



State of Rhode Island
Office of the General Treasurer

GCM Grosvenor Advance Fund, L.P. - Staff Recommendation

November -2021

RECOMMENDATION: Approve a commitment of \$10 million to GCM Grosvenor Advance Fund, L.P.

ASSET CLASS: Private Equity

SUB-STRATEGY: Diversified Fund of Funds

ALLOCATION: The target allocation for Private Equity is 12.5%, and the actual allocation as of 9/30 is 12.56%. The pacing plan for Private Equity is \$300 million per year. This commitment will bring our 2021 vintage total commitments to \$430 million.

PORTFOLIO FIT: The GCM Grosvenor Advance Fund is a fund of funds strategy that will target primary commitments (about 60%) and co-investments (about 40%) in diverse-owned and woman-owned private equity firms, which GCM defines as firms with at least 33% of the economics going to those individuals. The portfolio will be heavily weighted toward buyout managers, with smaller allocations to special situations, growth equity and venture capital. There will be a mix of established and emerging (funds I, II, and III) underlying fund managers and thus a mix of market sizes and sectors.

This commitment will provide immediate exposure to a portfolio of diverse and woman-owned private equity firms. Some of these underlying funds will also be emerging managers that would be difficult for ERSRI to commit to on a primary basis. Additionally, through a close partnership with the GCM team, staff intends to leverage the Advance Fund's underlying commitments and the larger GCM network of managers outside of the Fund as another sourcing engine to identify new diverse and woman owned firms with which ERSRI can make primary commitments. This would be facilitated through establishing direct relationships with underlying funds, sharing fund opportunity pipelines, attendance of the GCM conferences, and potential co-investment in primary funds outside of the commitment to the Advance fund where there is additional capacity.

Given ERSRI already uses a hybrid fund of funds with an emphasis on emerging managers as its core venture capital exposure, GCM Grosvenor's greater weighting to buyout strategies is a more complementary fit.

MERITS: GCM has a strong brand as a primary and co-investment LP who often provides added value to the underlying GPs beyond commitment dollars. GCM's level of engagement and its extensive history have helped GCM identify and back spin-off teams early and have given GCM preference on co-investment opportunities with established managers. GCM employs a large group of investment professionals with 27 individuals working on private equity. The Advance Fund will have separate teams evaluating primary and co-investment opportunities. Co-investments are fully underwritten and historically GCM has been very selective with co-investment opportunities. The co-investments have been the driver of performance in the Advance strategy. The manager also has a strong network in the diverse and woman owned manager universe allowing it to execute on the strategy.

CONCERNS: There may be some amount of overlap between the underlying manager roster and the existing ERSRI portfolio managers. However, this overlap should be limited, and the manager will emphasize co-investment opportunities in those established managers where there is overlap.

Historical performance has been mixed relative to the benchmark. However, within the GCM track record co-investments have meaningfully outperformed primary commitments, and larger primary funds have outperformed smaller primary funds. GCM intends to increase the weighting to co-investment and larger managers going forward. It is also worth noting the historic GCM track record did not include fund level leverage, but the managers in the benchmark likely use credit facilities which inflates IRR.

ESG: GCM is an **Integrator** on ESG. Given this strategy is making commitments to other funds, and minority investments into direct co-investments there is limited ability to influence portfolio company ESG behavior. However, there is a formal ESG policy and ESG considerations are reviewed as part of any investment due diligence process. The firm is evaluating joining different industry groups to increase the ESG KPI monitoring and reporting of underlying assets.

The firm is considered a leader on diversity through sponsoring events, such as running the GCM Annual Consortium Diverse + Woman Manager Conference, its own hiring practices, and the development of the Advance strategy.

FEES: The fund will have a 15-year term. The fee structure varies by investment type. Primary fund investments will have a 0.50% management fee and no carried interest. Co-investments and secondaries will have a 1% management fee and a 10% carried interest after an 8% preferred return in a European waterfall structure. The target portfolio construction is 60% primary fund investments, 35% co-investments, and 5% secondaries.