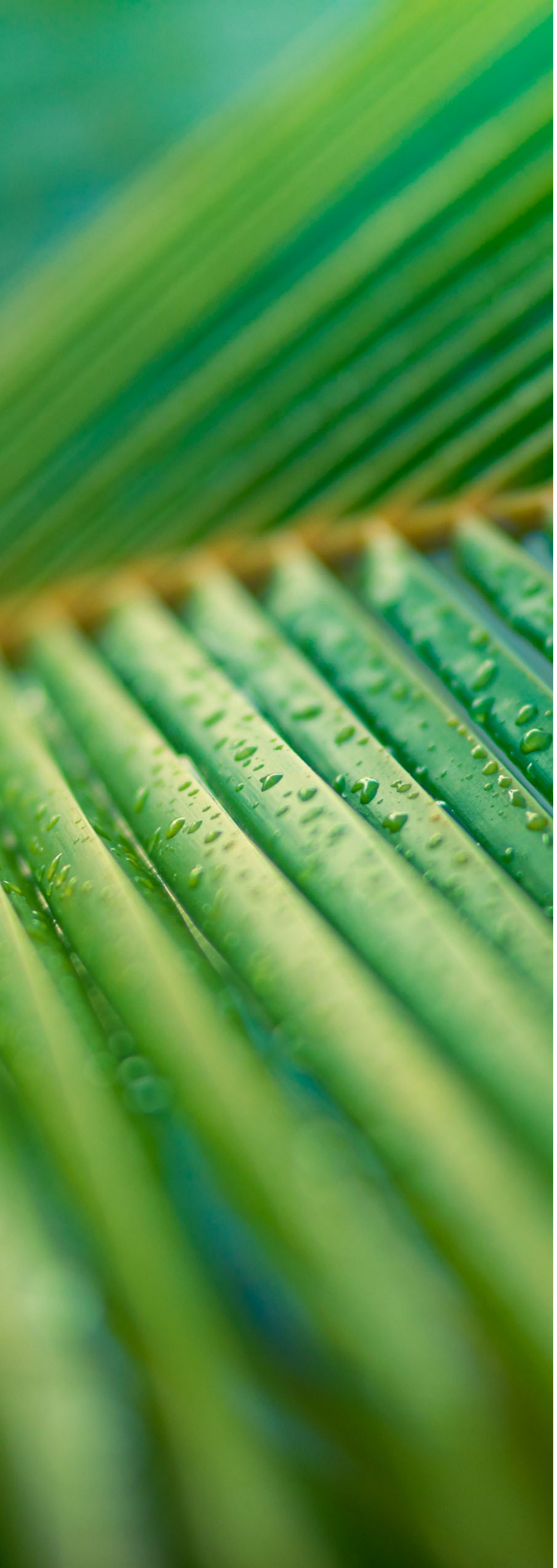


THE CASE FOR DIVERSE AND EMERGING MANAGER PE EXPOSURE

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

JANUARY 2025

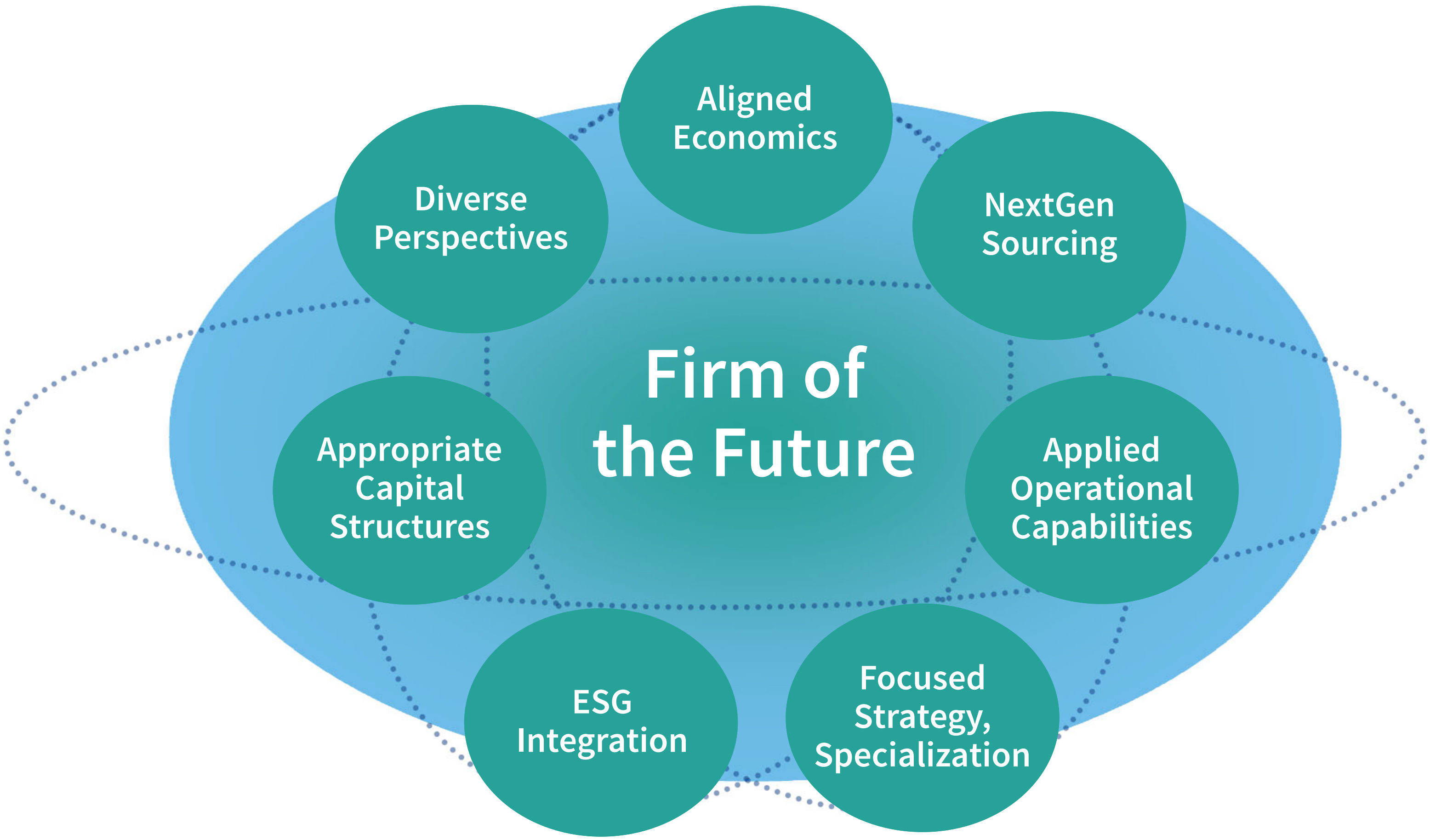
Why should public pensions invest in diverse and emerging private equity managers?

- PE firms whose ownership is predominantly women or people of color may unlock access to differentiated deal flow
- Diverse asset management firms are increasing their share of private market deals
- Opportunity to build early relationships with GPs for future direct commitments
- Access strong returns that often match and can exceed those of established funds
- Own portfolios with attractive entry valuations and stronger operating performance
- Potential for better GP/LP alignment with more attractive economics or terms

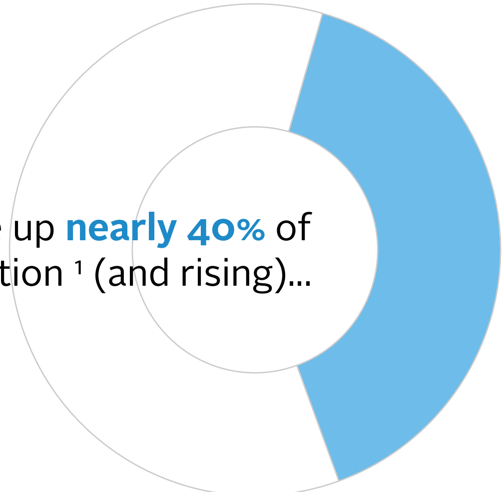
Though implementation in client portfolios can be challenging due to:

- Aligning fund manager sizes with ideal portfolio construction
- Resource intensive discovery and diligence process
- Governance uncertainty and decision-making authority

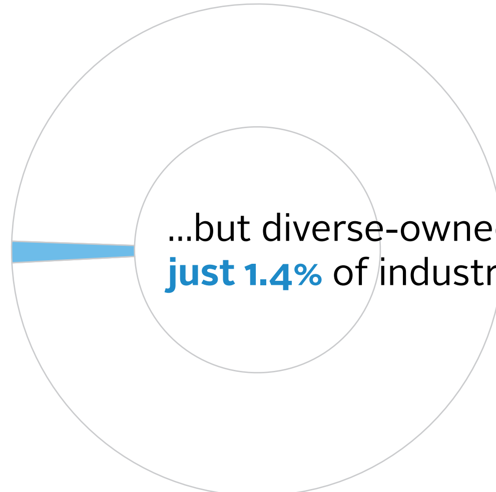
Picking the right partner is critical



Why you should care about diversity in the investment industry and in your portfolio



People of color make up **nearly 40%** of the US population [1] (and rising)…



…but diverse-owned firms represent **just 1.4%** of industry AUM [2]

What we mean when we talk about diverse investing	**Firm leadership** Investment firm ownership/leadership: ethnically, racially, or gender-diverse [3]	**Strategy focus** Investment strategies focused on diverse entrepreneurs	**Products & services** Funds invested in companies addressing the needs of diverse populations
Who we mean when we talk about diverse managers	**Underrepresented populations** [4] Racial & ethnic equity opportunity	**Women** Gender equity opportunity	

[1] Though women-owned firms are included in the definition of diverse ownership at right, not shown on this chart are the 50.8% of US population made up of women. Women and people of color together make up more than 70% of US population. Source: U.S. Census Bureau, Population Division, 2020 Demographic Analysis (December 2020 release).
[2] As of September 2021. Professor Josh Lerner, Harvard Business School and Bella Research Group, Knight Diversity of Asset Managers Research Series: Industry, December 2021, page 5. The report defines diverse-owned firms as those that are over 50 percent women- or minority-owned.
[3] Cambridge Associates defines diverse firm ownership/leadership as minimum 33%.
[4] Inclusive of Asian Americans, African Americans, Hispanic/Latino/Latine, and Native Americans. We are increasingly seeing a focus from clients and prospects on African American and Hispanic/Latino/Latine managers.

