STATE OF RHODE ISLAND
OFFICE OF THE GENERAL TREASURER

GP-LED SECONDARIES APPROVAL PROCESS RECOMMENDATION | MARCH 2025

RECOMMENDATION: Delegate authority to Investment Staff to approve roll-over transactions into continuation vehicles.

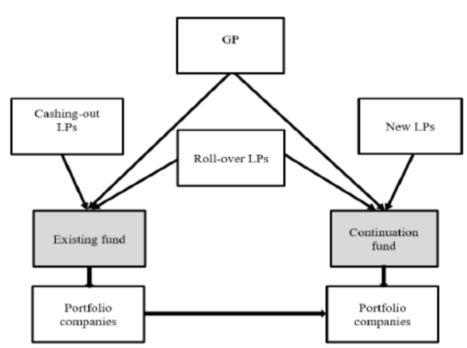
GP-led secondaries, or continuation vehicles (CVs), now represent a growing share of private market exits. These transactions increasingly feature accelerated timelines, requiring existing limited partners (LPs) to decide promptly whether to exit or roll their interest in a proposed CV. However, our current governance framework restricts Investment Staff from acting on attractive roll-over opportunities without Board approval. To address this limitation, we recommend that the State Investment Commission (SIC) delegate authority to Investment Staff to selectively approve roll-over transactions into CVs, following the process guidelines outlined below. Updating the Investment Policy Statement (IPS) accordingly will enhance strategic flexibility, enabling more effective assessment of CV opportunities, and optimize long-term returns by avoiding forced sales of high-quality assets.

We propose the following actions to effectively implement this recommendation:

1. **Policy Revision:**
    - Formally incorporate delegated authority guidelines into the IPS.
    - Define criteria and limits for Investment Staff delegation in managing GP-led secondary transactions.
2. **Internal Review:**
    - Develop and document a structured internal framework for evaluating continuation fund opportunities in conjunction with Investment Consultants for approval.
    - Specify roles and responsibilities within the investment team to ensure thorough due diligence and timely decision-making.
3. **Monitoring and Reporting:**
    - Establish a comprehensive reporting protocol to update the SIC quarterly on all executed GP-led secondary transactions.
    - Include detailed performance metrics and rationale for each roll-in decision to maintain transparency.

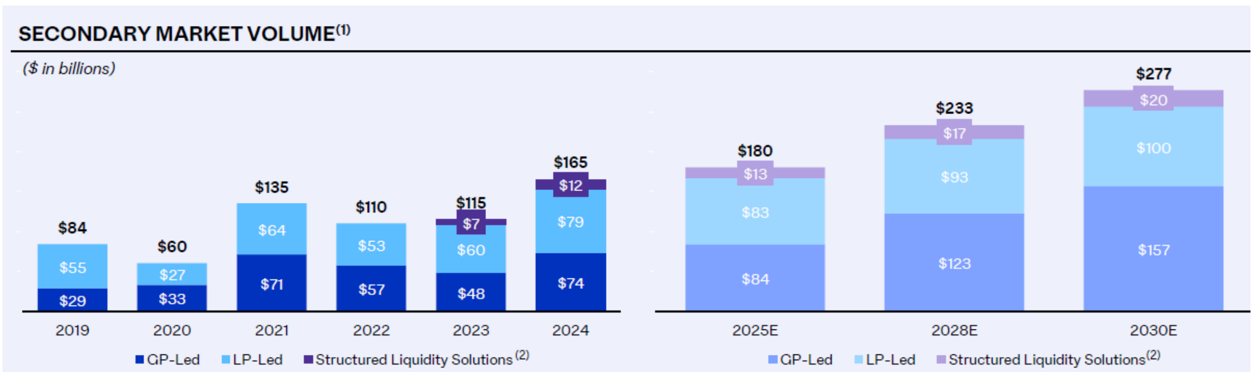
OVERVIEW OF CONTINUATION VEHICLES

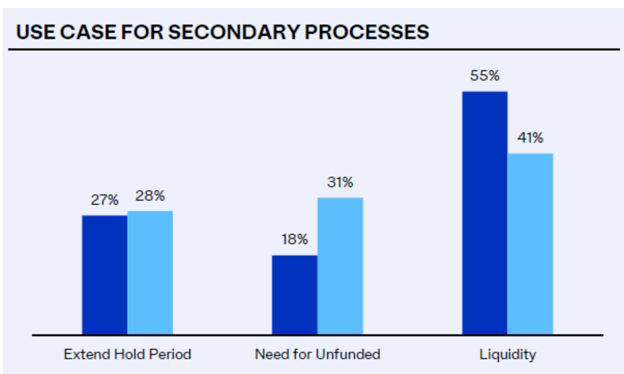
Continuation vehicles enable private equity firms to extend ownership of select portfolio companies beyond a fund's standard 10-year term by transferring assets into a new vehicle, typically backed by fresh capital that buys out exiting LPs. This structure provides GPs with an additional 5–7 years to manage the asset while offering LPs the choice of liquidity or reinvestment. CVs are particularly useful for businesses requiring extended ownership and additional capital, whether



