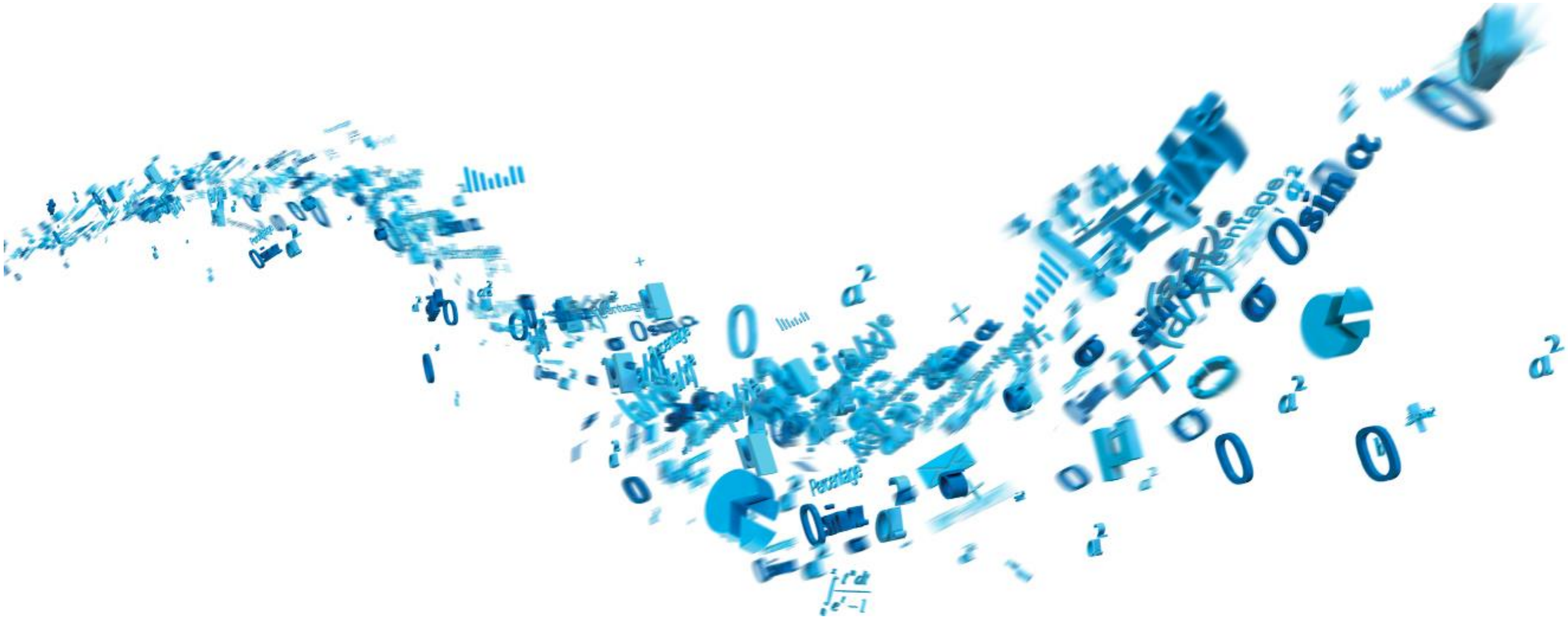

Nebraska Investment Council
Private Equity Co-Investment Funds

March 2021

Empower Results®

Private Equity Investment Vehicles

Traditional Co-Investments in the Private Equity Landscape

Risk	Return	Vehicle	Benefits	Concerns
+	+	**Co-Investments** Investment directly in a private company along side a primary fund.	▪ Lower fees ▪ High customization ▪ Accelerates time to attain targeted private equity exposure	▪ Extremely high concentration ▪ Significant time and expense to implement ▪ Usually available only to primary fund investors ▪ Short time frame for investment decisions
		Primary Fund Closed end, limited partnership structure that creates a portfolio of investments in private companies in accordance with a stated strategy	▪ One level of fees ▪ Ability to make tactical allocations ▪ Better control of timing and amounts of capital deployment ▪ Allocations can be tailored directly to overall plan's risk appetite	▪ Requires large number of funds to manage concentration risk; A diversified portfolio available only for larger portfolios ▪ Significant time required to build & manage portfolio ▪ Cost to find managers and review legal documents
		Secondary Funds Closed end, limited partnership structure that purchases older investments in primary funds, fund of funds and co-investments	▪ High diversification ▪ Faster investment and distribution cycle ▪ High initial returns help mitigate portfolio J-curve ▪ Can accelerate time to reach target private equity allocation.	▪ Two layers of fees; but lower than a Fund of Funds ▪ Returns highly impacted by secondary market conditions.
-	-	**Fund of Funds** Closed end, limited partnership structure that creates a portfolio of investments in primary funds, and, potentially, co-investments & secondaries	▪ High level of diversification ▪ Administratively efficient ▪ May provide access to specific regions or niche strategies ▪ Available for small commitments	▪ Two levels of fees reduce returns ▪ Index like returns ▪ No control of timing or amount of capital deployment ▪ No customization

