



State of Rhode Island
Office of the General Treasurer

**GGV Capital IX, L.P., GGV Capital IX Plus, L.P., and
GGV Discovery IV-US, L.P. - Staff Recommendation**
February-2023

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): Approve a commitment of up to \$6.4 million to GGV Capital IX, L.P. (“GGV IX”), up to \$1.6 million in GGV Capital IX Plus, L.P. (“GGV IX Plus”), and up to \$7 million in GGV Discovery IV-US, L.P. (“Discovery IV-US”). ERSRI most recently committed \$18 million to GGV Capital VIII, L.P. (“GGV VIII”), \$4.5 million to GGV Capital VIII Plus, L.P. (“GGV VIII Plus”), and \$7.5 million to GGV Discovery III, L.P. (“Discovery III”), all of which are 2021 vintage funds. ERSRI also committed \$15 million to each of Granite Global Ventures III, L.P. (“GGV III”), a 2006 vintage fund, and Granite Global Ventures II, L.P. (“GGV II”), a 2004 vintage fund.
- [Rhode Island OPEB System Trust](#): Approve a commitment of up to \$800,000 to GGV Capital IX, L.P. (“GGV IX”) and up to \$200,000 to GGV Capital IX Plus, L.P. (“GGV IX Plus”)

Active GGV Funds as of 9/30/2022			Values in USD				Net Performance		
Current Partnerships	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation	Net IRR (%)	Net Multiple of Investment
Granite Global Ventures III	2006	Venture Capital	15,000,000	14,625,748	41,675,138	375,000	437,136	18.33%	2.88
GGV Capital VIII L.P.	2021	Venture Capital	18,000,000	8,820,000	-	9,180,000	10,337,771	N/M	N/M
GGV Capital VIII Plus L.P.	2021	Venture Capital	4,500,000	2,002,500	-	2,497,500	2,111,411	N/M	N/M
GGV Discovery III, L.P.	2021	Venture Capital	7,500,000	3,262,500	-	4,237,500	4,765,139	N/M	N/M

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

SUB-STRATEGY: Venture Capital

ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Private Equity is 12.5% and the allocation as of 1/31/2023 is ~16.2%. The current pacing plan for the 2023 vintage is \$200 million committed to 5-10 funds at \$15-40 million per fund. Pending approval of the recommendations presented at the February 2023 SIC meeting, ERSRI’s 2023 vintage commitments will be \$50 million.
- [Rhode Island OPEB System Trust](#): The target allocation for Private Growth is 5% and the actual allocation as of 1/31/2023 is ~0.3%. The current pacing plan for 2023 is \$9 million committed to 5-10 primary funds at \$0.5-2 million per fund. Pending approval of the recommendations presented at the February 2023 SIC meeting, OPEB’s 2023 vintage commitments will be \$2 million.

PORTFOLIO FIT:

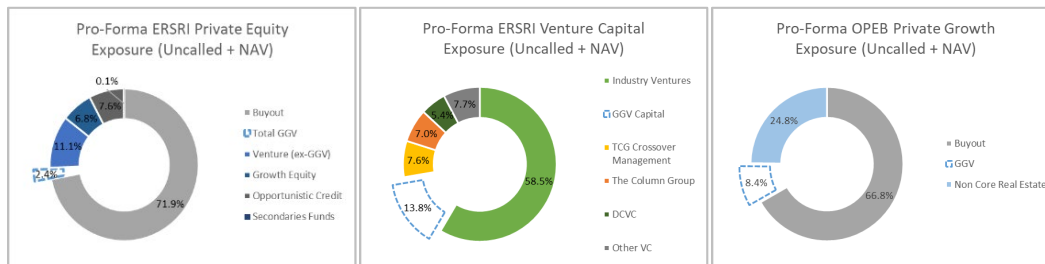
- [Rhode Island Employees Retirement Systems Pooled Trust](#): ERSRI’s Private Equity allocation is composed of a core of buyout strategies, complemented by venture capital, growth equity and opportunistic credit investments. Rhode Island targets up to 20% of the allocation to be in the venture capital sub-strategy which provides access to earlier stage companies with high growth potential and diversification benefits relative to buyout. ERSRI seeks to build a diversified venture portfolio with exposure to varying vintages, stages, sectors, and geographies. The active venture portfolio is centered around a core relationship (5 funds) with a hybrid venture fund-of-funds manager, Industry Ventures, that provides broadly diversified exposure to early-stage technology companies by investing in emerging venture funds and direct company

co-investments, typically in the U.S. ERSRI seeks to complement this strategy with primary fund commitments to technology and life sciences venture funds with well-established platforms. The table below shows the active GPs in ERSRI’s venture portfolio.

Manager	Type	Sector	Stage	Geography
Industry Ventures	Hybrid Fund of Funds	Technology	Early	U.S.
GGV	Primary	Technology	Multi-Stage	Global
TCG Crossover	Primary	Life Science	Crossover	U.S. and Asia
The Column Group	Primary	Life Science	Early	U.S.
DCVC	Primary	Life Science	Early	U.S.