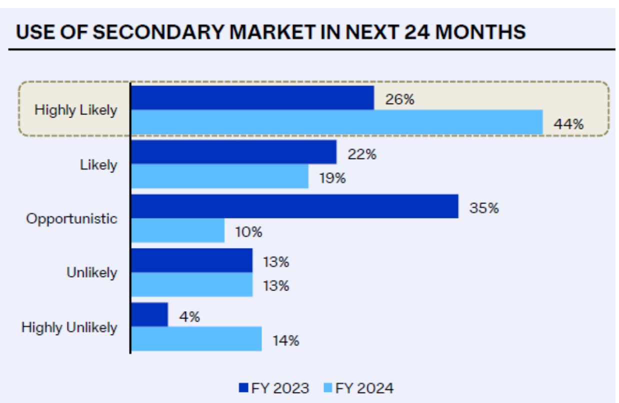
underperformers in turnaround mode or high performers with further upside. Their appeal is also shaped by market conditions, as traditional exits may be less attractive during downturns.

In 2024, secondary market transaction volumes reached $165 billion, up ~41% year over year and growing at an 18% CAGR since 2013. GP-led transactions have more than doubled over five years, now comprising ~45% of the market. Investment Staff expects this trend to continue, driven by record levels of unrealized private market value, increasing liquidity needs, and the acceleration of dedicated secondary capital formation. As the market evolves, CVs are poised to become a mainstream exit strategy, allowing sponsors to tailor liquidity solutions while giving LPs greater control over duration and cash flow management.





Source: PJT Park Hill



CONFLICTS

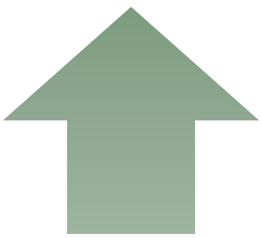
Continuation vehicles present inherent conflicts between GPs and legacy fund LPs. Transaction costs, including legal and financial expenses, are often charged to the fund, shifting the burden to legacy LPs and incentivizing managers to pursue these deals even when they may not align with LP interests. GPs also benefit from extended management fees on a larger asset base and the potential for increased carried interest, making continuation vehicles more appealing than an IPO or sale.

With GPs controlling both sides of the transaction, asset valuation at transfer is critical. Overvaluation harms LPs rolling into the new vehicle, though this may be partially mitigated when GPs reinvest crystallized carry. Undervaluation, however, disadvantages selling LPs, who often exit due to liquidity needs or institutional constraints—Lazard reports that LPs sell their exposure approximately 90% of the time. Ensuring a fair price requires a competitive process involving a diverse set of buyers beyond secondary firms and structuring the transaction to resemble an arm's-length sale. Proactive engagement with continuation vehicles strengthens our economic position while reinforcing expectations around fair treatment and GP alignment.

Decision Framework

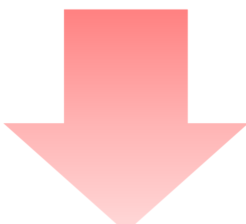
The primary objective of this decision framework is to avoid programmatic selling at suboptimal prices driven by structural deal dynamics rather than valuation fundamentals. While each transaction has its own unique considerations, Investment Staff, in collaboration with Investment Consultants, will follow a structured diligence process comparable in scope to Investment Manager diligence. This process is designed to inform the final decision and build conviction across several key dimensions outlined below:

Illustrative Key Considerations



Roll Position

✓"Trophy" asset
✓High-conviction GP
✓Incentive alignment
✓Conservative capital structure



Exit Position

×"Zombie" asset
×Questionable strategic rationale
×Priced at premium to NAV
×Robust sale process

As more LPs establish policies for ongoing review of their alternatives portfolios to facilitate secondary sales, granting delegated authority for GP-led secondaries will enhance Investment Staff's ability to navigate this evolving market. Clear governance, structured diligence with Investment Consultants, and robust reporting ensure transparency while preserving flexibility. With continuation vehicles becoming more prevalent, proactive GP engagement and oversight of valuations, costs, and alignment are essential to mitigating conflicts and safeguarding fund performance. This framework enables Investment Staff to engage more effectively in these transactions, maximizing and preserving the plan's long-term value.