The tipping point—33%

We recommend a 33% hurdle to define a diverse firm/team

Traditionally, MWBE[1] firms are defined by majority ownership (51% or greater). However, we recommend:

Lowering the hurdle rate from 51% to 33% to maintain impact while increasing operational stability.

— A 2008 study[2] demonstrated a critical mass for female board members begins at 33% level (3 out of 9–12 board members)

— We believe this translates similarly to diversity broadly

— Lower hurdle allows emerging managers to transition ownership to next generation, improving long-term stability

Including ownership and leadership of firms and strategies.

— Broaden universe of strategies available

— Incentivize large firms to seek out diverse investment talent

— Bolster pipeline of talent within industry

Single Representation (~10%)

Possible impact but high risk of tokenism

— Hypervisibility
— Invisibility
— Stereotyped and not seen as an individual
— High effort to be heard and impactful

Dual Representation (~20%)

Improvement but tokenism still exists

— Increased inclusion
— Validation through partnership
— Decrease in stereotyping
— Larger impact

However...

— Risk of stereotyping remains
— Work remains to be heard
— Avoiding the appearance of collusion

Three or More (33% or greater)

Critical Mass

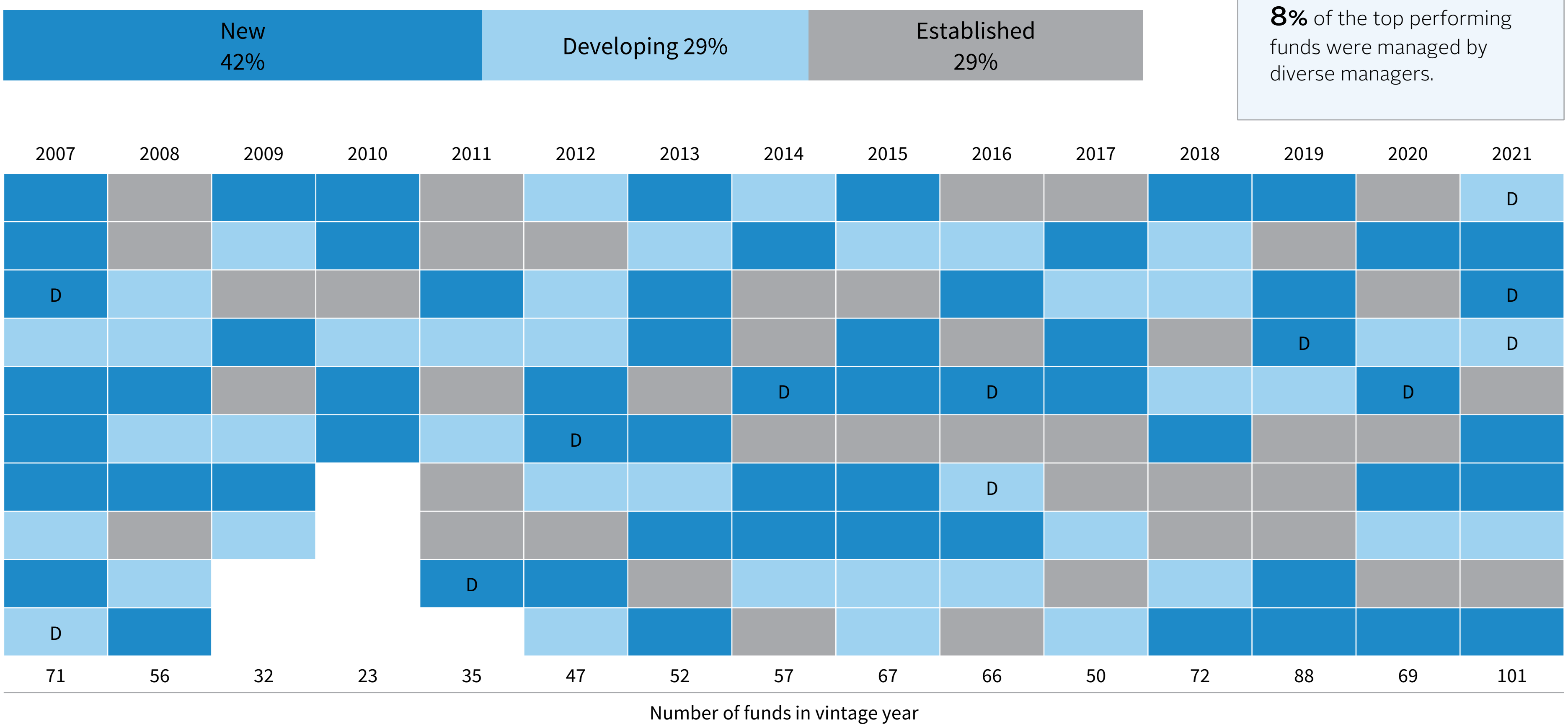
— Normalization begins
— Higher level of comfort
— Increase in support
— No representation burden
— Individuality increases
— Ability to amplify impact and issues
— Noticeable impact on content and dynamics
— Increased collaboration and inclusivity

[1] MWBE stands for Minority/Women-owned Business Enterprise.
[2] Source: Alison M. Konrad, Vivki Kramer, Sumru Erkut (2008). Critical Mass: The Impact of Three or More Women on Corporate Boards

Diverse managers have been well represented in the benchmark's top performing funds

US private equity

Top 10 top quartile funds by vintage year [1]



D

indicates a diverse manager

8% of the top performing funds were managed by diverse managers.

Past performance is not a reliable indicator of future results. All financial investments involve risk. Depending on the type of investment, losses can be unlimited.

Source: Cambridge Associates LLC.

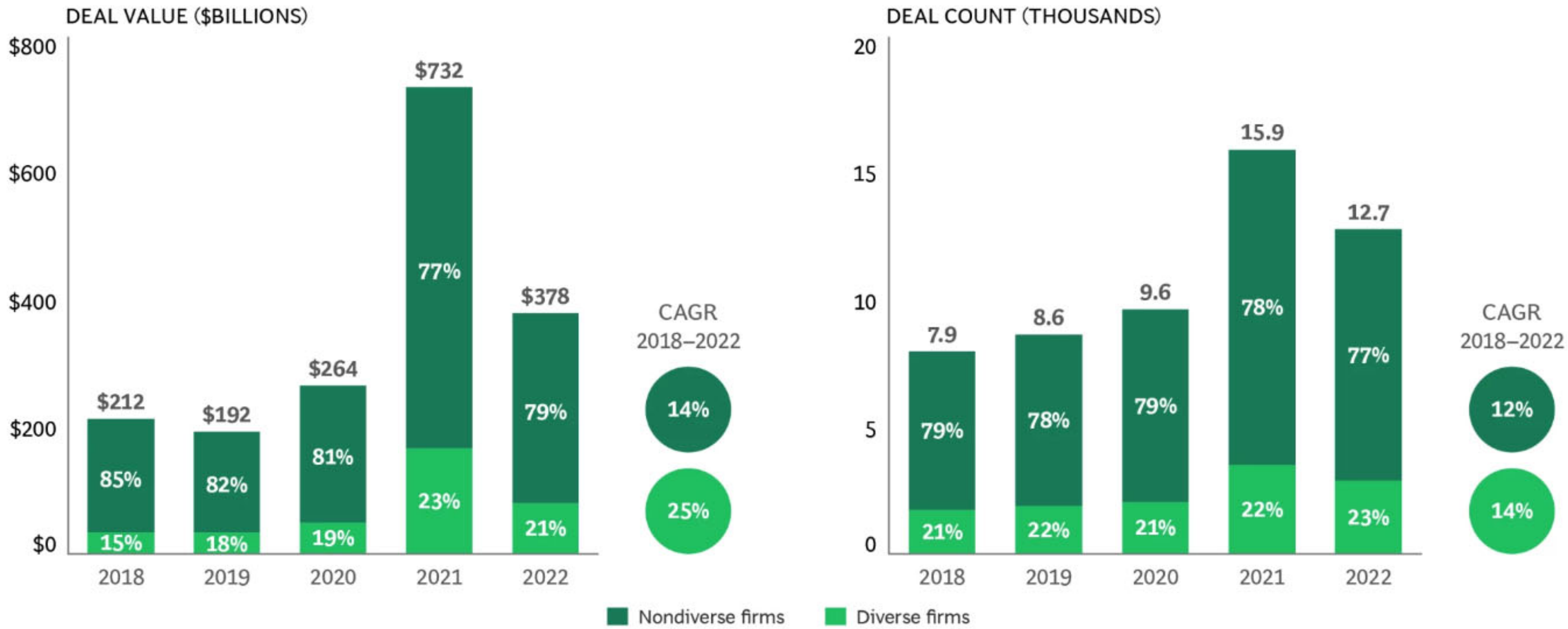
Notes: Total value to paid-in capital multiple is net of fees, expenses and carried interest. Private equity includes buyout and growth equity funds. Fund order is determined as funds raised under the same strategy and does not include friends and family funds. A new fund is defined as the first or second fund, a developing fund is the third or fourth fund, and an established fund is the fifth fund and beyond. Funds less than three years old are considered too young to have produced meaningful returns; those vintages have been excluded from this analysis. When vintage years have fewer than 40 funds, some portion of the top ten funds fall outside of the top quartile; these funds have been left blank. Percentages may not sum due to rounding.

