



State of Rhode Island
Office of the General Treasurer

Industry Ventures Partnership Holdings VII- Staff Recommendation
March-2024

RECOMMENDATION:

- **Rhode Island Employees Retirement Systems Pooled Trust:** Approve a commitment of up to \$30 million to **Industry Ventures Partnership Holdings VII (“IVPH VII”)**. ERSRI committed i) \$25 million to Industry Ventures Partnership Holdings III (“IVPH III”), 2014 vintage fund, ii) \$10 million to Industry Ventures Partnership Holdings IV (“IVPH IV”), a 2015 vintage fund, iii) \$30 million to Industry Ventures Partnership Holdings V (“IVPH V”), a 2019 vintage fund, and iv) \$30 million to Industry Ventures Partnership Holdings VI (“IVPH VI”), a 2021 vintage fund. In addition, ERSRI committed i) \$15 million to Industry Ventures Partnership Holdings III Overage Fund C (“IVPH III-C”) in 2015 with 50% fees and carries of the main fund, and ii) \$10 million to a secondary purchase related to IVPH IV in 2019.
- **Rhode Island OPEB System Trust:** Approve a commitment of up to \$1 million to **Industry Ventures Partnership Holdings VII (“IVPH VII”)**.

ASSET CLASS: Private Equity (ERSRI), Private Growth (OPEB)

SUB-STRATEGY: Venture Capital

ALLOCATION:

- **Rhode Island Employees Retirement Systems Pooled Trust:** The target allocation for Private Equity is 12.5% and the allocation as of 2/29/2024 is ~16.6%. The current pacing plan for the 2024 vintage is \$240 million committed to 5-10 funds at \$15-40 million per fund. Pending approval of the recommendations presented at the March 2024 SIC meeting, ERSRI’s 2024 vintage commitments will be \$88 million.
- **Rhode Island OPEB System Trust:** The target allocation for Private Growth is 5.0% and the Private Equity sub-strategy is targeted to be ~80% of the asset class (i.e., 4.0% at the OPEB Trust level). The actual allocation to Private Equity as of 2/29/2024 is ~0.81%. The current pacing plan for 2024 is \$9 million committed to 5-10 primary funds at \$0.5-2 million per fund. Pending approval of the recommendations presented at the March 2024 SIC meeting, OPEB’s 2024 vintage commitments will be \$2.75 million.

PORTFOLIO FIT:

- **Rhode Island Employees Retirement Systems Pooled Trust:** ERSRI’s Private Equity allocation is composed of a core of buyout strategies, complemented by venture capital, growth equity and opportunistic credit investments. Rhode Island targets up to 20% of the allocation to be in the venture capital sub-strategy which provides access to earlier stage companies with high growth potential and diversification benefits relative to buyout. ERSRI seeks to build a diversified venture portfolio with exposure to varying vintages, stages, sectors, and geographies. The active venture portfolio is centered around a core relationship (5 funds) with a hybrid venture fund-of-funds manager, Industry Ventures, that provides broadly diversified exposure to early-stage technology companies by investing in emerging venture funds and direct company co-investments, typically in the U.S.

Industry Ventures was founded in 2000 to make investments in early-stage companies. Industry Ventures Partnership Holdings fund, a hybrid fund of funds program launched in 2009, targets small early stage (seed, early and early growth) companies through primary and early secondary purchases in venture capital portfolios as well as direct investments into high growth companies. IVPH VII targets technology sectors including enterprise software, financial technology, digital health, e-commerce infrastructure and A.I. IVPH VII is expected to include 35-50 venture capital managers with potential look-through exposure to ~1,500 early-stage companies. IVPH

fund is the only strategy in ERSRI's portfolio focusing on early-stage tech companies. The managers IVPH targets are mostly outside of ERSRI's investible universe given the extremely small fund sizes relative to ERSRI's target commitment size.

Pending approval of the proposed recommendations, Industry Ventures Partnership Holdings VII would represent ~8% of Private Equity and ~55% of the venture capital sub-strategy for ERSRI. (see Appendix 4).

- [Rhode Island OPEB System Trust](#): The Private Growth portfolio allocates to Private Equity (as described above) and Private Growth strategies and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval of the proposed recommendations, Industry Ventures Partnership Holdings VII would ~5 % of Private Growth for OPEB and 25% of its venture capital exposure (see *Appendix 5*).

