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

To: RISIC
Prepared: January 27, 2016
From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with Cliffwater's recommendation to modify the terms of Industry Ventures Partnership Holdings III-C, L.P. ("Overage Fund") to allow for co-investment with Industry Ventures Partnership Holdings IV, L.P. (IVPH IV Main Fund).

ERSRI committed \$25 million to Industry Ventures Partnership Holdings III, L.P. ("IVPH3 Main Fund") and \$15 million to Industry Ventures Partnership Holdings III-C, L.P. ("Overage Fund"). The general partner of IVPH3, Industry Ventures (or "Industry") offered large limited partners in the IVPH3 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 or the Overage Fund. The Overage Fund is managed by the general partner with lower management fees and carried interest than the Main Fund.

Due to the timing and availability of co-investments in IVPH3 Main Fund, the general partner only expects to invest \$3 million of ERSRI's \$15 million commitment to the Overage Fund. The general partner is offering a modification to the terms of the Overage Fund to allow the unused commitments of the Overage Fund to be used for co-investments in IVPH4 Main Fund.

Investment Strategy and Process: The strategy for 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 the Overage Fund. Industry is the general partner of Overage Fund and maintains the same full discretion and management responsibilities that it has in the Main Fund. Similarly, ERSRI has the same limited partner rights and responsibilities that it has in the Main Fund. Investments will be allocated to Overage Fund on a pro-rata basis in accordance with investment guidelines. The guidelines limit investments in any single partnership to 20% of Overage Fund's committed capital and limit investments in any single portfolio company to 5%.

Investment Terms: The Overage Fund has 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. 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 modifying the terms of Industry Venture Partnership Holdings III-C, L.P. to allow for ERSRI's unused commitment for IVPH3 co-investments, approximately \$13 million, to be used for IVPH4 co-investments.

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