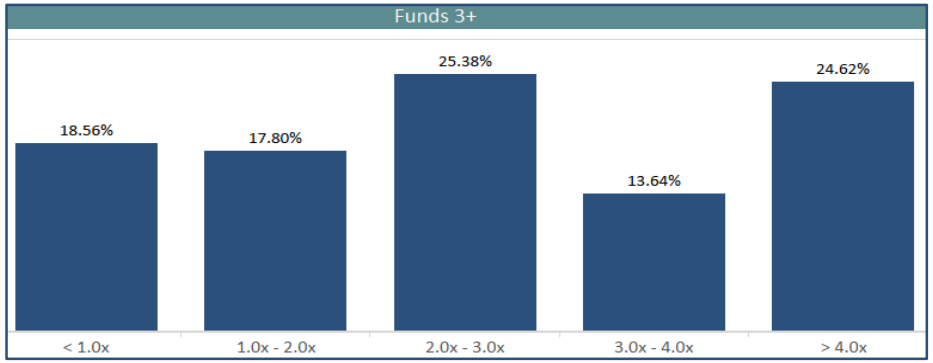
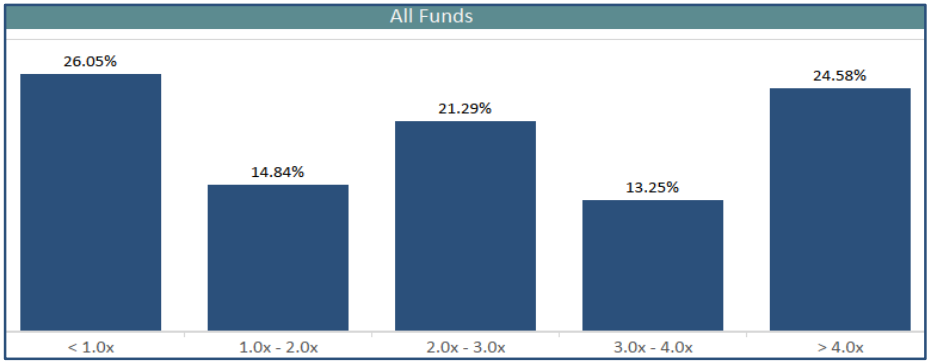
Industry Expertise Generally De-Risks, Especially with Mature Managers (but Not For Fund 1s)









Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Deal Returns by Fund Number Takeaways

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Returns of Fund 1s					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
All Deals	~25%	~17%	~17%	~13%	~27%
Sector Specialists	~30%	~13%	~17%	~13%	~25%

- Minor shifts compared to market returns, but noticeable delta between deals generating 3.0–4.0x and >4.0x further supports the idea that positive outcomes generated by Fund 1s are more often "great" than "good"
- Consistent with earlier findings, sector specialization doesn't serve to decrease downside risk for Fund 1s

Returns of Fund 2s					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
All Deals	~27%	~17%	~20%	~13%	~23%
Sector Specialists	~25%	~15%	~23%	~15%	~23%

- Similar distribution to market returns with less outlier success compared to Fund 1s (as expected)
- Almost no change when comparing specialists to broader market

Returns of Funds 3+					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
All Deals	~20%	~17%	~20%	~17%	~25%
Sector Specialists	~20%	~17%	~25%	~13%	~25%

- Similar distribution to market returns with minor indications of lower risk profile
- Only subset of fund maturities where sector specialization improves return profiles, but magnitude remains small

Returns of All Funds					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
All Deals	~25%	~17%	~17%	~15%	~25%
Sector Specialists	~27%	~15%	~20%	~13%	~25%

- Equal outcomes of failures (impaired capital) and "home runs" (>4.0x)
- On a deal by deal basis for the entire market, sector specialization does not meaningfully change distribution

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Deal Returns by Fund Number - <$150M EV (Comparing by Size)