[1] Based on net TVPI multiple as of June 30, 2024.

Diverse asset management firms are increasing their share of private market deals

From 2018 to 2022, the value of the deals led by diverse private equity and venture capital firms grew at 25% annually from a starting point of $33 billion, nearly twice the growth rate of deals completed by nondiverse firms.

Within the opportunity to invest in differentiated deal flow, the number of private market deals led by diverse firms also grew, by 14% annually, over this same period.

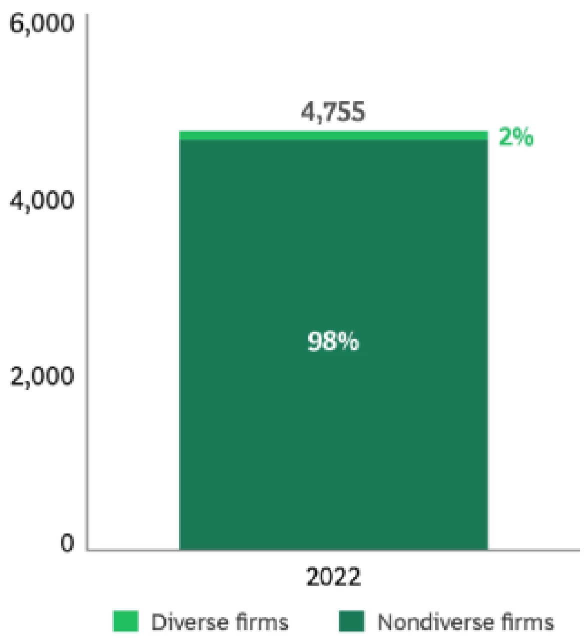


Sources: Cambridge Associates data; Preqin datasets; BCG analysis.
Note: Asset management firms are considered nondiverse if ownership or executive leadership is less than half of women, nonbinary, people of color, or Hispanic.

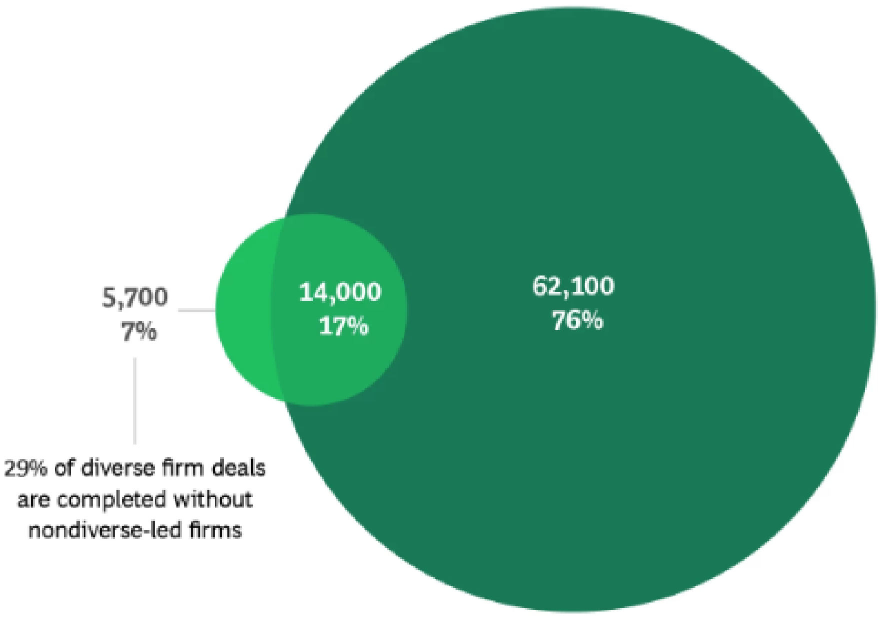
Diverse asset management firms execute differentiated deals

Of the deals we analyzed, 76% were financed exclusively by nondiverse private equity and venture capital firms, 17% of the transactions had deal syndicates with a mix of nondiverse and diverse firms, and 7% were investment rounds completed exclusively by diverse-owned firms.

Diverse firms control just 2% of assets under management . . .
US ASSETS UNDER MANAGEMENT ($BILLIONS)



. . . but fund deals that predominately nondiverse-led firms overlook
TOTAL DEALS (COUNT, %)

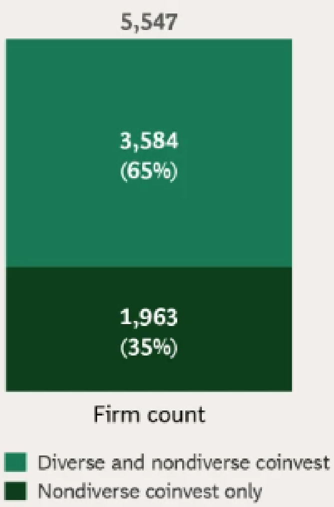


Sources: Preqin 2012-2023 year-to-date database, including US-based private equity and venture capital deals and excluding hedge funds and mutual funds; Knight Diversity of Asset Managers Research Series: Industry, 2021; BCG analysis.
Note: Asset management firms are considered nondiverse if ownership or executive leadership is less than half of women, nonbinary, people of color, or Hispanic.

Asset managers have tended to invest in networks of professionals with similar backgrounds

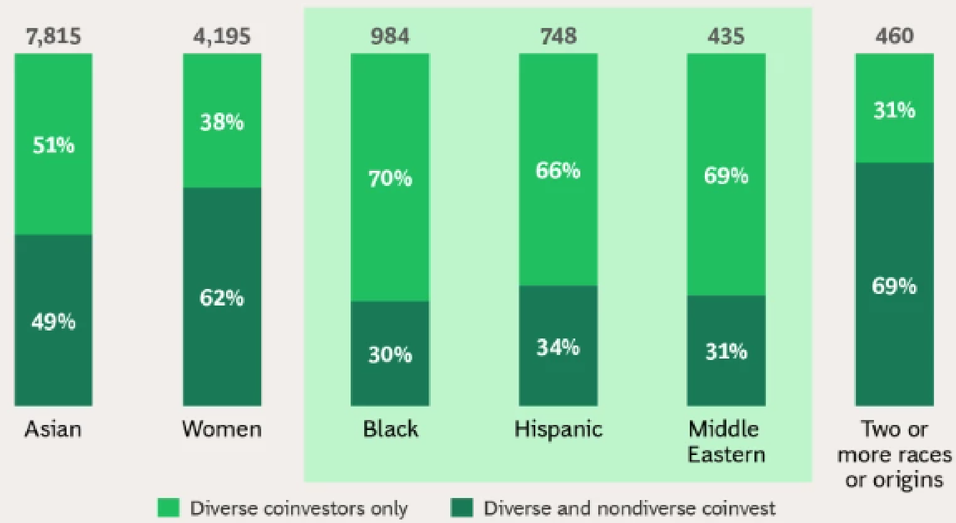
35% of nondiverse firms coinvested only with other nondiverse firms

DISTRIBUTION OF FIRMS THAT COINVEST WITH EACH OTHER (NUMBER OF FIRMS)



Black, Hispanic, and Middle Eastern-led firms are more likely to participate in deals without nondiverse firms

DEAL COUNT ACROSS DIVERSE ASSET MANAGEMENT FIRM COHORTS

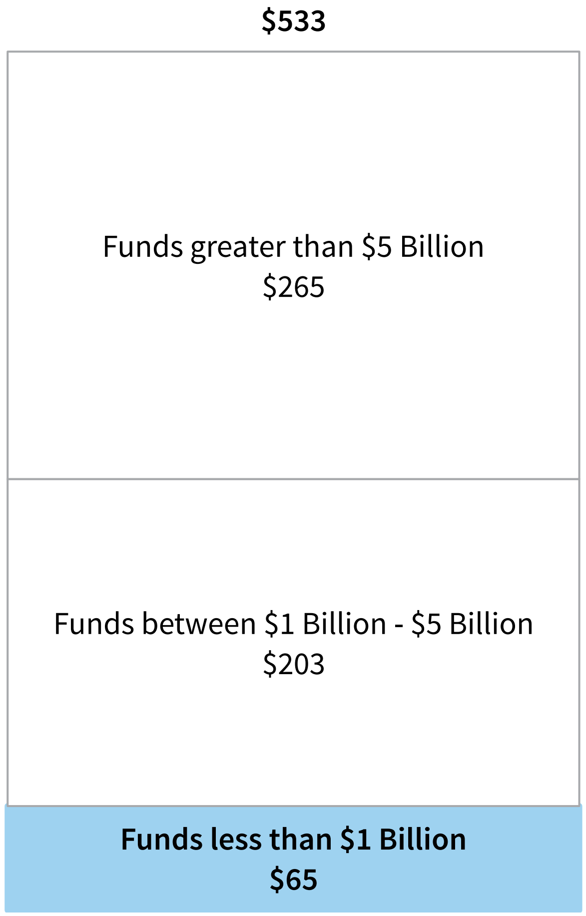


Sources: Cambridge Associates data, Preqin datasets; BCG analysis.

