



Investment Summary

McCarthy Capital Fund VII, L.P.

A North American Lower Middle-Market Buyout Fund

April 2020

EXECUTIVE SUMMARY

OVERALL RATING

McCarthy Capital (or the “Firm”) is an experienced investor in the lower middle-market buyout space that has generated strong realized returns. The Firm has earned a reputation of being a valued partner in working with management teams and building value for investors. This second-generation leadership team benefits from the long history and reputation of the Firm that has been built over decades.

Category	Rating
Business	✓
Staff	✓
Process	✓
Risk	✓
Operations	✓
Performance	✓
Terms & Conditions	✓

Aon has reviewed and performed an in-depth analysis of the above categories which includes, but is not limited to:

- Retention of Limited Partners
- Institutional Investor Representation
- Management Company Ownership
- Reporting Transparency
- Back-office Resources
- Complementary Skill Sets
- Alignment of Interest
- Turnover/Tenure
- Depth of Team Resources
- Management Team Network
- Firm Leadership
- Market Opportunity
- Stability of Strategy
- Investment Restrictions
- Approval process
- Ability to handle troubled deals
- Exit strategy
- Size of Fund
- Consistency / Volatility of Returns
- Realization Record
- Unrealized Portfolio Performance
- Write-Offs
- Transaction Experience in Strategy
- GP Attribution Concentration
- Management Fee and Offsets
- Priority of Distributions
- Clawback
- Investment Period
- No Fault Divorce
- Key Man
- Advisory Board
- Ability to Create Value in Deals
- Quality of Source
- Valuation Discipline
- Sole or Consortium Deals
- Overlap with Prior Portfolios

In addition, Aon’s Operational Due Diligence Team has reviewed the Firm from an operating perspective and has given McCarthy Capital Fund VII, L.P. a passing rating.

RECOMMENDATION

As part of its recommended 2020 private equity investment pacing of \$150 million for Nebraska Investment Council’s (“NIC”) Defined Benefit/Cash Balance Benefit plan, Aon supports NIC Staff’s recommendation to make up to a \$50 million commitment to McCarthy Capital Fund VII, L.P. (the “Fund”) subject to completion of a legal review and satisfactory agreement of terms. This recommendation is based on our due diligence of this fund and is supported by our full due diligence report.

Sponsor:

Location(s)	Omaha, NE (HQ) Boston, MA	Parent	McCarthy Capital
Gross AUM	\$850mn	Investment Staff	16

Portfolio Characteristics:

Target Geography	USA	Target Industries	Generalist (focus on business services, financial services, and consumer)
Ownership	Majority / Minority		

STRATEGY**OVERVIEW**

McCarthy Capital is a small buyout fund manager that invests in lower-middle-market companies in a variety of industries across the United States. The Firm operates primarily within what it believes to be underserved markets in the Midwest and select regional markets. As seen in Funds V and VI, the Firm will typically focus on buyouts and recapitalizations of private companies and expansion of private companies through both organic growth and add-on acquisitions.

McCarthy Capital makes both control and substantial minority investments, and, in both cases, the Firm requires there to be material ownership from company management to seek to align interests. McCarthy partners with high-quality management teams with whom they are confident will continue to successfully grow and manage attractive businesses. The vast majority of the Firm's portfolio companies are family-owned or closely held by the existing management team.

The Firm employs a well-defined process designed to identify additional growth opportunities at the time of investment and to help implement initiatives. The Firm utilizes conservative levels of leverage to support operating and growth initiatives of portfolio companies, which they believe may result in greater cash-flow growth and capacity to fund distributions and recapitalizations.

SPONSOR**OVERVIEW**

McCarthy Group was founded by Michael R. McCarthy and Richard Jarvis in 1986 to make investments on behalf of the McCarthy family as well as outside investors on a transactional basis. In 1999, McCarthy established the investment platform that is now McCarthy Capital to continue the same investment strategy through a series of private equity funds in which McCarthy Group and external investors could invest as Limited Partners.

COMPETITORS

Westview Capital	Riverside Microcap Funds
Prairie Capital Partners	Wingate Partners
Evergreen Equity Partners	SK Capital

INVESTMENT TEAM

Investment Staff:

- McCarthy Capital currently employs 16 investment professionals including the Firm's principals, vice presidents, senior associates, associates and general counsel. Majority of the team sits in Omaha, NE with two investment professionals located in Boston, MA.
- The Firm utilizes an informal Executive Advisory Panel who may serve as directors to the Fund's portfolio companies or otherwise support the Fund's portfolio company investments in an advisory capacity.

Professionals	Title	Years at Firm	Relevant Prior Work Experience
Patrick Duffy	President & Managing Partner	13	▪ Partner, Fraser Stryker ▪ General Counsel, 360networks ▪ Law Clerk, United States Court of Appeals Judge for the 8th Circuit
Robert Emmert	Partner	11	▪ General Partner, Alta Communications ▪ Investment Banking, Brown Brothers Harriman & Co.
Phillip Dudley	Partner	11	▪ Vice President, Alta Communications ▪ Investment Banking, Bear, Stearns & Co.
Chase Meyer	Partner	12	▪ Corporate Audit, Union Pacific Corporation ▪ Pension Consulting, Towers Perrin (now Towers Watson)
Matthew Breunsbach	Vice President	6	▪ Credit Suisse ▪ Toll Brothers ▪ US Bank
BJ Hansen	Vice President	10	▪ George K. Baum Advisors
Michael Meyer	Portfolio Director	7	▪ Vice President of Asset Management of Operations, Tenaska, Inc.
Brian Zaversnik	Portfolio Director	7	▪ Credit Suisse ▪ Deloitte
Justin Disch	Senior Associate	6	▪ First National Bank of Omaha
Thomas Sudyka	Senior Associate	3	▪ PwC
Tyler Cyboron	Director, Portfolio Reporting	2	▪ Javlin Capital
Jonathan Wegner	General Counsel	1	▪ Baird Holm ▪ Omaha World-Herald
Michael McCarthy	Chairman Emeritus	33	▪ Various entrepreneurial activities

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