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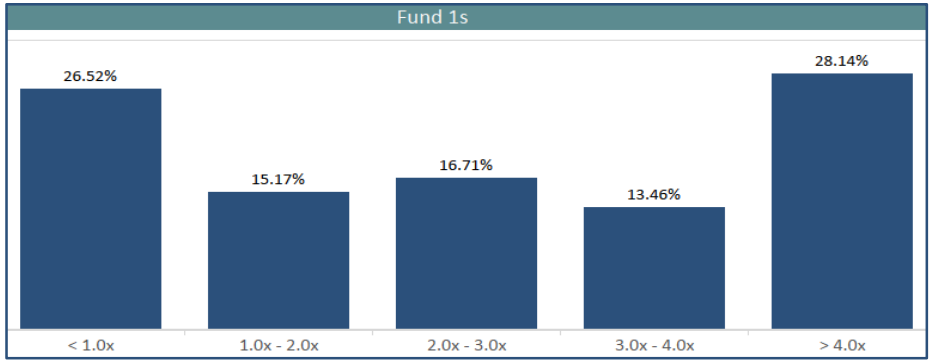
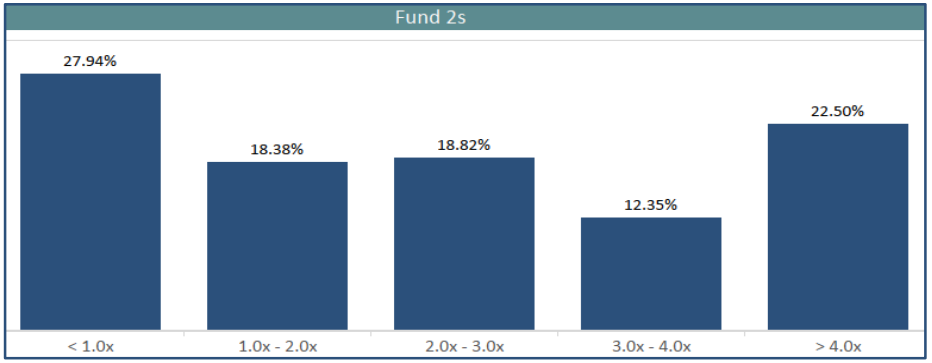
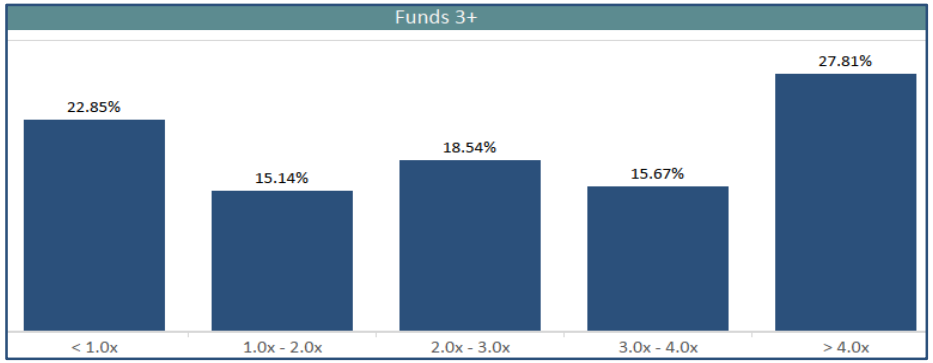
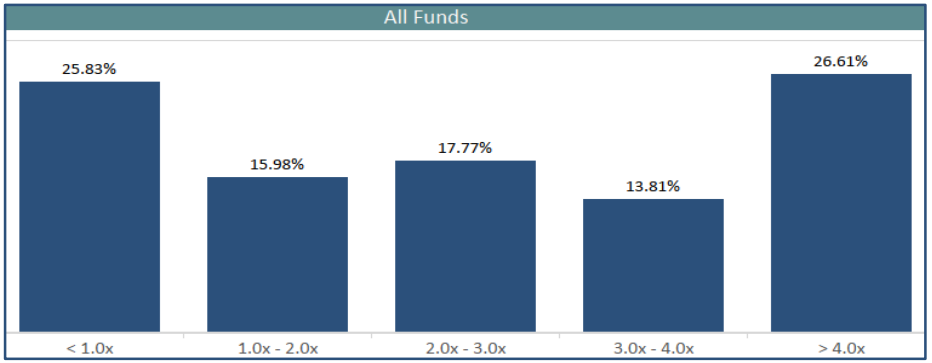
Smaller Deals Mirror Market Data With Slight Exaggeration of Extreme Outcomes









Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Deal Returns by Fund Number - >$250M EV (Comparing by Size)