Emerging Manager Landscape

There is significantly less capital chasing more companies at the small end of the PE market

USPE: Overhang Estimate By Fund Size
2023 • US Dollar (Billions)

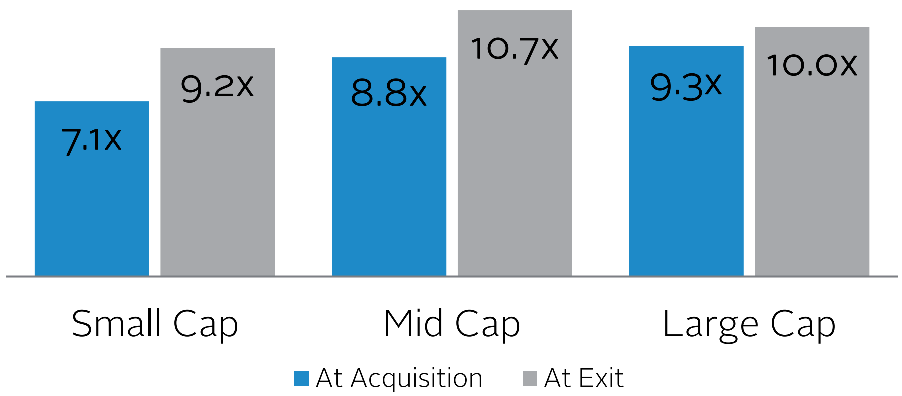


Number Of US Companies By Revenue

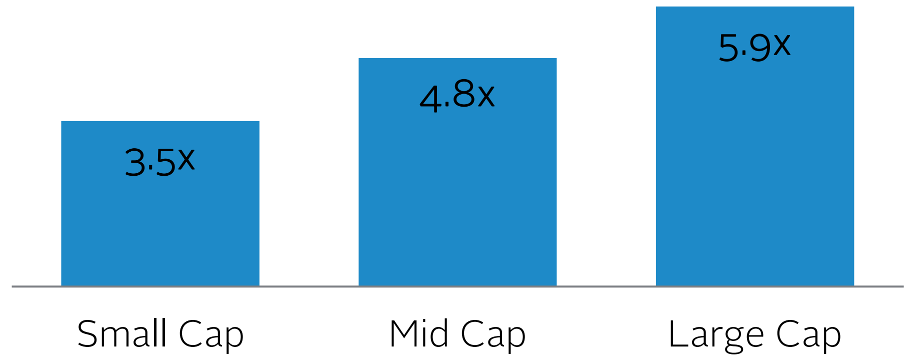
Sources: Cambridge Associates LLC and PitchBook Data, Inc.
Notes: Data reflect cumulative overhang as of each year end. Private equity includes buyout and growth equity funds. Estimate based on the percent paid into funds tracked by Cambridge Associates LLC by vintage year. Vintage year is defined based on first cash flow, rather than legal inception date. Cumulative overhang value includes the past six vintages; for example, cumulative overhang of $533 billion includes vintages 2018–2023. Assumes a ten-year life span with a 1.5% fee decreasing linearly over the life of a fund, and no re-investment of capital. Vintage year 2023 paid-in capital is a trailing five-year average of the most recent vintage's paid-in capital.

Small buyouts may offer more attractive purchase prices and use less leverage than larger deals

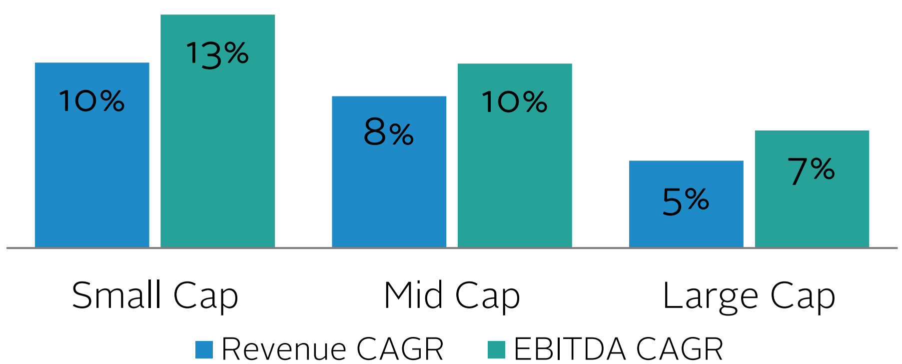
Global Buyouts: Median Purchase Price Multiples



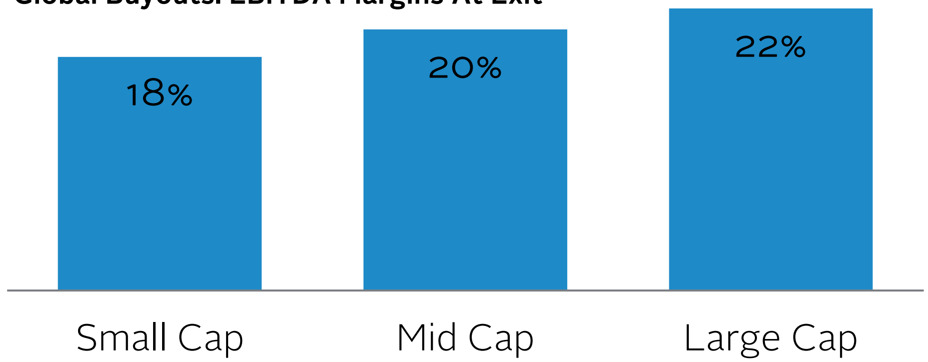
Global Buyouts: Median Leverage Multiples



Global Buyouts: Median Revenue & EBITDA Cagrs



Global Buyouts: EBITDA Margins At Exit



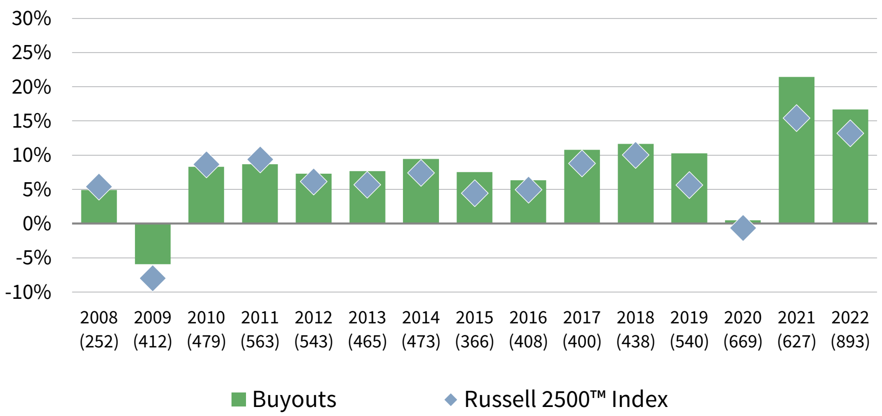
Source: Cambridge Associates LLC Private Investments Database (as reported by investment managers).
Notes: Median PPMs, LMs, growth CAGRs, and margins are based on realized global buyout investments acquired in 2000-2021 and exited by December 31, 2021. Small cap refers to companies that have enterprise values below $250 million at acquisition. Mid cap companies are those with enterprise values between $250 million and $1 billion, and large are those whose values exceed $1 billion at acquisition. Sample sizes vary by metric and size cohort. There are at least 1,300 companies in the small-cap universe, more than 800 in the mid cap, and more than 550 in the large cap.

When looking at operating metrics, small buyouts have outpaced larger companies' revenue growth

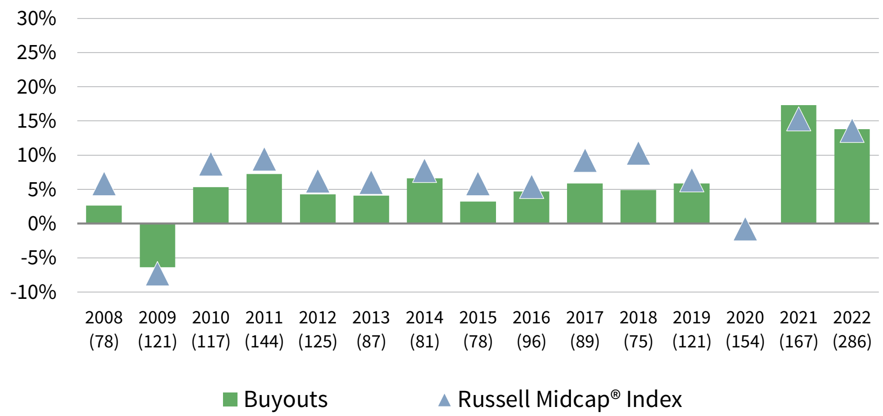
AVERAGE ANNUAL REVENUE GROWTH OF US PRIVATE EQUITY BUYOUT COMPANIES VS PUBLIC COMPANIES BY ENTERPRISE VALUE SEGMENT

As of December 31, 2022 • Annual Growth Rate (%)

