



STATE OF RHODE ISLAND
OFFICE OF THE GENERAL TREASURER

Staff Recommendation: Novacap Technologies VII | June 2025

RECOMMENDATION:

- [Rhode Island Employees' Retirement System Pooled Trust \(ERSRI\)](#): Approve a commitment of up to \$30 million to Novacap Technologies VII ("Fund VII").
- [Rhode Island OPEB System Trust \(OPEB\)](#): Approve a commitment of up to \$2 million to Fund VII.

ASSET CLASS: Private Equity | Buyout

ALLOCATION:

- [ERSRI](#): The Private Equity allocation as of April 30, 2025, is 17.4%, compared to the strategic allocation target of 12.5%. The 2025 pacing plan anticipates \$230 million in commitments across 5 to 10 funds, ranging from \$30 to \$50 million. ERSRI's 2025 commitments will total \$120 million pending approval of this recommendation.
- [OPEB](#): The Private Growth allocation as of April 30, 2025, is 1.6%, compared to the strategic allocation target of 5.0%. The 2025 pacing plan anticipates \$9 million in commitments across 5 to 10 funds, ranging from \$1 to \$2 million. OPEB's 2025 commitments will total \$4 million pending approval of this recommendation.

PORTFOLIO FIT: ERSRI's Private Equity allocation is anchored by buyout strategies, with growth equity, venture capital, and opportunistic credit providing diversification across stages, sectors, and return profiles. With the recommended commitment, buyout funds would represent 72% of ERSRI's Private Equity exposure. OPEB's Private Growth portfolio, built through parallel commitments with ERSRI, would have 64% of its Private Growth exposure and 83% of its Private Equity exposure in buyout funds (see Appendices A and B). The proposed commitment reduces ERSRI's technology underweight and broadens manager coverage, complementing existing commitments to large-cap-focused managers.

Fund Summary Novacap Technologies VII	
Stage	Buyout
Structure	Control
Fund Size	\$2.75 billion
Geographic Focus	North America
Sector Focus	Technology
Portfolio Companies	10 to 12
Avg. Equity Investment	\$100 to 300M
Avg. EBITDA	\$15 to \$75M

FIRM OVERVIEW: Novacap is a private equity firm founded in 1981, with offices in Montreal, Toronto and New York. Since 2007, it has raised nine funds across four dedicated strategies: Technologies, Industries, Financial Services, and Digital Infrastructure. The firm is led by CEO & Managing Partner Pascal Tremblay, who chairs the Investment Committee and brings over 30 years of experience and a track record of more than 100 control investments. A team of senior partners and a 52-person operating group support sourcing, diligence, and post-acquisition value creation. As of December 31, 2024, Novacap manages more than \$11 billion in assets.

STRATEGY OVERVIEW: Novacap Technologies VII will pursue control investments in profitable B2B technology companies across North American, with a focus on the middle and lower-middle market. The Fund targets sectors including healthcare IT, industrial technology, payments and e-commerce, vertical software, and government technology. Investments will be sourced through a thematic, sub-vertical approach designed to identify actionable opportunities with secular long-term growth drivers. The Fund expects to make 10 to 12 platform investments in companies generating \$15 to \$75 million of EBITDA, with typical equity checks ranging from \$100 to \$300 million. Transactions will feature

meaningful management rollover and follow-on acquisitions to build scale, broaden geographic reach, and expand product offerings to create category leaders. The fund is seeking \$2.75 billion in total commitments.

MERITS:

- **Sector Specialization:** Novacap focuses on a defined set of technology sub-verticals where it has built subject-matter expertise across multiple market cycles. This specialization enables the team to track thematic developments, identify opportunities in the lower and middle-market, and target businesses often overlooked by generalist firms or those deploying larger capital pools. The firm's regional presence and longstanding relationships with founders and market participants provide early access to potential transactions and the context required to develop credible value-creation plans. This approach has supported a high rate of management equity rollover, reflecting alignment and conviction from company leadership. Sector focus also enables more targeted diligence, consistent underwriting, and a repeatable post-investment execution model.
- **Operational Expertise:** Novacap emphasizes value creation through earnings growth and hands-on operating engagement. The investment and operating teams work closely with management to improve operational efficiency and integrate strategic add-on acquisitions. Since 2007, its portfolio companies have completed over 150 M&A transactions facilitating geographic expansion, product development, and scale to better position the company on exit. Novacap applies a measured approach to acquiring and financing its investments, typically employing leverage 1-2 turns below market averages to preserve financial flexibility across cycles. The firm's returns have been driven primarily by revenue and margin expansion, reflecting a consistent focus on building durable, resilient businesses over their hold periods.