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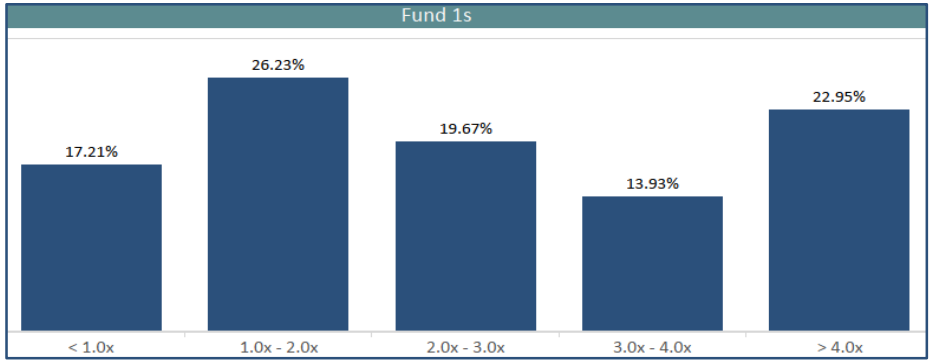
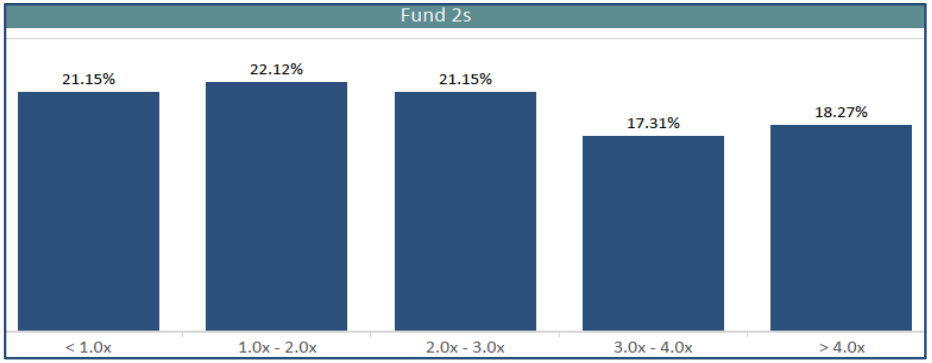
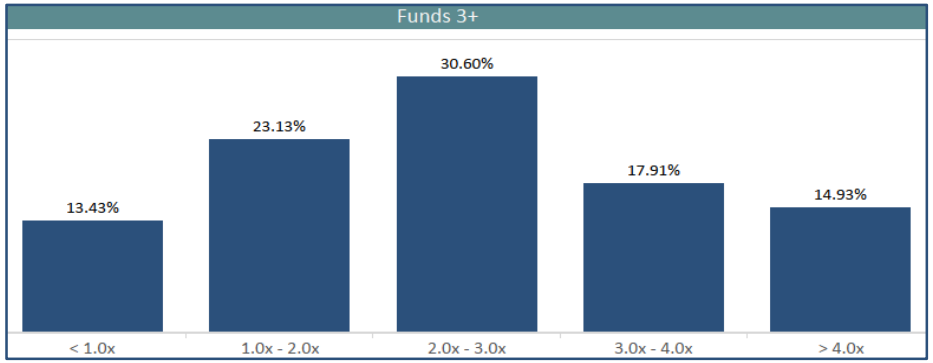
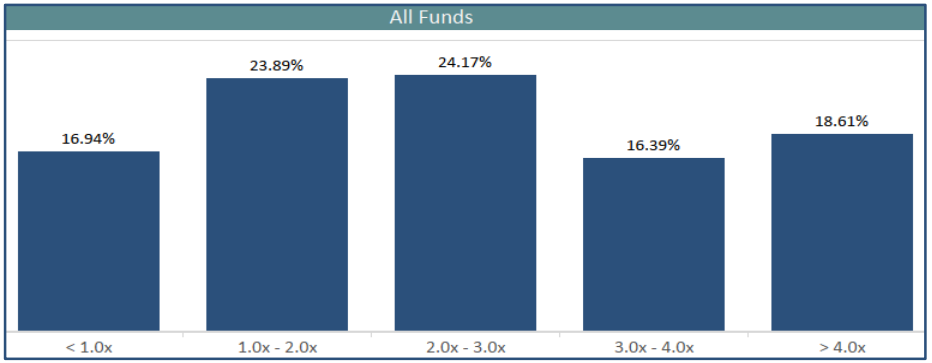
Meaningful Shift in Expected Outcomes for Larger Deals Across All Fund Maturities









Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Deal Returns (Comparing By Size) Takeaways

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Returns of Fund 1s					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
<$150M EV	~27%	~15%	~17%	~13%	~27%
>$250M EV	~17%	~27%	~20%	~13%	~23%

- Trends identified above present in deals done by Fund 1s: more risk in smaller deals
- Consistent with earlier findings, deal size may play larger role in determining risk profile than fund manager maturity

Returns of Fund 2s					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
<$150M EV	~27%	~17%	~20%	~13%	~23%
>$250M EV	~20%	~23%	~20%	~17%	~17%

- Continuation of pattern as smaller deals completed by Fund 2s display higher risk – higher reward behavior than large deals also completed by Fund 2s
- As expected, however, magnitude of delta is less notable than observed in Fund 1s