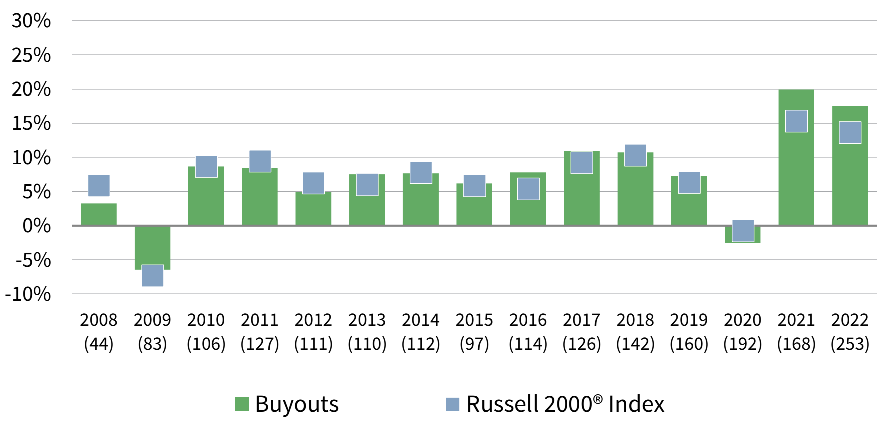
Total Universe



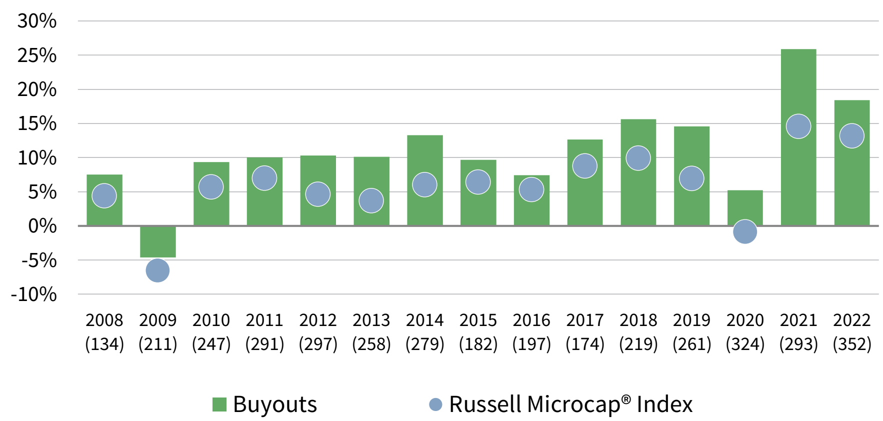
EV > $1 B



EV $250 M – $1 B



EV < $250 M



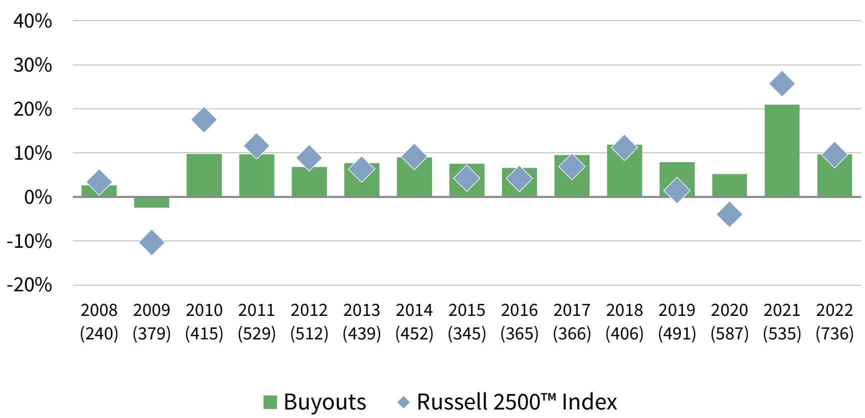
Sources: Cambridge Associates LLC Private Investments Database (as reported by investment managers), FactSet Research Systems, and Frank Russell Company.
Notes: Outliers were identified and excluded, and the same methodology was applied to the private equity and public company universes. Numbers in parentheses represent number of private equity–owned companies in each year.

Small buyouts have also generally averaged higher EBITDA growth relative to larger deals

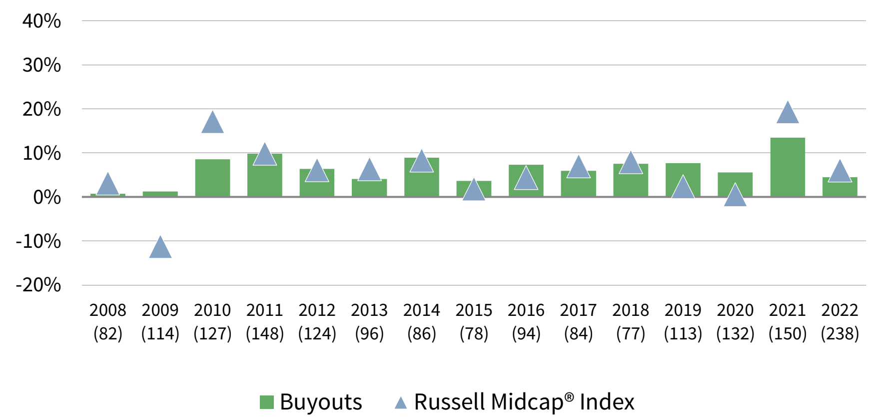
AVERAGE ANNUAL EBITDA GROWTH OF US PRIVATE EQUITY BUYOUT COMPANIES VS PUBLIC COMPANIES BY ENTERPRISE VALUE SEGMENT

As of December 31, 2022 • Annual Growth Rate (%)

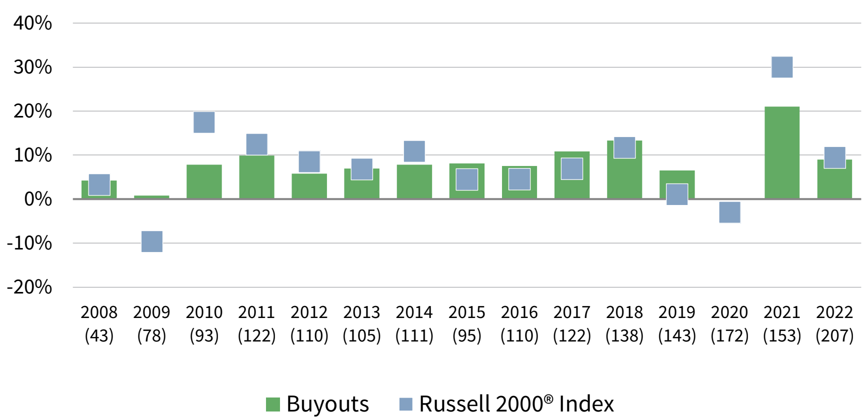
Total Universe



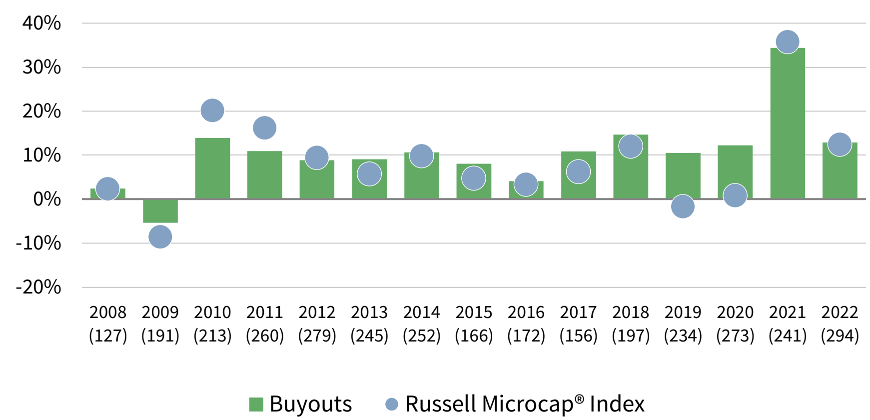
Enterprise Value > $1 B



Enterprise Value $250 M – $1 B



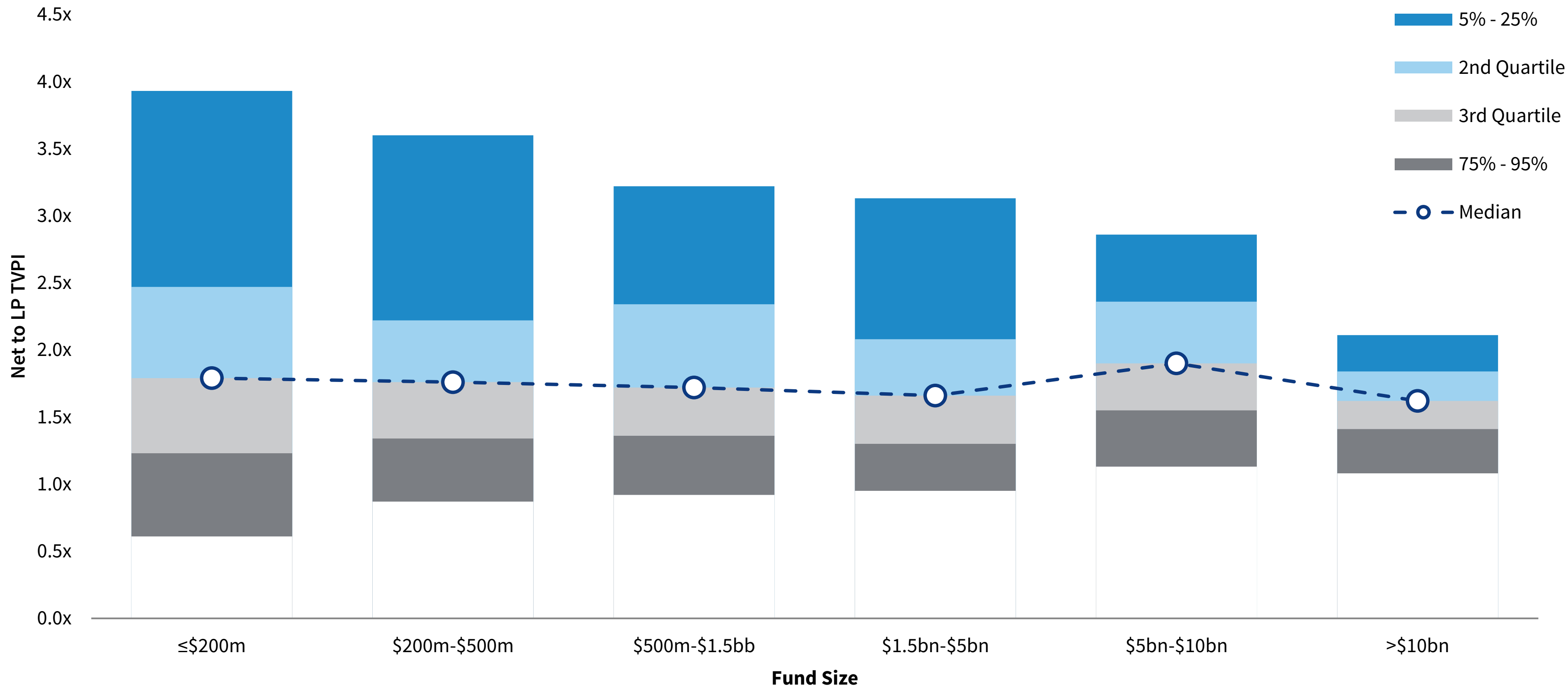
Enterprise Value < $250 M



Sources: Cambridge Associates LLC Private Investments Database (as reported by investment managers), FactSet Research Systems, and Frank Russell Company.
Notes: Outliers were identified and excluded, and the same methodology was applied to the private equity and public company universes. Numbers in parentheses represent number of private equity-owned companies in each year.

