



STATE OF RHODE ISLAND
OFFICE OF THE GENERAL TREASURER

**STAFF RECOMMENDATION: LEVEL EQUITY GROWTH PARTNERS VI, L.P. AND LEVEL EQUITY OPPORTUNITIES FUND 2025, L.P.
OCTOBER 2024**

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): Approve a commitment of up to \$30 million to Level Equity Growth Partners VI, L.P. (“LEGP”), and a commitment of up to \$10 million to Level Equity Opportunities Fund 2025, L.P. (“LEOF”).
- [Rhode Island OPEB System Trust \(“OPEB”\)](#): Approve a commitment of up to \$750k to LEGP, and a commitment of up to \$250k to LEOF.

ASSET CLASS: Private Equity (ERSRI), Private Growth (OPEB)

SUB-STRATEGY: Growth Equity

STRATEGY OVERVIEW: Level Equity is a lower middle-market growth equity investor that targets capital-efficient software and technology-enabled businesses with \$5M to \$50M in revenue. While the firm pursues both minority and majority/control investments, most of the firm’s deals have been minority transactions with structural protections and governance rights. Level’s investment often comes in as the first dollar of institutional capital in founder-led, non-ventured-backed companies. The firm’s differentiation is driven by its proactive sourcing model, the value creation expertise of its in-house operations team, and pricing discipline. Level actively engages with portfolio companies throughout its holding period, focusing on executive recruitment, strategic M&A, go-to-market approach, and financial infrastructure improvements to achieve profitable exits at reasonable prices. Level Equity Opportunities Fund 2025 will primarily focus on follow-on investments in existing portfolio companies seeking additional financing, to which the flagship fund, LEGF, is fully allocated. LEOF is expected to invest in 8 to 12 companies, compared to 15 to 25 for LEGF.

ALLOCATION:

- [ERSRI](#): The Private Equity allocation as of August 31, 2024, is 16.9%, compared to the target of 12.5%. The current pacing plan for the 2025 vintage is \$280 million, committed to 5-10 funds at \$30-60 million per fund. ERSRI’s 2025 vintage commitments will total \$40 million pending approval of this recommendation.
- [OPEB](#): The Private Growth allocation as of August 31, 2024, is 1.1%, compared to the target of 5.0%. The current pacing plan for 2025 is \$9 million, committed to 5-10 funds at \$1-2 million per fund. OPEB’s 2025 vintage commitments will total \$1 million pending approval of this recommendation.

PORTFOLIO FIT:

- [ERSRI](#): The Private Equity allocation primarily consists of buyout strategies, complemented by growth equity, venture capital, and opportunistic credit investments. ERSRI plans to allocate 20-40% of this allocation to these complementary strategies to enhance diversification. Funds managed under a growth equity mandate would represent 8.1% of ERSRI’s Private Equity exposure pending approval of this proposed recommendation (see Appendix C).
- [OPEB](#): The Private Growth portfolio allocates to Private Equity and Non-Core Real Estate strategies and is currently ramping up to its target allocation through commitments made in conjunction with ERSRI. Funds managed with a growth equity mandate would represent 7.8% of OPEB’s Private Growth exposure and 9.7% of its Private Equity exposure pending approval of this recommendation (see Appendix C).

MERITS:

- **Small-Cap Growth Expertise:** Level's continued focus on the lower middle-market has enabled it to avoid competition from well-established investors who have moved up-market, providing greater flexibility in exit options. Despite its strong performance record, the firm's latest flagship fund is only \$50M larger than the previous one, minimizing the risk of strategy drift beyond its core competency.
- **Sourcing-driven Strategy:** The majority of Level's investments have been directly sourced. A dedicated team of sourcing professionals identifies target companies in fragmented, high-growth subsectors with large total addressable markets. This proprietary approach is a key part of the firm's investment strategy, enabling it to proactively pursue opportunities at attractive valuations before gaining broader market recognition.

CONCERNS:

- **Key Person Risk:** Level's operations are heavily reliant on its CEO and co-founder, Ben Levin, who is the primary management company owner after co-founder Geroge McCulloch departed the firm at the start of 2023.
 - *Mitigant:* The transition of McCulloch was done in an orderly manner and has facilitated ownership to be shared with other junior partners, most recently with co-founder Sarah Sommer. Sommer and Levin are both relatively young and have worked together for over 20 years, having both started the firm from Insight Partners in 2009.
- **Strategy Risk:** The firm's investment category carries inherent risk given the smaller size of its portfolio companies, which are demonstrating high growth rates but have narrow product lines, small market shares and are often EBITDA negative.
 - *Mitigant:* Level has consistency focused on defensive software companies with high levels of recurring revenue growth, high (70%+) gross margins and high net customer retention rates. Further, its realized loss ratio of 1.5% since firm inception is strong compared to its peer group.

ESG AND DEI: Level Equity is classified as an Integrator.