Returns of Funds 3+					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
<$150M EV	~23%	~15%	~20%	~15%	~27%
>$250M EV	~13%	~23%	~30%	~17%	~15%

- Breaking with expectation, largest deltas between extreme results, both positive and negative, are within the Fund 3+ subset
- Likely a product of large deals completed by Funds 3+ displaying, by far, lowest risk-reward profile

Returns of All Funds					
	<1.0x	1.0x-2.0x	2.0x-3.0x	3.0x-4.0x	>4.0x
<$150M EV	~25%	~15%	~17%	~13%	~27%
>$250M EV	~17%	~23%	~25%	~17%	~17%

- Slight increase in instances of 'extreme' results within smaller deals compared to entire market
- Notably higher tendency toward central returns and lower extremes within larger deal subset

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

Deal Returns: Attributed Track Records

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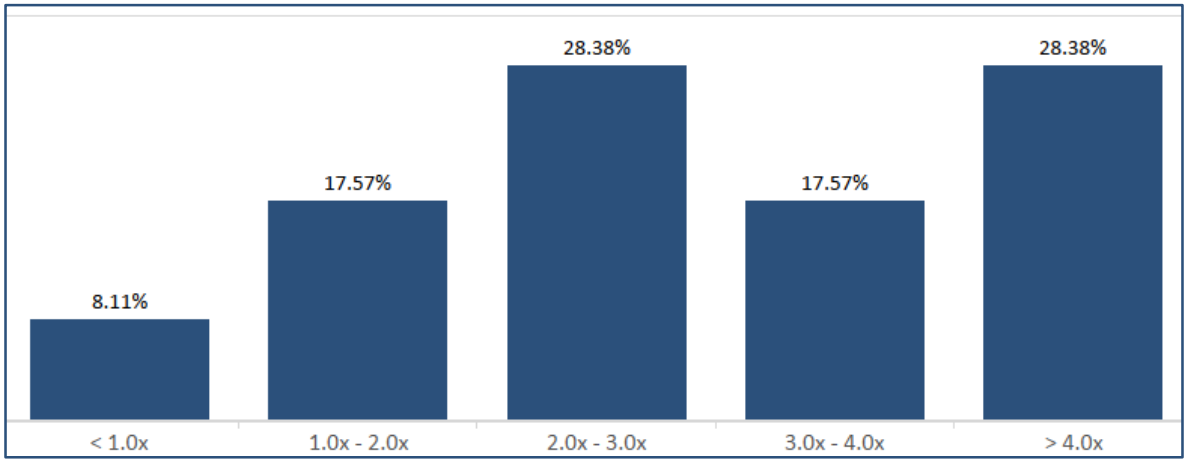
"Attributed" Deal Return Profiles are Much More Attractive Than Subsequent Vehicles

"Attributed" Deal Returns



- **Evaluators of Emerging Managers Must Proceed With Caution As Positive Bias Is Apparent:** Greater than 70% of deals on fund managers' "attributed" track records attain a >2.0x return, dramatically better than returns observed by actual funds
- **Multiple Stances on Likely Contributing Factors:**
  - *Optimist*: Best individuals will inevitably lead best deals and most often leave to start their own practices; performance decline is a result of inevitable reversion to the mean
  - *Pessimist:* Managers are deliberately avoiding attribution for worse performing deals when presenting their attributed track records in an effort to attract investors to support their "emerging manager" funds

Source: RCP Database (as reported by investment managers and supplemented by data from third party consultants and public information). As of March 31, 2016. Note: Biases inherent in this study and all references to fund metrics and performance contained in this Presentation are qualified in their entireties by reference to the notes contained in the "Notes on Data" page in addition to the "Appendix". The explanatory notes and methodology contained in those notes should be carefully reviewed in full.

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Closing Remarks

Final Takeaways

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Thanks for Nothing, RCP

Fund Returns

- Fund 1s exhibit characteristics of a higher risk-higher reward investment compared to other vehicles raised by more mature managers
  - Conclusions should be qualified with an understanding of survivorship bias
  - Magnitude of differences in some conclusions is likely overstated, especially for Fund 1s
- Generally, more mature funds represent lower risk-lower reward investment opportunities

Deal Returns

- Evaluating individual deals rather than fund vehicles yields support for expected conclusions regarding risk-reward when comparing emerging managers to mature funds, but magnitude is generally very small
- Expected deal outcomes change with respect to smaller vs. larger deals

Above conclusions reflect the opinions of RCP and have not been independently verified.