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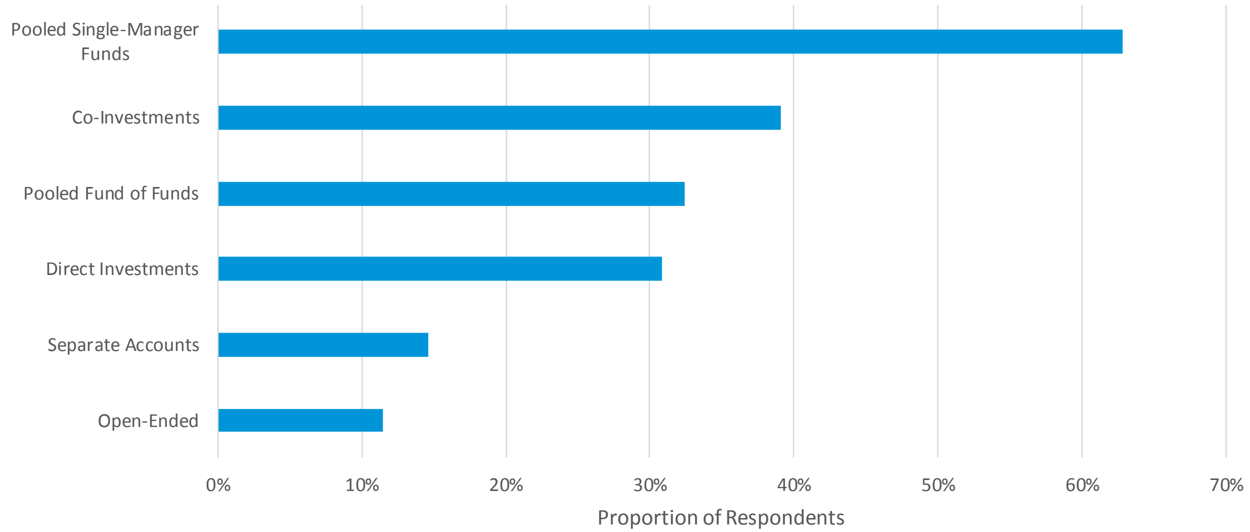
Co-Investment Activity

Expected Demand Remains Strong in 2021

Private Equity Fund Structures Targeted by Investors over the Next 12 Months



Source: Preqin Investor Survey, November

According to Preqin[1], more than one-third (39%) of institutional investors surveyed in 2020 reported on plans to target co-investment opportunities in 2021

- Co-Investment investing varies by investor size
  - Smaller investors are typically less active in co-investing due to the significant capital required to fund co-investments and resources needed to perform the required due diligence
  - Large investors may find individual investments to not have a meaningful impact on the total portfolio
- 90% of surveyed fund managers offer co-investments and 43% plan to offer increased opportunities in 2021

[1] 2021 Preqin Global Private Equity & Venture Capital Report. Preqin is a provider of financial data and information on the alternative assets market, as well as tools to support investment in alternatives.

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The Co-Investment Opportunity

Why Consider Co-Investment Funds?

Co-Investments funds offer potential benefits of traditional, direct co-investments with reduced risk.

Benefits

- High conviction investing (dual investment screening)
- Cost effectiveness
- Tailored portfolio construction (thesis driven, ability to select sector experts)
- Potential for alpha creation (ability to invest with hard to access GPs)
- Diversification as a risk management tool

Considerations

- Importance of manager selection
- Non-control diminishes ability to influence investment (timing, investment outcome)
- Competitive co-investment landscape: difficult to differentiate as a “preferred” co-investment partner
- Potential for adverse selection

Evaluation of Co-Investment Funds

Common Diligence Considerations

In a highly competitive environment, co-investment funds may differentiate through several factors.

- Platform
- Team Depth and Expertise
- Manager Access
- Quality of General Partner Relationships
- Strategy
- Fund Size
- Sourcing
- Diligence Process
- Performance Track Record
- Risk Controls
- Terms / Economics

Co-Investment Fund Opportunities

Observations of Select Funds in Market

Strategy

- **Fund Size:** $50 million to $4 billion
- **Strategy:** Lower, Middle, and Large Market, with emphasis on companies with Total Enterprise Value below $1.5 billion
- **Geography:** US-focused or Global
- **Number of investments:** Varies by fund size. Funds below $1 billion generally 25-30; funds above $1 billion target 30-60

Terms

- **Management Fees:** Often 1% during the Investment Period, declines thereafter
- **Carried Interest:** 10-15% with an 8% preferred return

Risk

- **Performance:** Primarily generated net IRRs ranging from 15-25% and net TVPI of 1.5x-2.5x
- **Overall loss rate:** Generally in the 8-10% range

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