EXHIBIT 1: PROPOSED INVESTMENT POLICY STATEMENT CHANGE

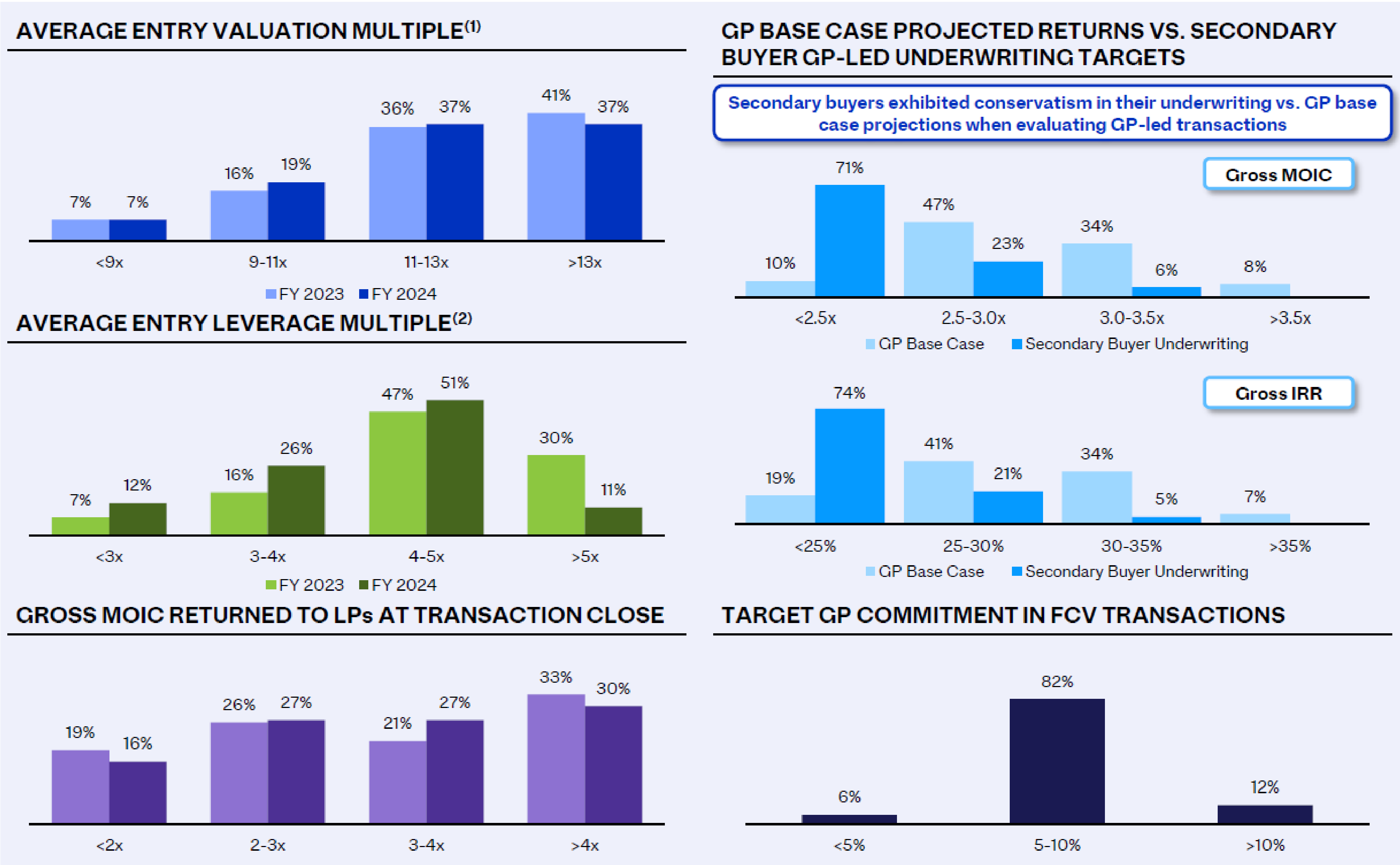
Investment Office

The Investment Staff is led by the Chief Investment Officer; together, these functions constitute the Investment Office. The Investment Office carries out the administration of the Fund on behalf of the SIC.

