

Recommendation on Industry Ventures Partnership Holdings III - C, L.P.

To: RISIC
Prepared: February 25, 2015
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with Cliffwater's recommendation on Industry Ventures Partnership Holdings III-C, L.P. ("Overage Fund C"). In 2014, Cliffwater recommended and the RISIC approved a \$25 million commitment to Industry Ventures Partnership Holdings III, L.P. ("Main Fund"). The general partner is offering large limited partners in the Main Fund, the ability to co-invest with the Main Fund on investments that require more capital than is available in the Main Fund through a co-investment fund. The co-investment fund offered to RISIC, Overage Fund C, will be managed by the general partner with lower management fees and carried interest than the Main Fund. Cliffwater has completed its investment due diligence and operational due diligence on the Main Fund.

Summary of Industry Ventures Partnership Holdings III- C, L.P.

Fund Overview: Industry Ventures LLC (the "general partner" or "Industry") raised Industry Ventures Partnership Holdings III, L.P. (the "Main Fund") in 2014 with \$170 million in commitments. In June 2014, after completion of due diligence, Cliffwater recommended and the RISIC approved a \$25 million commitment to the Main Fund. The Main Fund is a hybrid fund-of-funds vehicle targeting primary and secondary investments in small venture capital funds. The Fund will also make co-investments. The target allocation for the Fund is 40% primaries, 40% secondaries, and 20% co-investments. The general partner is offering large limited partners in the Main Fund, the ability to co-invest with the Main Fund on investments that require more capital than is available in the Main Fund through a co-investment fund. The co-investment fund offered to RISIC, Overage Fund C, will be managed by the general partner with lower management fees and carried interest than the Main Fund.

People and Organization: Industry was formed in 2000 by Hans Swildens, Managing Director. The Firm was originally set up to be a seed stage venture capital firm, but moved into secondary investing with the downturn of the venture capital industry in 2001. The Firm has 26 employees including 11 investment professionals. The investment team is split between a primary team and a secondary team. The Firm has \$1.8 billion under management with two prior funds of the IVPH3 strategy, eight secondary only funds, and a number of separate accounts. The Firm is headquartered in San Francisco, has a small office in D.C. and is registered with the SEC.

Investment Strategy and Process: The strategy for the Main Fund is to invest in early stage venture capital with a focus on small funds targeting a net annualized return to limited partners of 20%-25%. The Fund will complement a targeted 40% allocation to primary commitments with a 40% target allocation to secondary investments that can be purchased at a discount to net asset value and a 20% target allocation to co-investments. Investments that require more capital than is available in the Main Fund will be allocated to three co-investment vehicles. Each co-investment vehicle (Overage Fund A, B and C) is established for an investor who has committed \$25 million or more to the Main Fund. Overage Fund A and B were established for two other public funds and Overage Fund C will be established for Rhode Island. Industry will be the general partner of Overage Fund C and maintain the same full discretion and management responsibilities that it has in the Main Fund. Similarly, Rhode Island will have the same limited partner rights and responsibilities that it has in the Main Fund. Investments will be allocated to

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Overage Fund C on a pro-rata basis in accordance with investment guidelines. The guidelines limit investments in any single partnership to 20% of Overage Fund C's committed capital and limit investments in any single portfolio company to 5%.

Performance: The Main Fund is early in its investment period. As of September 30, 2014, the Main Fund has committed \$57 million to 20 partnerships and three direct investments. The Main Fund has invested \$20 million or 17% of limited partners committed capital. While early, the Main Fund is performing at expectations.

Investment Terms: Overage Fund C will have the same terms and conditions as the Main Fund with the exception of management fees and carried interest which are 50% lower than the Main Fund. Overage Fund C will have a 10 year term with a four year investment period. The General Partner will charge a management fee of 0.5% of contributed capital for the first seven years. After the seventh year, the management fee is based on contributed capital and declines to 95% of the prior year's fee each year. After a preferred return of 6% is achieved, the General Partner will receive a carried interest of 2.5% on primary commitments, 5% on secondary investments, and 10% on co-investments. Limited partners receive 100% of distributions until they have been returned all contributed capital plus the preferred return.

Cliffwater Recommendation

Cliffwater recommends an investment of \$15 million in Industry Ventures Partnership Holdings III-C, L.P.