- **ESG:** Level has developed a Responsible Investment Policy based on various external codes and standards, including in partnership with Library Avenue Consulting. The firm's investment professionals are trained to integrate ESG considerations into their due diligence process, presenting any related risks and opportunities to its investment committee. Level also encourages its portfolio companies to adopt ESG policies and conduct annual reviews of ESG initiatives and compliance, which are presented to their respective boards.
- **DEI:** The firm promotes a strong culture of diversity and inclusion, supported by an internal culture committee and firm-wide anti-bias training. The firm has partnered with Sponsors for Educational Opportunity to help provide underserved and underrepresented young people access to enhanced educational career opportunities and to diversify its own hiring pool.

FEES: Blended fees for the recommended mix of commitments to LEGP and LEOF are in accordance with industry standards.

- **Management Fee (1.83% blended):**
 - **LEGP:** 2.10% of committed capital, inclusive of a first close fee reduction, during the investment period; thereafter, 2% of invested capital. The management fee will be 100% offset by transaction and other similar expenses.
 - **LEOF:** 1.00% of invested capital, 100% offset by transaction and other similar expenses.
- **Carried Interest:**
 - 20% carried interest on a deal-by-deal basis after an 8% preferred return, with an 80/20 GP/LP catch-up.

APPENDIX A: ERSRI CURRENT GROWTH EQUITY PERFORMANCE

ERSRI Growth Equity Performance

Fund Name	Exposure (\$m)	Vintage	Commit. (\$m)	TVPI	DPI	Net IRR	Net Index PME	Excess Return
Sorenson III	\$24.9	2014	\$30.0	1.6x	1.0x	11.6%	9.8%	1.8%
LEGP IV	\$27.7	2018	\$17.5	2.4x	0.8x	35.1%	10.2%	24.9%
LEOF 2018	\$22.7	2018	\$15.0	2.4x	0.8x	39.4%	9.9%	29.5%
LEGP V	\$33.1	2021	\$30.0	1.2x	0.0x	11.4%	12.6%	(1.1%)
LEOF 2021	\$21.6	2021	\$20.0	1.2x	0.0x	13.3%	18.6%	(5.3%)
Shamrock Growth V	\$32.3	2021	\$30.0	1.1x	0.0x	7.5%	17.1%	(9.6%)
Shamrock Growth VI	\$20.0	2024	\$20.0	NM	NM	NM	NM	NM
Shamrock Clover I	\$10.0	2024	\$10.0	NM	NM	NM	NM	NM
Total	\$192.4		\$172.5					

Source Data as of June 30, 2024

ERSRI Level Equity Exposure

Fund Name	Vintage	Commit. (\$m)	Current NAV	Amount Unfunded	Total Exposure	Capital Called	% Called	Capital Distributed
Growth Partners IV	2018	\$17.5	\$27.5	\$0.2	\$27.7	\$18.2	98.7%	\$14.7
Opportunities Fund 2018	2018	\$15.0	\$20.3	\$2.4	\$22.7	\$13.8	84.1%	\$10.6
Growth Partners V	2021	\$30.0	\$22.1	\$11.1	\$33.1	\$18.9	63.2%	\$0.0
Opportunities Fund 2021	2021	\$20.0	\$10.4	\$11.2	\$21.6	\$8.8	44.1%	\$0.0
Total		\$82.5	\$80.3	\$24.9	\$105.2	\$59.8	69.9%	\$25.4

Source Data as of August 31, 2024

APPENDIX B: LEVEL EQUITY PERFORMANCE

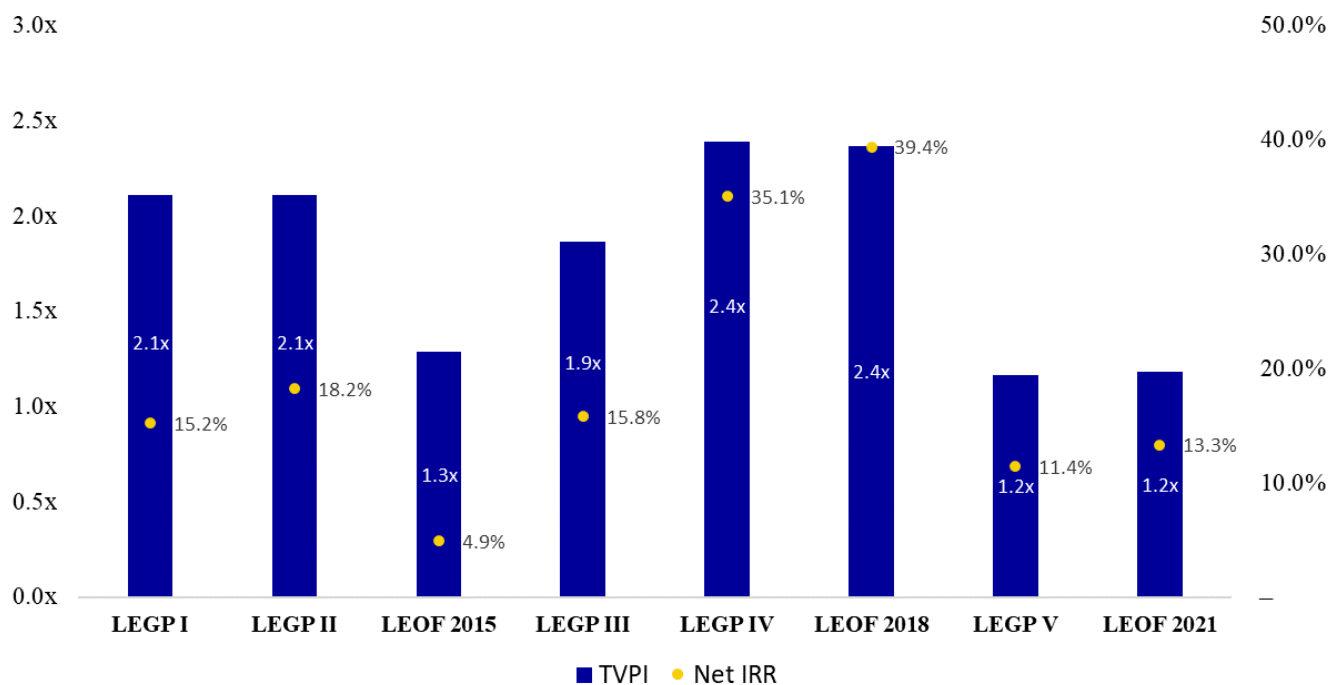
Level Equity Historical Fund Performance