MERITS:

- [Experienced Team & Track Record](#): Industry Ventures has a 20-year track record and an experienced team in sourcing, evaluating, and selecting investment opportunities in VC space. Industry Ventures has other complementary fund strategies and IVPH team have the ability to leverage the experience, networks, and expertise of the broader Industry Ventures Secondary (late-stage venture) and Tech Buyout teams. IVPH Funds have i) strong track records in realized and unrealized multiples and IRRs and ii) shorter J-curves.
- [Broad Exposure via Hybrid Fund of Funds Structure](#): IVPH VII is a hybrid fund of funds, and it targets 40% in primary commitment, 40% in direct investment and 20% in early secondaries. The 40% primary commitments get the fund broad exposure (~1,200 companies) to seed-stage companies via other small and emerging (fund I – III) venture funds less than \$250 million. The 40% direct investments target mid-stage companies (~60 companies) that IVPH has high conviction. Accessing early growth companies typically has no fee via direct ownership or reduced fee via pro-rata SPVs. Direct ownership and co-investment in SPVs, capturing pro-rata rights of small funds that are capital constrained, help reduce the double fee layer a typical FoF has. The 20% early secondaries target seed & early stage funds via secondary LP interest. Early secondaries, typically acquired at a discount, provide initial return and greatly reduce J-curve. Many IVPH funds have experienced no J-curve. Manager selection matters most in venture capital and Industry Ventures can help filter through the universe with the goal of reducing loss ratio and mitigating J-curve.

CONCERNS:

- [Large Exposure to a Single GP](#): ERSRI's total exposure to IVPH Funds, including the proposed \$30 million to IVPH VII, is around \$216 million (in the form of \$163 million NAV and \$53 million unfunded). Industry Ventures is ERSRI's largest GP.
 - [Mitigant – Hybrid Fund of Funds Structure](#): IVPH VII is hybrid fund of funds, and the exposure is spread across five IVPH funds since 2014 across hundreds of venture capital portfolios and thousands of early-stage companies.
- [Potential Double Fee Layer](#): IVPH VII is a hybrid fund of funds and by design, some portion of the fund will bear double layer of fees.
 - [Mitigant – Fee Savings through Direct Investments, Co-investment SPVs and Early Secondaries](#): The ~40% primary commitment has double fee layer. However, the ~40% direct investment has no fee or reduced fee (for example, zero management fee and 10% carry) via pro-rata SPVs and the ~20% early secondaries purchased at discount in year 3, 4, or 5 pay less fee in absolute amount. The total look through fees in this fund-of-funds structure is around 2% management fee and 24% carry.

ESG: Industry Ventures is categorized as an ESG **integrator**.

- [ESG](#): Industry Ventures has a formal ESG policy and committee. ESG considerations are reviewed as part of the investment due diligence process. There is limited ability to influence portfolio company ESG behavior after an investment is made given that Industry Ventures typically holds a minority interest and is not on the board.
- [DEI](#): Industry Ventures is committed to promoting diversity inside its firm and is Level 1 certified with *Diversity VC*. In order to attain Level 1 certification, Industry Ventures needs to establish Diversity and Inclusion initiatives spanning Recruiting and Human Resources, Internal Policy and Culture, Dealflow Sources, and Portfolio Guidance.

In addition, Industry Ventures needs to incorporate Diversity and Inclusion metrics, implement policies to mitigate biases in hiring processes, and track demographics of sourcing.

FEES: Fees for Industry Ventures Partnership Holdings VII are in-line with industry standards.

- Management Fees: IVPH VII charges a 1.0% management fee on committed capital for the first seven years, followed by an annual 5% step-down.
- Carried Interest: Carried interest, based off on the type of commitment, is charged over a 6% hurdle with a full catchup to the GP. IVPH VII charges 5% carry on primary commitments (about 40% of IVPH VII), 10% on early secondary transactions (~20% of IVPH VII) and 20% on direct investments (~40% of IVPH VII). Carry is distributed on a total fund basis.