Primary Responsibilities

- Oversees the day-to-day operational activities of the Fund subject to policies established by the SIC.
- Formulates, evaluates, recommends, and implements SIC decisions on investment policies and procedures for all asset classes.
- Provides due diligence and investment recommendations regarding all investment portfolios with assistance from the respective Consultants.
- Evaluates and manages the relationships with Investment Managers, Consultants, Custodian Bank, and other third-party providers; and recommends the termination of these relationships if necessary.
- In coordination with Office of the General Treasurer, acts as signatory on investment accounts and executes such documents as may be necessary to invest the Fund.
- Monitors Investment Manager compliance with investment policies and procedures, and contractual guidelines with assistance from Consultants and Custodian.
- Has ability to reduce Fund investments by no more than 2% of the Fund assets, when urgency requires action before next SIC meeting.
- Evaluates and selectively participates in continuation vehicles when deemed in the best interest of the investment portfolio.

EXHIBIT 2: CONTINUATION FUND MARKET TRENDS



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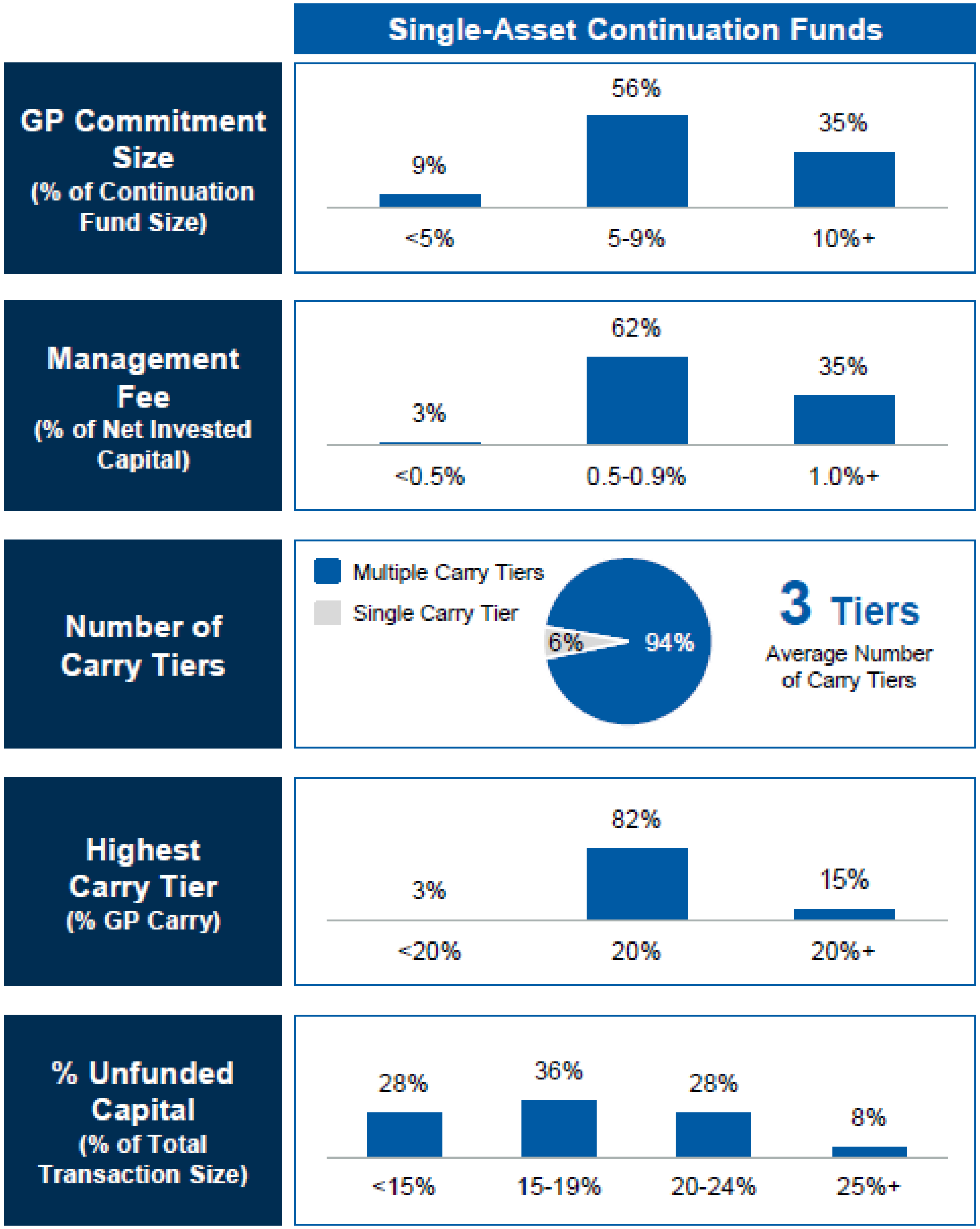

Source: Morgan Stanley