



State of Rhode Island  
Office of the General Treasurer

**DCVC Bio Fund III, L.P. - Staff Recommendation**  
*September-2023*

**RECOMMENDATION:**

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): **Approve a commitment of up to \$20 million to DCVC Bio Fund III, L.P. (“DCVC Bio III”)**. ERSRI previously committed \$20 million to DCVC Bio II L.P. (“DCVC II”), a 2020 vintage fund (exposure in *Appendix 1*, performance in *Appendix 2*).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): **Approve a commitment of up to \$1 million to DCVC Bio Fund III, L.P. (“DCVC Bio III”)**.

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

**SUB-STRATEGY:** Venture Capital

**ALLOCATION:**

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): The target allocation for private equity is 12.5% and the allocation as of 8/31/2023 is ~16.7%. The current pacing plan for the 2023 vintage is \$200 million committed to 5-10 funds at \$15-40 million per fund. Pending approval of the recommendations above, ERSRI’s 2023 vintage commitments to Private Equity will be ~\$160.8 million.
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): 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 of 8/31/2023 is ~0.56%. The current pacing plan for 2023 is \$9 million committed to 5-10 primary funds at \$0.5-2 million per fund. Pending approval of the recommendations above, OPEB’s 2023 vintage commitments to Private Equity will be ~\$6.4 million.

**PORTFOLIO FIT:**

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): 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 venture capital, 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 venture portfolio is centered around a core of five managers (see in *Appendix 3*), of which three focus on life sciences. ERSRI overweighs early-stage venture where managers can build larger positions and exert greater influence. The fund’s strategy fits well within this portion of the venture portfolio as it will target early-stage venture capital investments, primarily seed and series A deals, in companies at the intersection of Deep Tech and Life Sciences. DCVC Bio III will invest in human health, agriculture, and industrial biotechnology companies that utilize deep tech to accelerate product development. The fund will target 75%-85% of their deals in North America, the rest in the European union, UK, and other targeted geographies opportunistically. DCVC III will target 15 to 20 deals with an average target ownership of 20% or greater across the portfolio and a net return of at least 3 times invested capital. Pending approval of the proposed recommendations, DCVC would represent 1.5% of ERSRI’s Private Equity portfolio and 10.2% of its Venture exposure (NAV + uncalled commitment) (see *Appendix 4*)
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): The Private Growth portfolio allocates to Private Equity (as described above) and Non-Core Real Estate strategies and is ramping up to its target allocation through

commitments made in tandem with ERSRI. Pending approval of the recommendations, DCVC would represent ~6.3% of OPEB's Private Growth exposure and ~7.8% of its Private Equity exposure (see Appendix 5).

#### **MERITS:**

- **Differentiated Sourcing Network and Reputation:** DCVC is supported by a group of over 50 Equity partners who are scientific industry experts and will provide diligence and sourcing on highly technical. DCVC Bio III will benefit from the experience and resources of the larger DCVC platform. DCVC Bio has been able to identify and source strong companies at an early stage of development and establish a portfolio of market leading companies. DCVC has a strong reputation in the Life Science and Deep Tech fields, resulting in 70% of deal flow coming through inbound from an internal network, including from LPs and from connections to academia.
- **Strong Team:** Dr. Kiersten Stead and Dr. John Hamer, DCVC Bio's Managing Partners, previously worked together managing venture capital activities at Monsanto Growth Ventures focusing on agtech investments. Dr. Stead and Hamer have extensive experience in deep tech, biotechnology, agtech, and venture capital investing. Stead and Hamer are supported by five investment professionals and three Entrepreneurs in Residence (EIRs), each with strong backgrounds in the industry. Matt Ocko and Zachary Bogue, founders of DCVC, and a group of Equity Partners comprised of computer scientists, physicists, entrepreneurs, and executives bring valuable experience in deep tech.
- **Strong Fund I Performance and Momentum:** Prior DCVC Bio funds have demonstrated strong performance and momentum. DCVC Bio I, a 2018-vintage fund, has a net TVPI of 3.3x (a net DPI of 2.1X) and a net IRR of 76.8%. DCVC Bio II, a 2020-vintage fund, is still relatively new and has generated net TVPI of 1.2x (a net DPI of 0.3X) and a net IRR of 18.1%