Appendix 1: ERSRI Prior Fund Exposure

Current Partnerships	Vintage	Type	Amount Committed	Amount Called	Amount Distributed	Amount Unfunded	Valuation	Exposure (Unfunded + Valuation)
Industry Ventures Partnership Holdings III	2014	PE- Venture Capital	\$25,000,000	\$23,339,743	\$41,927,868	\$1,722,958	\$34,653,707	\$36,376,665
Industry Ventures Partnership Holdings III-C	2015	PE- Venture Capital	\$15,000,000	\$13,952,381	\$12,264,593	\$1,047,619	\$21,739,533	\$22,787,152
Industry Ventures Partnership Holdings IV	2015	PE- Venture Capital	\$10,000,000	\$9,100,000	\$3,523,265	\$900,000	\$17,657,883	\$18,557,883
Industry Ventures Partnership Holdings IV - Secondary	2019	PE- Venture Capital	\$10,032,361	\$7,235,532	\$6,695,397	\$2,796,830	\$17,715,026	\$20,511,856
Industry Ventures Partnership Holdings V	2019	PE- Venture Capital	\$30,000,000	\$27,600,000	\$752,319	\$2,400,000	\$54,107,386	\$56,507,386
Industry Ventures Partnership Holdings VI	2021	PE- Venture Capital	\$30,000,000	\$15,610,637	\$227,625	\$14,388,006	\$17,386,154	\$31,774,160

*Data Pulled from Solovis on 3/11/2024 with the most recent data

Appendix 2: ERSRI Prior Fund Performance

Current Partnerships	Vintage	Type	Net Performance*		Public Market Equivalent (PME)	
			Net IRR (%)	Net Multiple of Investment	MSCI ACWI Net PME IRR**	Return (Fund IRR - PME)
Industry Ventures Partnership Holdings III	2014	PE- Venture Capital	22%	3.3	6%	17%
Industry Ventures Partnership Holdings III-C	2015	PE- Venture Capital	20%	2.4	9%	11%
Industry Ventures Partnership Holdings IV	2015	PE- Venture Capital	19%	2.3	10%	9%
Industry Ventures Partnership Holdings IV - S	2019	PE- Venture Capital	46%	3.4	9%	37%
Industry Ventures Partnership Holdings V	2019	PE- Venture Capital	23%	2.0	10%	13%
Industry Ventures Partnership Holdings VI	2021	PE- Venture Capital	10%	1.1	14%	-4%

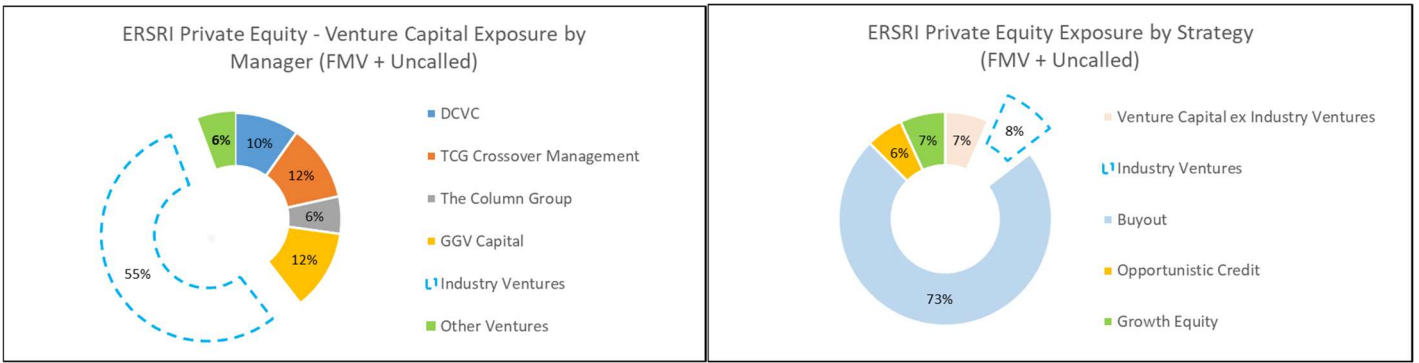
*Data Pulled from Solovis on 3/11/2024 with the most recent data

**Long Nickels PME Methodology

Appendix 3: ERSRI Non-Core Real Estate Managers

ERSRI Private Equity - Venture Managers				
Manager	Type	Sector	Stage	Geography
Industry Ventures	Hybrid FoF	Technology	Early	U.S.
GGV	Primary	Technology	Multi-Stage	Global
TCG Crossover	Primary	Life Science	Crossover	U.S. and Asia
The Column Group	Primary	Life Science	Early	U.S.
DCVC	Primary	Life Science	Early	U.S.

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

