



State of Rhode Island
Office of the General Treasurer

**The Column Group Fund V, L.P. and The Column Group Opportunity Fund III, L.P. -
Staff Recommendation**
May-2022

RECOMMENDATION: Approve a commitment of \$12.5 million to The Column Group (TCG) Fund V, L.P. and \$12.5 million to The Column Group Opportunity Fund III, L.P. ERSRI committed \$25 million to The Column Group Crossover (TCGX) Fund I L.P., a 2021 vintage.

ASSET CLASS: Private Equity

SUB-STRATEGY: Venture Capital

ALLOCATION: The target allocation for Private Equity is 12.5% and the allocation as of 4/30 is 14.7%. The allocation’s exposure to venture with the recommended commitments to The Column Group (TCG) would be 13.3% as of 4/30 based on fair market value and uncalled capital.

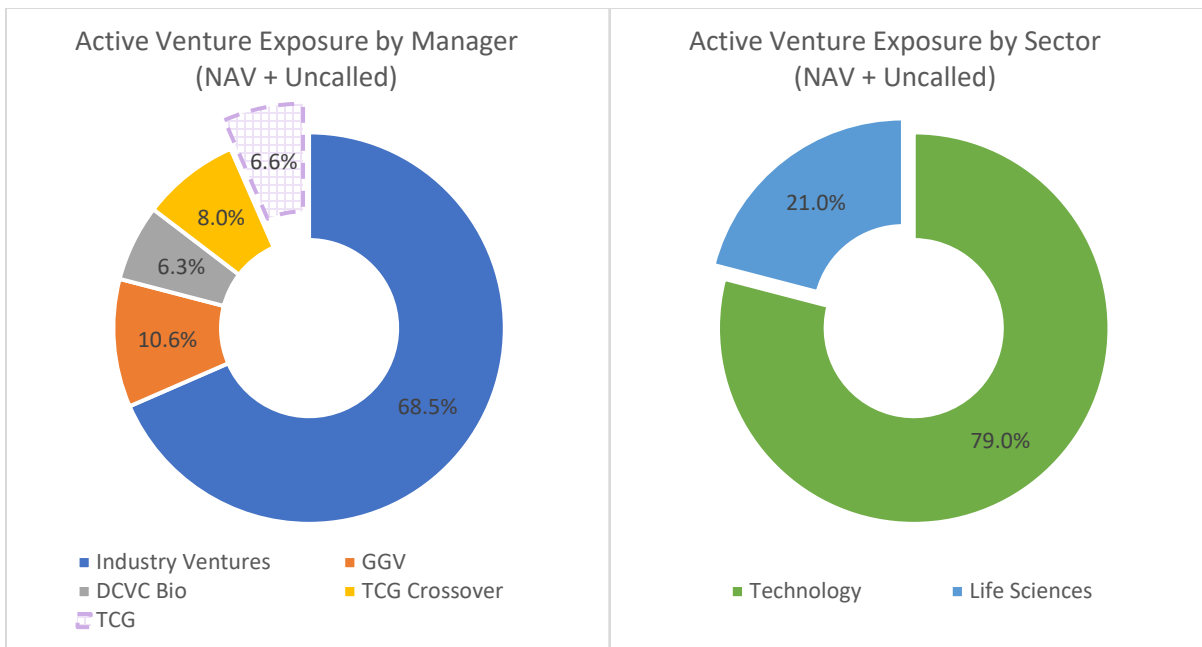
PORTFOLIO FIT: Venture capital is a component of the Private Equity portfolio that focuses on investments earlier stage companies. Venture capital typically does not use leverage and provides access to earlier stage companies with potential high growth. While venture capital has the potential to produce a high return, there is significant risk at the portfolio company level.

To mitigate this risk ERSRI limits its venture capital exposure to 0-20% of the private equity portfolio, and seeks to diversify venture capital exposure across varying vintages, stages, sectors, and geographies when possible while maintaining a selective approach. ERSRI has early-stage exposure both in tech and life science.

The current venture strategy is built around a core relationship (6 commitments) with a hybrid venture fund of funds manager, Industry Ventures, that focuses on early stage (primarily seed and A round financing) technology companies through exposures to funds below \$250 million in size which are typically run by emerging managers in the U.S. ERSRI seeks to complement this core strategy with direct commitments to life science venture funds and other established technology focused funds that provide additional diversification. Adding direct primary commitments is expected to reduce overall fees paid by the venture segment of the Private Equity portfolio.

