State of Rhode Island
Office of the General Treasurer

Industry Ventures Partnership Holdings Fund VI, L.P. - Staff Recommendation

August 2021

RECOMMENDATION: Approve a commitment up to $30 million to Industry Ventures Partnership Holdings VI, L.P.

ASSET CLASS: Private Equity

SUB-STRATEGY: Venture Capital

ALLOCATION: The target allocation for private equity is 12.5% and the allocation as of 7/31 is 10.9%. As a sub-strategy of private equity, venture capital has a target range of 0%-20%. The allocation's exposure to venture is 14.9% based on fair market value as of 3/31/21 and unfunded commitment through the August 25th SIC. Projecting the private equity pacing plan out through the 2022 vintage, the allocation to venture is expected to decline to 13.9% when including this commitment to Industry Ventures and other identified potential venture commitments. Industry Ventures will be 8.1% of the portfolio with this commitment based on 3/31/2021 NAV + unfunded commitments through the August 25th SIC.

When thinking about exposure it should be noted there are two venture "portfolios". The "legacy" portfolio which is largely from the 2006 and 2007 vintage and the "active" portfolio which was re-started in 2013. The legacy portfolio is currently a 3.5% exposure and as that liquidates it brings the overall venture exposure down. The "active" venture portfolio represents 11.4% of the private equity portfolio with expected commitments through 2022 and technology focused venture represents 6.7% with commitments also running through 2022.

PORTFOLIO FIT: Venture is a unique part of the private equity portfolio as there are diversification benefits. Venture does not use leverage, provides access to earlier stage companies with potential high growth in technology and life sciences, and historically has not been perfectly correlated with buyout. While venture has the potential to produce a high TVPI at the fund level, there is significant risk at the portfolio company level. To mitigate this risk ERSRI seeks to build a portfolio of venture capital funds with exposure to varying vintages, stages, sectors, and geographies. The current venture strategy is built around a core relationship (5 existing commitments) with a hybrid venture fund of funds manager, Industry Ventures Partnership Holdings (IVPH). IVPH focuses on early stage (primarily seed and A round financing) technology companies through exposure to funds below $250 million in size which are often run by emerging managers (funds I – III). ERSRI plans to continue allocating to Industry Ventures as a core position given the large number of underlying managers the portfolio provides exposure to and to complement the exposure to IVPH with direct commitments to life science venture funds and other established technology focused funds that provide additional diversification. The managers IVPH targets are mostly outside of ERSRI's investible universe given the extremely small fund sizes relative to ERSRI's target commitment size. This exposure is valuable as it provides access to earlier stage investments with the potential for outsized returns. The IVPH strategy also provides diversification across vintage years within each fund. The table below shows the active (post 2012 vintage) venture portfolio by GP.

Manager	Type	Sector	Stage	Geography
Industry Ventures	Hybrid FoF	Technology	Early	U.S.
GGV	Primary	Technology	Multi-stage	U.S. and Asia
DCVC Bio	Primary	Life Science	Early	U.S.
TCG Crossover	Primary	Life Science	Late-stage	U.S. and Asia

MERITS: Industry Ventures has a long history in the venture capital ecosystem and currently deploys four different, but related strategies within the technology and venture capital space. IVPH is a hybrid fund of funds strategy focusing on emerging (funds I – III) and smaller managers (below $250 million in size) targeting seed and series A investments in technology companies. This is not an "access" fund of funds strategy, but rather focuses on identifying new break out managers which the IVPH team has proven the ability to execute on historically. IVPH will continue to back those managers unless they grow out of the early stage. The IVPH strategy will target 40% of the capital committed to primary funds. The underlying primary fund managers typically have large ownership stakes in early-stage companies. Often when these companies go through subsequent financing rounds the managers cannot fill their pro rata stake due to their small fund size. IVPH as an informed, passive, existing investor in these companies through the underlying funds is seen as preferred capital and able to take these pro rata stakes in the breakout companies directly through co-investment or SPVs (40% of committed capital target). Industry Ventures also uses its vast network and information advantage to source and execute early secondaries in this strategy, reducing the J-curve and providing earlier liquidity (20% of committed capital target). This strategy has provided strong returns producing an overall 2.4x net TVPI and 25.1% net IRR across all of the Partnership Holdings Funds as of 3/31/2021.

CONCERNS: This is ERSRI's largest exposure to a single GP at 8.1%. Mitigating this concern is the fact that it is a hybrid fund of funds so the exposure is actually quite diversified by underlying GP. The strategy is part of larger organization with multiple strategies in the venture and technology space. That exposure number is also elevated because IVPH has been one of ERSRI's top performing GPs in the PE portfolio and the NAV has experienced a larger increase relative to other managers. Across the existing five commitments ERSRI is at 2.3x net TVPI.

Another concern is the potential double layer of fees. Primary venture funds typically have a fee structure with a 2.5% management fee and a 20% - 30% carry. An analysis of Industry Ventures Partnership Holdings III and IV (fully invested funds with the current strategy split of investment type) shows the aggregate fees paid by LPs for both the Industry Ventures fees and underlying GPs is a 2% management fee and 24% carry. This is largely due to the co-investment and SPVs incorporated into the strategy.

Lasty, the co-head of the strategy departed in 2020 to pursue other interests. Staff reviewed this issue and is comfortable with the team going forward. Many of that managing director's relationships were originally from or shared with other senior partners on the Industry Ventures team which remain in place. Additionally, Industry Ventures always staffs relationships with multiple team members and has a strong firm reputation in the venture ecosystem so connectivity to key mangers remains intact. The freed-up economics have allowed Industry to promote others within the strategy, including Jonathan "JR" Roosevelt who joined in 2017 and has taken over most of the departing managing director's relationships.

ESG: Industry Ventures ranked as an **Integrator** on ESG. Given this strategy is making commitments to other funds, and when it does invest directly into companies it typically holds a minority stake, 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 has made DE&I a focus and is committed to backing managers of diverse backgrounds. There is a DE&I committee made up of firm leadership. The firm is working with a consultant to enhance its DE&I initiatives which currently includes capturing and monitoring DE&I metrics. Fund VI commitments to date have the follow representation: 31% of managers have at least one female partner, 41% of managers have at least one diverse partner, and 19% of managers have at least one female **and** one diverse partner. Industry Ventures achieved a Level 1 Certification in the Diversity VC Standard.

FEES: The fees are in accordance with industry standards. There is a 1% management fee and a carried interest based on investment type of 5% on primary commitments, 10% on early secondaries/SPVs, and 20% on direct co-investments after a 6% preferred return. As stated above there are fees on this fund level and the underlying funds. However, an analysis of Fund III and IV (fully invested funds with the current strategy of investment type) the aggregate all in fees for LPs is a 2% management fee and 24% carry.