When fewer, larger funds compete for similar assets, returns start to converge

US Private Equity: TVPI Dispersion by Fund Size As of June 30, 2024 • Vintage Years 1983-2021

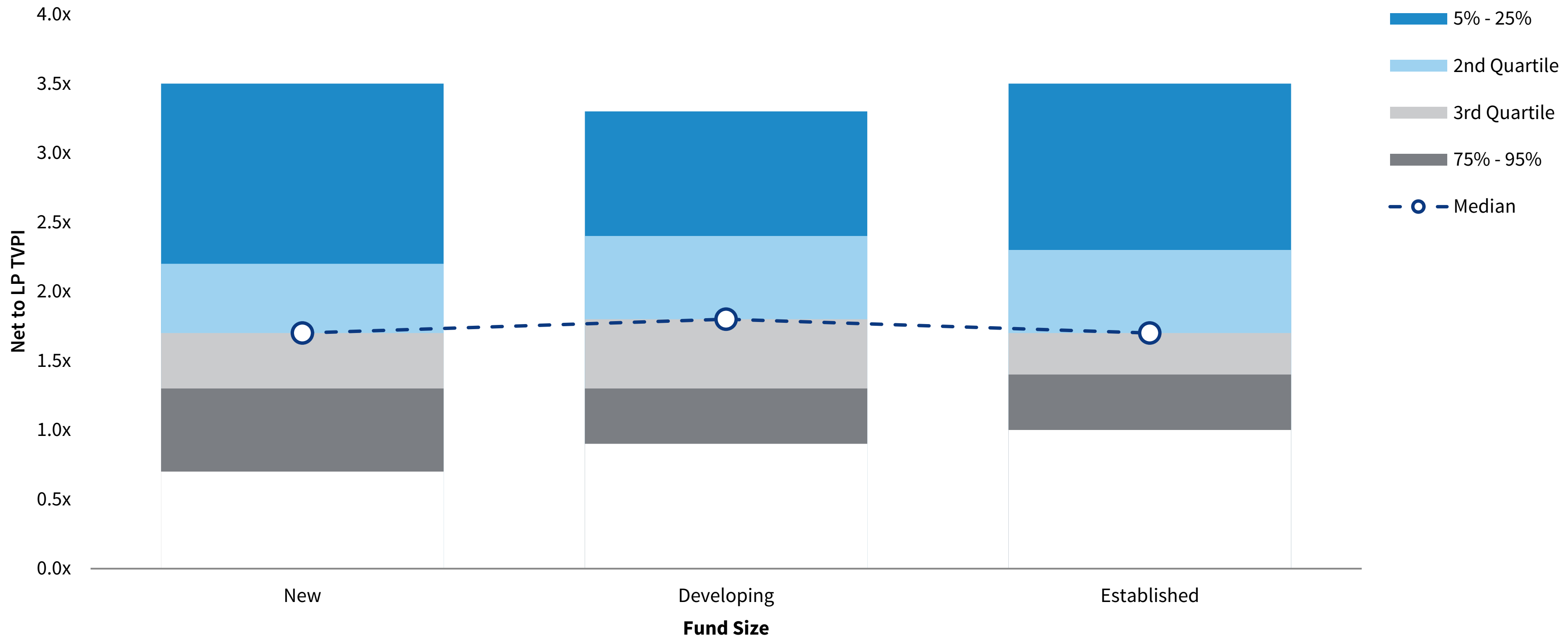


n	*310*	*385*	*455*	*245*	*45*	*37*
5%	3.9x	3.6x	3.2x	3.1x	2.9x	2.1x
25%	2.5x	2.2x	2.3x	2.1x	2.4x	1.8x
Median	1.8x	1.8x	1.7x	1.7x	1.9x	1.6x
75%	1.2x	1.3x	1.4x	1.3x	1.6x	1.4x
95%	0.6x	0.9x	0.9x	1.0x	1.1x	1.1x

Source: Cambridge Associates.
Notes: Pooled returns are net of fees, expenses and carried interest. Private equity includes buyout and growth equity funds. Funds less than three years old are considered too young to have produced meaningful returns; those vintages have been excluded from this analysis. Past performance is not a reliable indicator of future results. All financial investments involve risk. Depending on the type of investment, losses can be unlimited.

New and developing private equity funds have performed as well as established funds

US Private Equity: TVPI Dispersion by Fund Sequence As of June 30, 2024 • Vintage Years 1983-2021

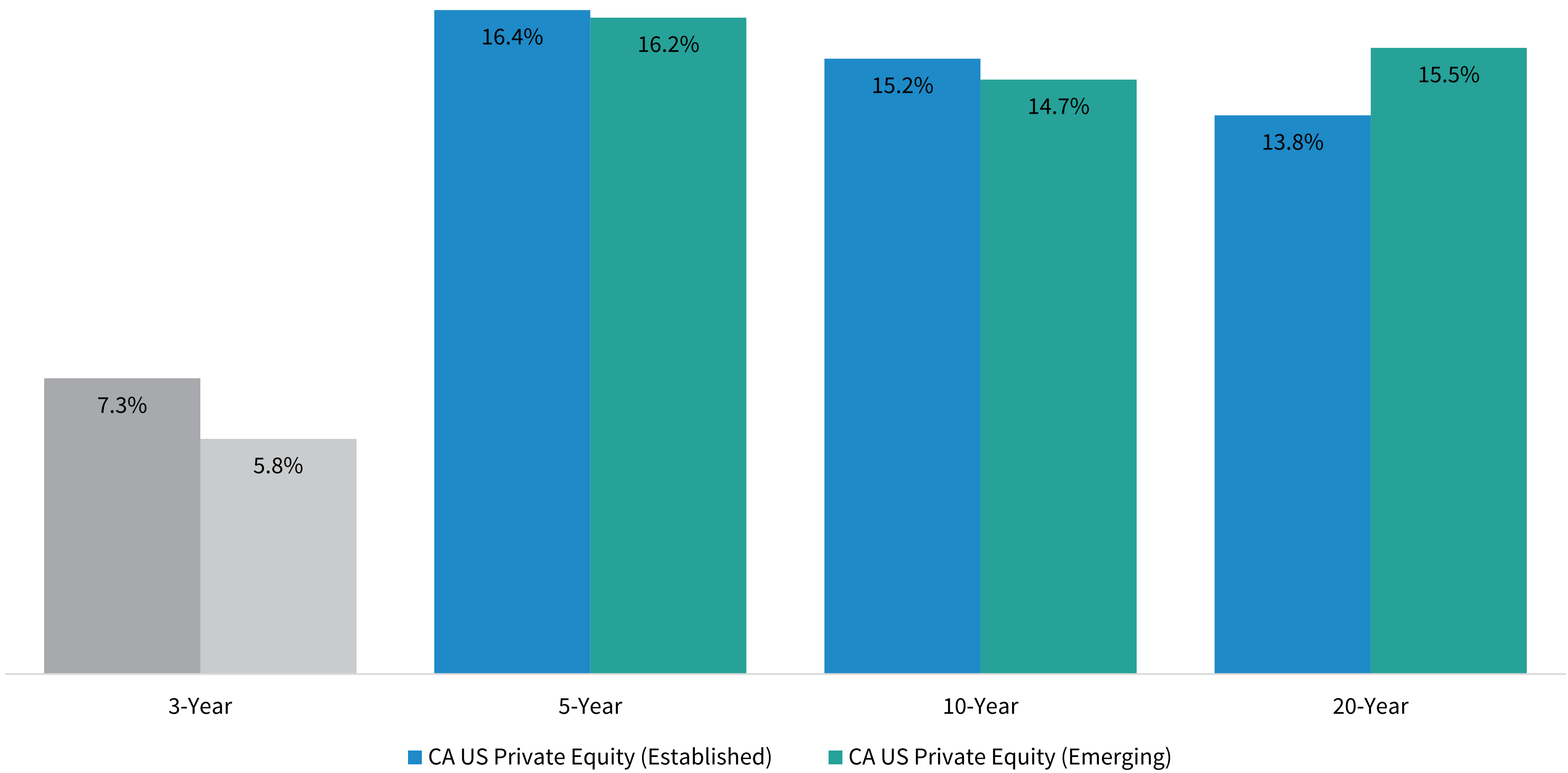


n	*675*	*414*	*388*
5%	3.5x	3.3x	3.5x
25%	2.2x	2.4x	2.3x
Median	1.7x	1.8x	1.7x
75%	1.3x	1.3x	1.4x
95%	0.7x	0.9x	1.0x

Source: Cambridge Associates.
Notes: Pooled returns are net of fees, expenses and carried interest. Private equity includes buyout and growth equity funds. Fund order is determined as funds raised under the same strategy and does not include friends and family funds. A new fund is defined as the first or second fund, a developing fund is the third or fourth fund, and an established fund is the fifth fund and beyond Funds less than three years old are considered too young to have produced meaningful returns; those vintages have been excluded from this analysis. Past performance is not a reliable indicator of future results. All financial investments involve risk. Depending on the type of investment, losses can be unlimited.