Fund Name	Vintage	Fund Size (\$m)	TVPI	DPI	Net IRR	Net Index PME ¹	Excess Return	# of Portcos
LEGP I	2011	\$130	2.1x	1.6x	15.2%			17
LEGP II	2013	\$255	2.1x	1.3x	18.2%			16
LEOF 2015	2015	\$66	1.3x	0.5x	4.9%			6
LEGP III	2016	\$357	1.9x	0.8x	15.8%			18
LEGP IV	2018	\$546	2.4x	0.8x	35.1%	10.2%	24.9%	23
LEOF 2018	2018	\$204	2.4x	0.8x	39.4%	9.9%	29.5%	12
LEGP V	2021	\$775	1.2x	0.0x	11.4%	12.6%	(1.1%)	16
LEOF 2021	2021	\$350	1.2x	0.0x	13.3%	18.6%	(5.3%)	6

Source Data as of June 30, 2024

¹ PME+ Methodology; MSCI ACWI Net Index PME IRR

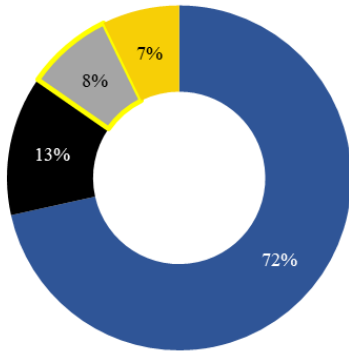
Historical Fund Performance



APPENDIX C: PORTFOLIO FIT

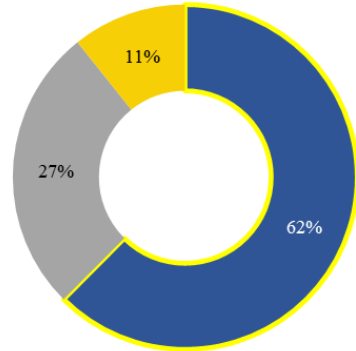
ERSRI Pro Forma Private Equity Exposure

■ Buyout ■ Venture Capital ■ Growth Equity ■ Opportunistic Credit



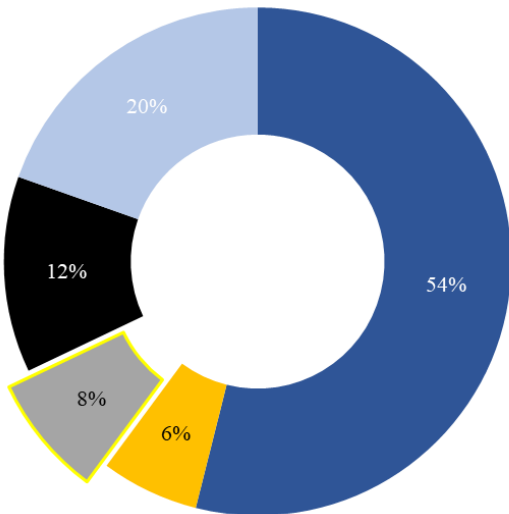
ERSRI Pro Forma Growth Equity Exposure by Manager

■ Level Equity ■ Shamrock Capital ■ Sorenson Capital



OPEB Pro Forma Private Growth Exposure

■ Buyout ■ Opportunistic Credit ■ Growth Equity
■ Venture Capital ■ Non-Core Real Estate



OPEB Pro Forma Private Equity Exposure by Manager

■ Thoma Bravo
■ Paine Schwartz Partners
■ Riverside Company
■ Nautic Partners
■ TPG Angelo Gordon
■ Level Equity
■ Shamrock Capital Advisors
■ CVC Capital Partners
■ Parthenon Capital
■ GGV Capital
■ Tenex Capital Management
■ TCG Crossover Management
■ DCVC
■ Pollen Street Capital
■ Wynnchurch Capital
■ Industry Ventures