Final Takeaways

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Well, Maybe a Few Interesting Ideas…

- Higher risk-reward often associated with "emerging managers" may be more of a product of fund size/deal size than maturity of manager
  - High risk-return profiles often associated with early funds can be achieved in Funds 3 or later as long as fund size remains small
  - Fund 1s (and Fund 2s, to an even greater extent) that raise a large amount of capital do not display expected return profiles with high upside
- Re-thinking the definition of emerging managers as it relates to evaluation by fund number: No consistent, notable distinction between Fund 2 expected performance and Funds 3+ performance
- No indication that mature managers are any better suited to manage difficult economic environments compared to emerging managers; in fact, data implies the opposite
- Sector specialization generally does not mitigate risks inherent in emerging managers
- The attributed track record: it's return profile is often much more favorable
  - Are managers cherry picking or do the best talent always leave to start new funds?

Above conclusions reflect the opinions of RCP and have not been independently verified.

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Appendix

Notes

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RCP Database: Provides private fund and investment-level performance data drawn from fundraising and diligence documents produced by general partners and publicly available information, as well as quarterly unaudited and audited annual financial statements produced by RCP's underlying fund managers. As of December 7, 2016, RCP's database contains information on more than 1,200 fund managers and more than 2,500 funds. These documents are provided to RCP by the fund managers themselves.

Certain information contained herein has been obtained from published and non-published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such information is believed to be reliable for the purposes used herein, none of RCP, any of its officers, employees, partners, shareholders or affiliates assume any responsibility for the accuracy of such information, and such information has not been independently verified.

Cambridge Associates: Cambridge Associates LLC ("Cambridge") provides private fund and investment-level performance data drawn from the quarterly unaudited and audited annual financial statements produced by fund managers for their limited partners. As of December 31, 2015, the Cambridge database contains the historical performance records of over 1,800 fund managers and their over 6,200 funds. These documents are provided to Cambridge by the fund managers themselves. Cambridge benchmarks are reported on a one-quarter lag from the end of the performance quarter. Performance data was provided by Cambridge to RCP Advisors "as is" and at no cost.

Preqin: Preqin Performance Analyst provides performance on 7,000+ separate vehicles managed by over 2,000 private equity firms from all over the world. Preqin maintains this data using a number of different methods, including collecting performance information directly from fund managers themselves, and also from requesting information from public institutional investors. All this private equity data is at a fund level, and is net to the investor.

ROIC: represents the return on invested capital. ROIC is calculated by dividing the sum of distributions plus total partners' capital by capital contributed. Total partners capital balance is the book assets (fair value of unrealized investments plus cash on hand and miscellaneous assets) less the liabilities at the measurement date.

IRR: represents the internal rate of return of the Fund. IRR is a time-weighted average expressed as a percentage. The IRR of an investment is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment, including the current value of unrealized investments.

Net ROIC and Net IRR: reflect limited partner returns after allocation of management fees, general fund expenses, investment expenses, income earned on cash and cash equivalents, any carried interest to the general partner and any other fees and expenses. All net IRRs and net ROIC referred to in this Presentation are based on proceeds already received and estimated valuations. There can be no assurance that unrealized investments will be realized at the valuations used to calculate the IRRs and ROIC contained herein and additional fund expenses and investment related expenses to be incurred during the remainder of each Fund's term remain unknown and, therefore, are not factored into the calculations. Any anticipated Carried Interest reduces the net returns of unrealized investments. Calculations used herein which incorporate estimations of the net "unrealized value" of remaining investments represent valuation estimates made by RCP using the most recent valuation data provided by the general partners of the underlying funds. Such estimates are subject to numerous variables which change over time and therefore amounts actually realized in the future will vary (in some cases materially) from the estimated net "unrealized values" used in connection with calculations referenced herein. Past performance is not a guarantee of future results, and there can be no assurance that any fund will achieve comparable results.

Benchmarks or other measures of relative market performance over a specified time are provided for reference only. Reference to a benchmark does not imply that the portfolio will achieve returns, volatility or other results similar to the index. The composition of the index may not reflect the manner in which the portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time.

Notes

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Biases within the study and other factors for consideration include:

- Survivorship bias:
  - Information flow will be biased towards managers successful enough to raise subsequent funds; given updated return information is primarily gathered during fundraising diligence, data reflects funds raised / deals transacted by relatively more successful managers
  - Disposition effect: PE firms will often hold underperformers longer and sell outperformers; study considers only realized deals, which can skew toward better performers
- Interim result (Maturity) bias:
  - Many fund returns are presented for vehicles that have not reached full maturity; RCP attempts to mitigate by only including funds with at least 5 years of maturation
  - For many portfolios, subsequent appreciation (or depreciation) is likely to occur which could affect conclusions
- Due to RCP's lower middle market focus, data is skewed to smaller funds / companies

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