Across short- and long-term periods, emerging funds performed in line with established funds

US Private Equity: Periodic Rates of Return
As of June 30, 2024

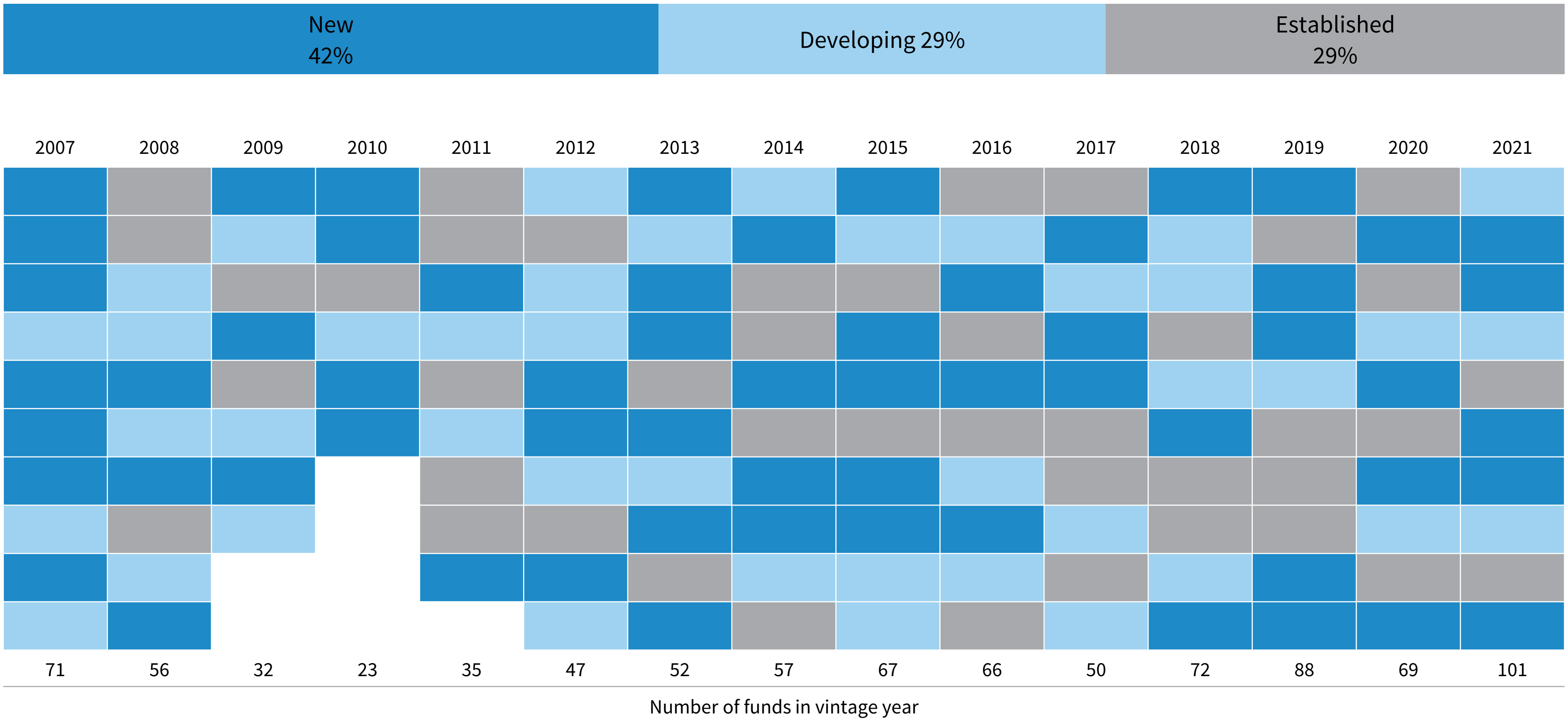


Sources: Cambridge Associates LLC
Notes: Pooled private investment periodic returns are net of fees, expenses and carried interest. 3-year returns are shaded grey to indicate not meaningful. Private equity includes buyouts and growth equity. Multi-year annualized returns are generated for time periods ending on the as of date for this analysis. Past performance is not a reliable indicator of future results. All financial investments involve risk. Depending on the type of investment, losses can be unlimited.

Emerging managers are very well represented in the benchmark's top performing funds

US private equity

Top 10 top quartile funds by vintage year [1]



Past performance is not a reliable indicator of future results. All financial investments involve risk. Depending on the type of investment, losses can be unlimited.

Source: Cambridge Associates LLC.

Notes: Total value to paid-in capital multiple is net of fees, expenses and carried interest. Private equity includes buyout and growth equity funds. Fund order is determined as funds raised under the same strategy and does not include friends and family funds. A new fund is defined as the first or second fund, a developing fund is the third or fourth fund, and an established fund is the fifth fund and beyond. Funds less than three years old are considered too young to have produced meaningful returns; those vintages have been excluded from this analysis. When vintage years have fewer than 40 funds, some portion of the top ten funds fall outside of the top quartile; these funds have been left blank. Percentages may not sum due to rounding.

[1] Based on net TVPI multiple as of June 30, 2024.

Smaller funds also result in better diversification benefits

US Private Equity: Correlations to public market mPMEs

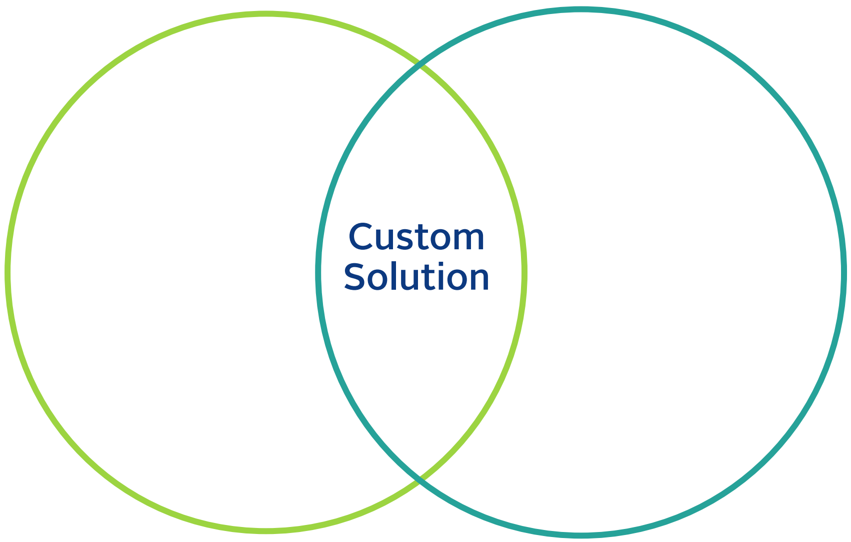
As of September 30, 2023

	S&P 500	Russell 2000®	Russell 2500®	Russell Midcap®
USPE Mega Cap	0.69	0.67	0.69	0.71
USPE Large Cap	0.66	0.61	0.64	0.65
USPE Mid Cap	0.59	0.57	0.59	0.59
USPE Small Cap	0.44	0.43	0.43	0.42

Source: Cambridge Associates LLC, Frank Russell Company, Nasdaq, Standard & Poor's, and Thomson Reuters Datastream.
Notes: Vintage years included are 1995–2018 for Mega Cap and 1986–2020 for Large, Mid, and Small Cap. By Cambridge benchmark definitions, Mega funds from 2005 on represent only those that are $10bn and larger. Data shows the correlation between the return of each sub-grouping and the return of respective public mPME. Mega is defined as >$10bn from 2005 on, >$3.5bn from 2000–2004, and >$1bn from 1995–1999. Large is defined as $2bn to $10bn from 2005 on, $1bn to $3.5bn from 2000–2004, $750m to $1bn from 1997–1999, $500m to $1bn from 1995–1996, and >$500m from 1986–1994. Mid is defined as $750m to $2bn from 2005 on, $350m to $1bn from 2000–2004, $250m to $750m from 1997–1999, $200m to $500m from 1995–1996, and $100m to $500m from 1986–1994. Small is defined as <$750m from 2005 on, <$350m from 2000–2004, <$250m from 1997–1999, <$200m from 1995–1996, and <$100m from 1986–1994. Private equity includes buyout and growth equity funds. US venture capital correlations are based on funds in the US venture capital index formed between 1981–2020. Vintages less than three years old are considered too young to have produced meaningful results; these funds have been excluded from the analysis.

Appendix

Our approach vs a traditional fund of funds or direct investing



Custom Solution

- Collaborative approach to design
- Access to our best-in-class PE ideas
- Introduction to underlying GPs
- Transparency on underlying reporting

Direct Investing

- Extensive time
- Dedicated resources
- Decades of relationships

Fund of Funds

- Limited control on design quality
- Over-diversification
- Limited transparency or access to underlying GPs

Our emerging manager investment philosophy

Source managers who can repeatably generate alpha

Seek managers who own the bulk of the fund economics, allowing them to benefit from outperformance

Be observant of whether managers have outgrown their strategy

Manage risk through CA's information advantage and networks

Decades of relationship building and data gathering informs our robust underwriting process

Managers may be "emerging" in size, but they are often well known by CA

Our ODD team mitigates uncompensated risk by advising emerging managers on their back-office functions

Align incentives through early investment[1]

Supporting firms early in their lifecycle creates opportunities to negotiate fees and terms, capturing superior alignment for our clients

Preferential fees and terms may carry over into a fund's next vintage, creating a compounding benefit for our clients

Leverage CA's scale, brand, and creativity to negotiate fees and terms[1]

The scale of CA's investment can help to mitigate manager platform risk, which may result in lower fees or preferential terms for our clients

We seek to generate structural alpha through creative solutions, such as GP/LP revenue sharing arrangements

[1] As of June 30, 2024. CA does not benefit nor receive compensation from managers in negotiated situations. All economic benefits accrue to our clients directly and do not reflect the complete scope of feedback and influence on terms. CA attempts to negotiate on behalf of all clients; however, we may secure concessions that benefit a subset. Terms may not be available to all CA clients; may be contingent on certain criteria such as client type, investment amount or aggregate CA capital invested with a manager or in a specific product; and are subject to change at the manager's discretion. Managers may cease any such concessions at any time unless formal documentation between the manager and the client(s) has been executed.

