

**Recommendation GCM Grosvenor Advance Fund, L.P.**

To: RISIC  
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From: Thomas Lynch, CFA, Senior Managing Director

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The purpose of this memo is to provide RISIC with a summary of Cliffwater's recommendation on GCM Grosvenor Advance Fund, L.P. ("Advance Fund" or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI's Private Equity allocation.

**Summary of Advance Fund**

*Fund Overview:* The Advance Fund is a private equity fund-of-funds that will pursue primary fund investments and co-investments with diverse managers, defined as managers where at least 33% of the firm's economics going to diverse individuals. Diverse individuals are defined as women, African Americans, Hispanics, Asian Americans, Native Americans, US military veterans, disabled persons, and LGBTQ persons.

*People and Organization:* GCM Grosvenor was founded in 1971 by Richard Eden as a hedge fund-of-funds firm. The Firm acquired its private markets investing business through the acquisition of the Customized Fund Investment Group from Credit Suisse in January 2014, adding expertise in private equity, real estate, and infrastructure investing. This group first began managing multi-manager customized portfolios in 1999 as part of Prudential Insurance Company of America. The group added its first dedicated co-investment team in 2009. As of March 31, 2021, the Firm had over \$64 billion of assets under management including over 23 billion in private equity. The Firm's clients and investors include pension funds, sovereign wealth funds, and other institutional investors. GCM Grosvenor has 583 employees including 164 investment professionals. The Firm is headquartered in Chicago with multiple offices in the US and overseas. The Advance Fund has a separate team within GCM, although all individuals have other responsibilities at the Firm. The investment professionals on the Advance Fund team are a subset of the GCM private equity team. Other private equity team members will be involved in all phases of investing and managing the Advance Fund, but the Advance Fund team will have the primary responsibility for this fund. The Advance Fund team includes two of the most senior members of the private equity team in Derek Jones and Jason Howard. Following GCM's general model in private equity, they do not have completely separate teams for co-investments vs primary and secondary fund investments.

*Investment Strategy and Process:* The Advance Fund is a private equity fund-of-funds that will pursue primary fund investments and co-investments with diverse managers, defined as managers where at least 33% of the firm's economics going to diverse individuals. Diverse individuals are defined as women, African Americans, Hispanics, Asian Americans, Native Americans, US military veterans, disabled persons, and LGBTQ persons. The strategy will include a combination of emerging and established managers. The capital allocation of the Fund is expected to be 60% primary fund investments and 40% co-investments. They expect 20-25 primary fund allocations (with larger allocations being made to high-conviction manager) and 15-30 co-investments (2-4% position size each). The portfolio will be weighted towards buyouts but will include special situations, growth equity, and venture capital (with no more than 10% allocated to venture capital).

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*Performance:* Since 2007, GCM (and the CFG prior to its acquisition by GCM) invested approximately \$4.3 billion in 159 fund and co-investments with diverse managers, generating \$2.7 billion in net distributions. Remaining fair value is \$4.0 billion, for a net TPVI of 1.48x and a net IRR of 16.5% (net of underlying manager and estimated GCM fees).

*Investment Terms:* Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards for a fund-of-funds. The Fund has a three-year commitment period and a 15-year term. During commitment period plus one year, the Fund will charge a management fee equal to 0.5% on commitments for primaries and a 1.0% management fee on commitments for co-investments. The total management fee is 0.7% of commitments during the commitment period assuming a split of 60%/40% primaries/co-investments. After the commitment period plus one year, the management fee on primary commitments declines on a scale of 95% (year four) to 5% (year 13) of the original 0.5% fee. The management fee on co-investments after the commitment period is 1.0% on invested capital. The Fund charges 10% carried interest on co-investments with an 8% preferred return. No carried interest is charged on primary investments.

#### Cliffwater Recommendation

Cliffwater recommends an investment of up to \$10 million to GCM Grosvenor Advance Fund, L.P. as part of ERSRI's Private Equity allocation.