CONCERNS:

- **Fund Size Expansion:** Fund VII is targeting \$2.75 billion in commitments, roughly 48% larger than its 2021 vintage predecessor (\$1.865 billion), which can potentially dilute returns if the manager drifts into more competitive processes or loosens underwriting discipline.
 - *Mitigant:* Novacap has managed scaled deployment through co-investment, recycling, and continuation vehicles. TMT V deployed roughly \$2.0 billion on \$840 million of commitments, while TMT VI deployed over \$4.4 billion, with a pro forma fund size of approximately \$2.4 billion after early recycling. Despite this scale, the firm has maintained an average equity check of approximately \$230 million per platform and plans to make 10 to 12 platform investments in Fund VII, in line with historical pacing. Co-investment has historically been raised at a 1.2:1 ratio to fund capital, expanding capacity without inflating the size of the commingled vehicles.
- **Competitive Deal Environment:** Robust capital inflows and increased activity from large-cap buyout and growth equity firms have elevated competition and valuations across the technology landscape, including portions of Novacap's target market.
 - *Mitigant:* Novacap maintained its focus on the lower and middle-market, a segment that remains fragmented and less aggressively targeted by scaled platforms. The firm's longstanding presence and sourcing approach, particularly in Canada and increasingly in the US, provide access to proprietary or lightly marketed opportunities, including complex carve-outs and sub-sector niches often overlooked by non-specialist managers. While many of its original peers have shifted upmarket, Novacap has remained consistent in its deal size and disciplined on entry valuation, historically investing at an average EBITDA multiple meaningfully below public market comparables. This positioning supports continued capital deployment at reasonable valuations and preserves a path to liquidity through a broad set of well-capitalized strategic and financial buyers upstream.

ESG & DIVERSITY:

- Novacap is classified as an ESG Integrator. The firm adopted its ESG policy in 2022 and became a UN PRI signatory in 2023. ESG factors are integrated into due diligence and ongoing portfolio monitoring. In 2023 and 2024, the firm

strengthened its governance framework, introducing 22 new policies, including whistleblower protection, workplace harassment prevention, and proxy voting. A board-level ESG checklist is in development to formalize discussions on sustainability KPIs, health and safety, codes of conduct, and diversity. The checklist is expected to be implemented across all portfolio companies by the end of 2025.

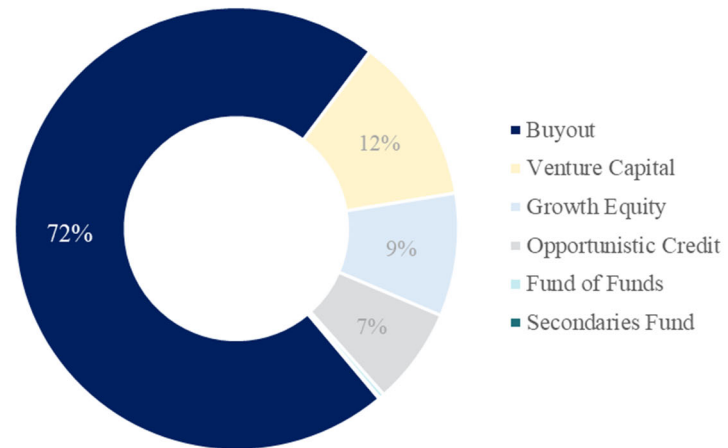
- Novacap is committed to building a diverse workplace. With support from an external consultant, the firm introduced DE&I hiring policies that require (i) diverse interview panels and (ii) panels that reflect the candidate pool.

FEES: Fees are aligned with industry standards.

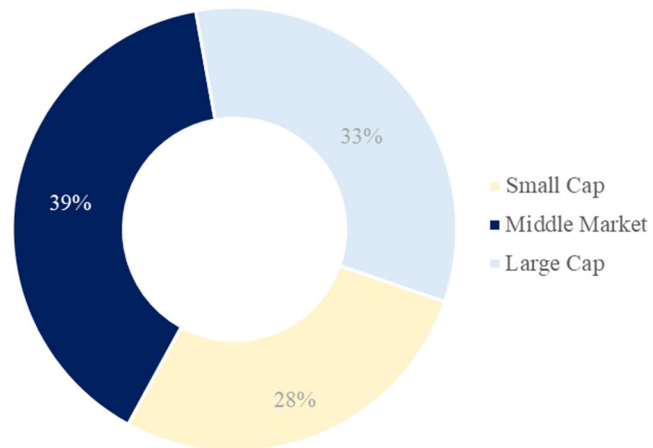
- **Management Fee:** 2.0% of capital commitments during the investment period. Afterward, 2.0% on invested capital.
- **Carried Interest:** 20% on a fund-wide basis after an 8% preferred return, with a 100% GP catch-up.

APPENDIX A: ERSRI CURRENT PRIVATE EQUITY EXPOSURE

Private Equity Exposure

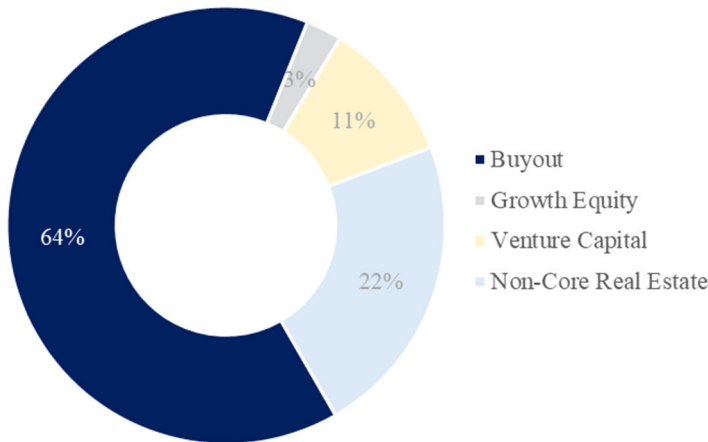


Buyout Stage



APPENDIX B: OPEB PRIVATE EQUITY EXPOSURE

Private Growth Exposure



Private Equity Exposure