#### **CONCERNS:**

- **Key Person Risk:** Kiersten Stead (50) and John Hamer (65) are the only two senior professionals on the DCVC Bio III team and are the ones primarily responsible for sourcing investments, conducting due diligence, and assisting companies' post-investment. These two professionals have worked together for many years at DCVC and previously at Monsanto Growth Ventures, bringing decades of experience. The team relies heavily on their skills. However, Stead and Hamer are supported by a strong team and work with the broader DCVC organization utilizing their Equity Partners and back-office staff. Additionally, the founders of DCVC, Matt Ocko and Zachary Bogue support the DCVC Bio team and sit on the investment committee.
- **Market Concentration Risk:** DCVC Bio will invest in a concentrated portfolio of early-stage computational biotechnology companies, a high-growth sector with an opportunity to produce strong returns. However, without a focus on diversification, the fund's narrow focus on this specific sub-sector of biotechnology may expose them to unique market shocks and heightened risks.

**ESG:** DCVC Bio is rated as a **Leader** with respect to their ESG practices.

- **ESG:** DCVC Bio has an established ESG policy and ESG due diligence checklist. This checklist is reviewed for all investments that DCVC Bio has at least 10% of equity ownership. The firm also considers ESG when managing its portfolio companies. The firm recently hired Tideline as their impact consultant to put together an impact framework to add to their investment process. While not an impact strategy, many of the funds' investments have a positive ESG impact as they have a significant impact on lowering healthcare costs, improving health and longevity, providing better access to medicines, and improving sustainability, food security, and climate resilience.
- **DEI:** DCVC aims to create a culture of diversity and is committed to equal opportunity. DCVC Bio is woman led, and three of the seven investment professionals dedicated to the platform come from diverse backgrounds. Additionally, DCVC is partnered with the Black in Venture Capital Consortium and is a primary sponsor of the Black Women on Boards organization.

**FEES:** Fees for DCVC Bio III are in-line with industry standards.

- **Management Fee:** There is a 2.25% management fee on committed capital during the Fund's first six years; thereafter, the management fee will be reduced by 0.125% per year, but not below 1.5% of total commitments, until the expiration of the term (including extensions). The management fee will be offset by 100% of all directors', consulting, break-up, and equivalent fees and 100% of all placement agent fees.

- Carried Interest: 20% on fund-level until net gains reach 2x aggregate contributions (3x fund net return), then 100% GP catch-up until the GP receives 25%, then 25% thereafter.

## Appendix 1: ERSRI Prior Fund Exposure

Current Partnerships	Vintage Year/ Initial Investment	Type	Fund Exposure*				Valuation
			Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	
DCVC Bio Fund II, L.P.	2020	Venture Capital	\$20,000,000	\$9,300,000	\$3,044,804	\$10,700,000	\$8,103,102

\*Data as of 3/31/2023

## Appendix 2: ERSRI Prior Fund Performance

Current Partnerships	Vintage Year/ Initial Investment	Type	Net Performance*		Public Market Equivalent (PME)	
			Net IRR (%)	Net Multiple of Investment	MSCI ACWI Net Index PME IRR**	Fund Excess Return (Fund IRR - PME)
DCVC Bio Fund II, L.P.	2020	Venture Capital	18.1%	1.2	-0.7%	18.8%

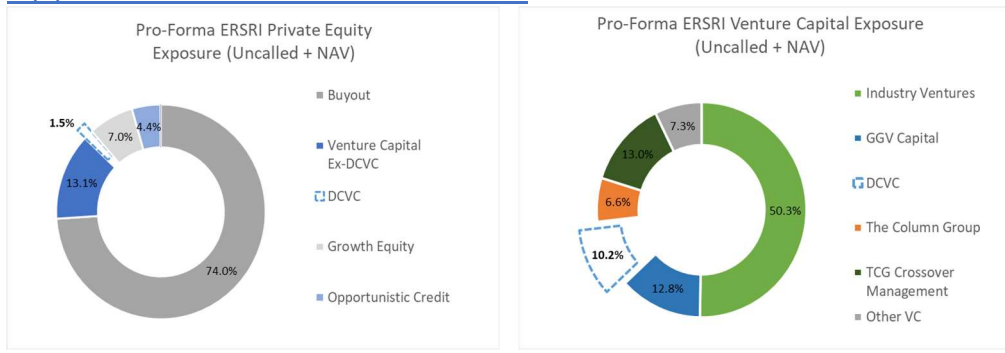
\*Data of 3/31/2023

\*\*Long Nickels PME Methodology

## Appendix 3: 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., Europe, & 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

