Recommendation The Column Group Fund V and Opportunity Fund III

To: RISIC
Prepared: May 17, 2022
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on The Column Group Fund V and The Column Group Opportunity Fund III. ("TCG V and TCG Opportunity III" or the "Funds"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Funds.

Summary of Advent TCG V and TCG Opportunity III

Fund Overview: TCG V is an early-stage venture capital fund and TCG Opportunity III is an expansion/ late stage fund. The Funds are focused on life-science investments.

People and Organization: The Column Group ("TCG" or the "Firm") was founded in 2005 by David Goeddel and Peter Svennilson to focus on high-potential scientific ideas that can be built into valuable drug discovery companies. Goeddel and Svennilson believed that the existing life sciences venture capital model was not effectively supporting the development of wholly new therapies with transformative market potential, and they sought to create a platform to pursue such opportunities at early stages of development. TCG's Managing Partners decided to build a team optimized to evaluate the underlying science behind potential investments, to lead the formation of the companies and/or their early development, and to guide drug discovery and development efforts post-investment. Accordingly, the TCG investment team is almost entirely comprised of professionals who have extensive scientific backgrounds as well as operational experience in drug research organizations, whether at pharmaceutical companies or in academia, rather than professionals with typical venture capital, financial backgrounds. TCG partners will often serve as the initial CEO of portfolio companies as they build out management teams around a business plan that is often written by TCG professionals. The Firm has a total of 12 investment professionals and is headquartered in San Francisco.

Investment Strategy and Process: TCG V will pursue equity investments in private drug discovery and development companies. TCG generally seeks to identify compelling concepts, compounds, and/or researchers and either create new companies around them or invest very early in existing companies. The Firm's approach to sourcing is highly differentiated from other life sciences venture capital firms, focusing on targeted, in-depth analyses of promising scientific areas and then finding investable research, compounds and/or teams within those areas through their own personal networks and the networks of their science partners. TCG targets ideas and companies that have the potential to transform end-markets and to become platforms that can develop robust pipelines of potential therapies. TCG V is expected to consist of ten to twelve portfolio companies requiring $40 million to $80 million of capital each. Each investment is targeted to return in excess of the fund's committed capital if successful. The fund will target a gross return of six to ten times invested capital, with average holding periods of two to eight years.

TCG Opportunity III will pursue expansion and late-stage venture capital investments in life sciences companies previously backed by TCG. The Fund is the next generation of the Ponoi I and Ponoi II funds raised in 2017 and 2019. TCG anticipates needing more equity reserves for current TCG companies given current dislocations in the life science sector. Opportunity III will leverage TCG's close working relationship with its portfolio companies to back the most promising companies in follow-on rounds. TCG Opportunity III will target equity investments of $20 million to $50 million per company and will typically invest in mid-to-late-stage rounds of financing, typically series B and later. The Fund will be comprised of a portfolio of approximately 15 to 20 companies and is expected to be fully invested over the first three years of the life of the fund. The fund will target a gross return of three to six times invested capital, with average holding periods of two to six years.

Performance: As of December 31, 2021, TCG's four previous early-stage funds and two later stage funds have generated a net IRR of 27.8% since 2007. Investing in the Russell 2000 Growth Index[1] during the same period would have generated a return of 15.1%. TCG has outperformed the Index by 12.8%. Each of the Firm's prior early-stage funds, expect for TCG III, have generated first quartile or better performance on a net IRR and net TVPI basis relative to Cambridge Associates' U.S. venture capital benchmarks. TCG II and TCG IV are performing at top decile performance. TCG III while still in its development has also had strong value creation and early liquidity events but is ranked in the third quartile having public positions trade down and difficult vintage year comparisons versus technology-focused funds. TCG Opportunity Funds are ranked in the top decile and TCG early-stage funds are ranked in the top quartile on a DPI basis.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards for venture capital funds. The Funds will charge a management fee equal to 2.5% of commitments during the investment period; thereafter the management fee rate will decrease by 0.25% per year, with a floor of 1.5%. The Funds will charge a carried interest, on a fund-wide basis, equal to (i) 20% until distributions reach 2.5x aggregate contributions, then (ii) 25% until distributions reach 3x aggregate contributions, and then (iii) 30% thereafter.

<u>Cliffwater Recommendation</u>

Cliffwater recommends an investment of up to $12.5 million to The Column Group Fund V and up to $12.5 million to The Column Group Opportunity Fund III as part of ERSRI's private equity allocation.

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