TCG Fund V is the newest iteration of TCG’s flagship strategy and focuses on life science therapeutic discovery and company creation. TCG Opportunity Fund III will pursue expansion and later stage investments predominately in follow-on rounds of TCG backed companies in which the firm has a high level of conviction. The table and graphs below show the active (post 2012 vintage) venture portfolio after inclusion of the recommended commitment to TCG Fund V and Opportunity Fund III. As of 4/30, the active venture portfolio represents approximately 90% of ERSRI’s venture exposure and legacy venture exposures are expected to reduce quickly as older vintage funds reach the end of their terms.

Manager	Type	Sector	Stage	Geography
Industry Ventures	Hybrid FoF	Technology	Early	U.S.
GGV	Primary	Technology	Multi-stage	U.S. and Asia
DCVC Bio	Primary	Life Science	Early	U.S.
TCG Crossover	Primary	Life Science	Late-stage	U.S. and Asia
TCG V & Opp III	Primary	Life Science	Early and mid	U.S.



MERITS: The Column Group is a top tier life science venture firm focused on early-stage therapeutic discovery and company formation. Unlike much of the life science venture ecosystem that invest in companies that seek to incrementally improve existing therapies, TCG’s strategy is focused on building companies de novo based on “big ideas” from front-line scientific research. These companies are platforms with multiple “shots on goal” rather than single assets. The firm and leadership team have a very strong reputation in the industry and deep experience as investors, entrepreneurs, operators and scientific researchers in the life science sector. The team is supported by a group of science advisors, including several Nobel laureates, who are involved in idea generation and often take mentoring roles to aid management in newly established companies. These combined internal and external resources are utilized to research scientific themes and then create new operating companies around those ideas.

The firm owns either 100% or the majority of its companies at inception and incrementally adds capital as scientific milestones are achieved, providing an avenue to large ownership in break out companies and reducing capital at risk at the very early stages. Additionally, by funding a company internally de novo, TCG avoids having to pay high valuations in later stage syndicated rounds. The Opportunity Funds invest primarily in later rounds of companies founded by TCG in the flagship strategy, where TCG knows the assets well and has the highest level of conviction. The flagship early-stage strategy has demonstrated very strong performance, generating first quartile performance across all metrics in three of the four funds. The Opportunity Fund strategy is younger and has a lower return target than the flagship strategy, but is also demonstrating strong performance.

CONCERNS: There is key person risk, specifically around the founder, David Goeddel given his notable deep experience, brand in the industry, and contribution to the firm’s success. Mitigating this concern is the fact TCG has institutionalized the brand and investment process that Mr. Goeddel brought to the firm. The firm has also made multiple hires and promotions that will be able to succeed Mr. Goeddel and provide coverage in the deep scientific knowledge areas where he is most valuable.

The early-stage strategy also maintains a concentrated portfolio relative to many venture strategies. However, given these companies are created internally they require a time intensive hands-on approach and the firm believes many of these companies have the ability to return the entire fund’s committed capital base which can offset losses. The firm has demonstrated the ability to generate fund returning assets.

Unlike the early-stage strategy, the Opportunity Fund strategy may be susceptible to investing at elevated entry valuations in later stage syndicated rounds. However, the strategy has the benefit of investing in the best companies from the early-stage funds where the team has deep knowledge of those assets.

ESG: The Column Group ranked as **neutral** on ESG. Given the strategy is based on researching ideas and proving the science behind new therapies, the underlying companies do not produce many of the standard KPIs that are present in operating companies typical in buyout strategies. Despite this, TCG has an ESG policy and supports development of policies in underlying companies. Additionally, the strategy is inherently positive with respect to the social element of ESG given its role of ethically developing new therapies that benefit human health. The drug development industry is highly regulated, and all clinical trials go through an Institutional Review Board review of protocols to ensure research is ethical and adheres to all necessary guidelines.

FEES: The fees are in accordance with industry standards. There is a 2.5% management fee on commitments during the investment period; thereafter the management fee on commitments will decrease by 0.25% per year, with a floor of 1.5%. There is a carried interest charged on a fund-wide basis that will be 20% until distributions reach 2.5x aggregate contributions, at which point the carry will increase to 25%, and after distributions reach 3.0x aggregate contributions the carry will increase to 30%.