CA Emerging Manager SMA

Approach	Portfolio construction	Fund size	Return target
Collaborative approach and design	3-year investment period 8-12 managers	Estimated $125 million	12-15%

1 **Access**: our best ideas across CA's global PE platform

2 **Selection**: focus on emerging managers with institutional quality teams

3 **Execution**: build diversified portfolio across investment themes

State of Rhode Island
Demographics

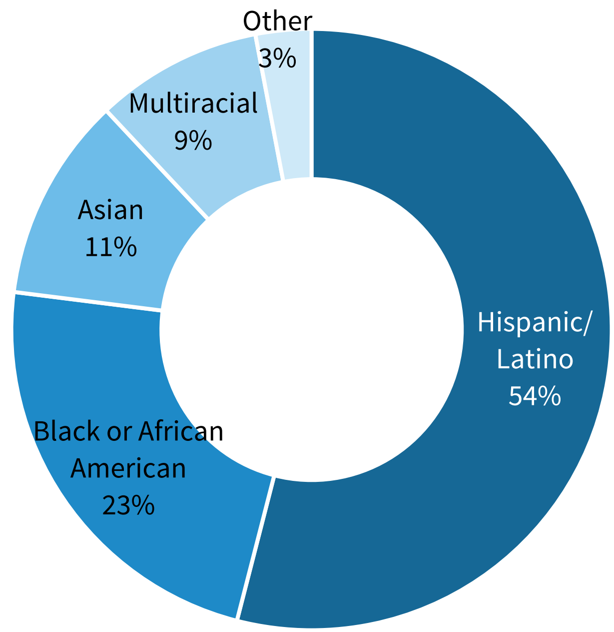
Racial and Ethnic Diversity

Hispanic or Latino	16%
Black or African American	8%
Asian	4%
Multiracial	3%
Native American, Alaskan Native, Native Hawaiian or Pacific Islander	1%

Gender Diversity

Female	51.5%
Male	48.5%

Representative portfolio demographic exposure



Sources: U.S. Department of Health and Human Services: Overview of the State of Rhode Island – Racial and Ethnic Diversity – 2023, World Population Review: Rhode Island Gender Statistics.

Illustrative focus list for private equity portfolio

Managers that are expected to fundraise over the next three years that would be considered for inclusion for this portfolio

Manager	Vintage Year	Target Fund Size ($m)	Strategy
Manager #1	2022	$300	U.S growth structured equity in technology, consumer, healthcare, and media industries
Manager #2	2022	$300	Small and lower-middle-markets consumer products, business services, specialty manufacturing, and healthcare industries.
Manager #3	2023	$600	Buyout and select growth equity, lower-middle market companies in health and wellness sectors
Manager #4	2023	$250	North America lower-middle-market buyouts in business, manufacturing, healthcare services
Manager #5	2024	$750	U.S. lower-middle-market enterprise software companies
Manager #6	2024	$100	Lower middle-market companies in the U.S. South with an impact focus
Manager #7	2024	$1000	Global sports teams or platforms
Manager #8	2025	$835	U.S. lower-middle-market companies in business, infrastructure, and consumer services
Manager #9	2025	$100	Growth equity technology companies
Manager #10	2026	$100	U.S buyouts, lower-middle-market manufactured products, business services and consumer industries

Note: This exhibit is being provided at the specific request of the Employees Retirement System of Rhode Island for discussion purposes to demonstrate portfolio construction and implementation and does not constitute investment advice. The information provided is illustrative and is not representative of other client portfolios or specific past recommendations. Actual implementation of the portfolio will be influenced by our findings from a thorough enterprise review as well as availability of managers at the time of implementation.

Cambridge Associates investments with diverse managers

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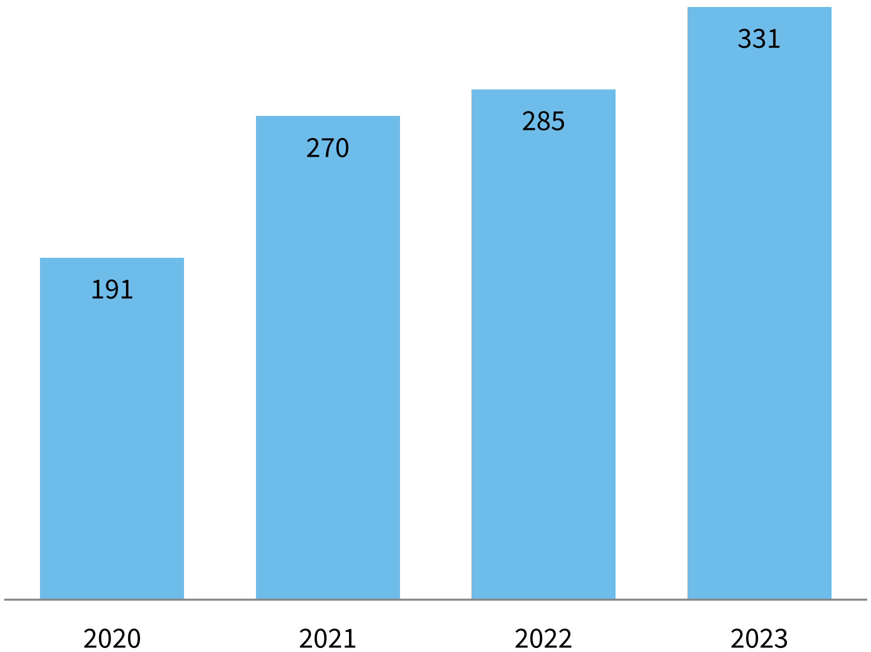
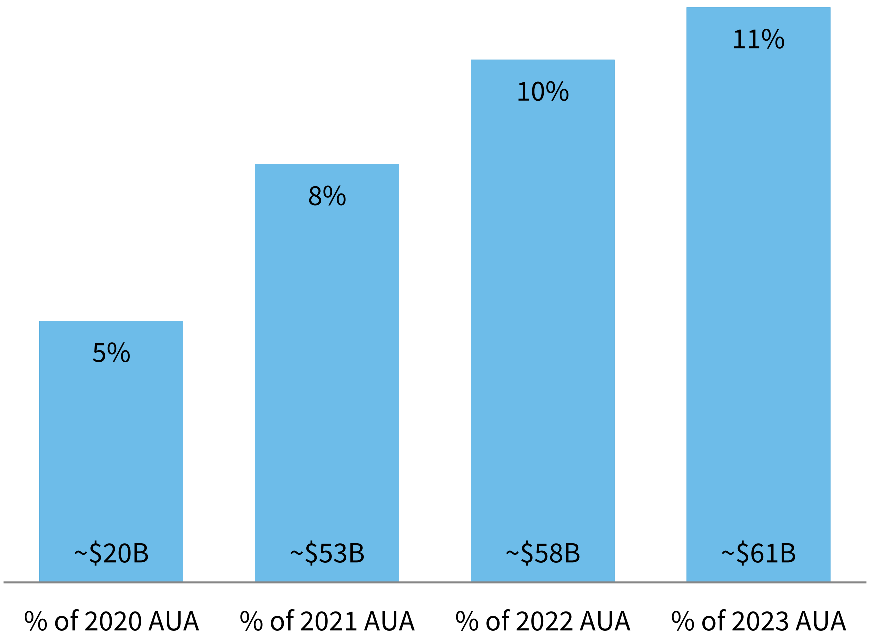
Diverse managers we invest with



%

Assets we invest with diverse managers*



As we continue our efforts to uncover and invest in a greater number of diverse fund managers, we expect that these assets will continue to grow at a commensurate pace, reaching 15% over the next several years.

"2020" reflects starting data for the year 2020, as of December 31, 2019. "2021" "2022" and "2023" reflect year-end data (as of December 31) for each year.
* Represents assets invested with diverse managers as a percentage of total assets Cambridge Associates advises or manages for clients.

We build custom portfolios intended to outperform.

As a global investment partner, we build and manage custom investment portfolios across asset classes for institutional investors, private clients, and family offices.

Whether it's empowering future generations, supporting charitable endeavors, funding employee retirements, or preserving a lasting legacy, we aim to maximize each portfolio's potential and empower our clients to make a meaningful impact on the world.

Assets under advisement[1]	Number of clients	Global offices[2]	Number of staff	Year established
$607.3bn	1,000+	12	1,400+	1973

As of September 30, 2024 unless otherwise noted. **Note:** Cambridge Associates is a global group of investment affiliates that were established for the sole purpose of providing our investment management, investment advisory, research, and performance reporting services in various regulatory jurisdictions around the globe. For the purposes of this document "us", "the Firm", "our", "we", "CA", "Cambridge Associates", and similar terms refer collectively to this group, and unless otherwise stated the figures provided herein are combined totals for these affiliates. The affiliates that constitute CA are named in the disclaimer at the end of this document, and each of the affiliates has full access to all of CA's investment resources. **[1]** "Assets under advisement" include the portfolio values of the firm's global clients that receive investment advice or management and performance reporting. In a limited number of instances, client portfolio values include assets for which Cambridge Associates is only responsible for reporting performance and does not have an investment advisory responsibility. For portfolio values without final September 30, 2024 data available, assets from the prior quarter or estimates have been used. **[2]** As of November 1, 2024.