GGV is a brand name venture manager investing in enterprise technology, consumer/internet technology, and smart technology companies. GGV IX and IX Plus will invest globally with a primary focus on the U.S. and China and a secondary emphasis on Southeast Asia, Europe, and Latin America. Discovery IV-U.S. will focus on the U.S. and selective opportunities in Europe and Latin America. The funds will provide broad stage exposure, with GGV IX investing cross-stage (starting at later Series A) in companies with initial valuations over \$100 million, GGV IX Plus participating in concurrent or subsequent financing rounds of high potential GGV IX portfolio companies, and Discovery IV-US targeting early-stage investments (seed, series A, and series B) in companies with initial valuations under \$100 million. GGV represents the majority of ERSRI’s exposure to global venture and is the active primary venture manager in the ERSRI portfolio that focuses on technology. Pending approval of the proposed recommendations, GGV would represent ~2.4% of Private Equity and ~13.8% of the venture capital sub-strategy for ERSRI.

- **Rhode Island OPEB System Trust:** The Private Growth portfolio allocates to Private Equity (as described above) and Non-Core Real Estate strategies and is ramping up to its target allocation through commitments made in tandem with ERSRI. To-date, OPEB has not made any commitments to the venture capital. Staff intends to bring further venture opportunities to the SIC as OPEB’s Private Growth program ramps up, adding additional venture capital diversification. Pending approval of the proposed recommendations, GGV would ~8.4 % of Private Growth for OPEB and 100% of its venture capital exposure.



MERITS:

- **Institutional Platform:** GGV is an established venture capital platform currently raising its ninth flagship fund. The firm has invested in venture capital since 2000 and built a strong reputation, particularly in China, Southeast Asia, and the U.S. GGV began as a later round investor but expanded its capabilities to do earlier rounds as well and today it provides a complete solution within the tech venture capital ecosystem.
- **Large and Stable Team:** GGV has benefitted from a high degree of leadership stability. The firm is headed up by six Managing Partners who have an average tenure of over 13 years at the firm. The Managing Partners remains active in sourcing opportunities, leading deals, and serving on boards. While each partner has an area of specialization, their activities also overlap somewhat by geography and sector, reducing key-person risk. The Managing Partners are supported by 30 other investment professionals across six global offices, allowing the firm to have a meaningful on-the-ground presence in their target markets.
- **Sector Focus:** The firm has a thematic approach in which it establishes a “flywheel” in sectors it identifies as undergoing new disruptive changes or benefiting from strong long-term growth drivers. This top-down approach has allowed the firm to continuously build on its flywheels and develop increased expertise by

establishing a presence within founder communities, sharing learnings from its portfolio companies, and developing benchmarks to track core metrics.

- **Active Value-Add Approach:** GGV has led or co-led over 85% of its deals since GGV III and takes a hands-on approach with its portfolio companies. The firm's partners provide strategic guidance as active board members and GGV leverages its 34-person Platform Services Team to support company growth initiatives. GGV has used its global perspective, sector expertise and significant resources to drive growth from early stage through IPO as demonstrated by its historical backing of multiple unicorns.

CONCERNS:

- **Concern – Challenged Recent Performance:** In recent quarters, GGV has exhibited challenged relative performance, with several mature funds falling out of the first and second quartiles of IRR and TVPI within the venture capital peer universe. This recent performance trend is partially attributable to the firm's publicly traded positions, which as of Q3 2022 had suffered from the broader public equity drawdown. Staff believes GGV's relative performance challenges are at least somewhat overstated given the firm's higher degree of public equity exposure relative to peers that likely have not yet fully marked down privately held positions.
 - **Mitigant – Emphasis on Liquidity:** This concern is mitigated by GGV's thoughtful approach to generating liquidity from its public positions. In cases where GGV has taken a company public, it will typically aim to systematically sell-down its holdings over the subsequent quarters following a 6-12 month contractual or statutory lock-up. As a result of its focus on generating liquidity, the mature funds mentioned above have generally retained their positions within the first and second quartiles of DPI within the venture capital universe.
 - **Mitigant – Early Stage of ERSRI Investments:** The funds to which ERSRI most recently committed (GGV VIII, GGV VIII Plus, and Discovery III) are still young and their performance is not yet meaningful. These funds continue to invest and may be able to take advantage of more reasonable entry valuations following the broader valuation correction.

ESG/DEI:

- **ESG:** GGV ranked as an **Integrator**. The firm has a formalized Policy Regarding Socially Responsible Investing and the Managing Partners are responsible for integrating social and governance factors into their investment processes. The firm established an ESG Steering Committee and Taskforce in 2022 and began its first annual firm-wide ESG training during the year. GGV recently engaged a third party to begin performing a firm-level operational footprint assessment. The firm aims to extend this measurement effort to emissions in GGV's portfolio in coming years as well as create a reduction strategy.
- **DEI:** GGV is committed to a culture of equity and inclusion. The firm established a DE&I Taskforce in 2020. GGV conducted its first internal DEI survey in 2020 and provides DEI trainings bi-annually. In 2022, the firm onboarded a software recruitment platform to screen and vet candidates more equitably and better track applicant pool demographics. Additionally, Managing Partner Jeff Richards has partnered with AllRaise CEO Pam Costa to create the AllRaise Xcelerate Board, an organization aiming to place women and diverse senior operators onto boards of venture-funded companies as independent board members.

FEES: The fees are in-line with industry standards.

- **Management Fees:** GGV IX and Discovery IV-US will charge a 2.5% management fee on committed capital during the investment period; thereafter, the funds will charge a 2.5% fee on the sum of invested capital and uncalled capital reserved for investments until 10 years have passed since the first capital call, at which point the fee drops to 1.5% on invested capital until 14 years have passed since the first capital call. GGV IX Plus will not charge a management fee.
- **Carried Interest:** Carried interest for all three funds will be 20% until LPs receive a cumulative return of 1.5x contributions and 25% thereafter, with a 75%/25% catchup.