Nebraska Investment Council
Private Equity Co-Investment Funds
March 2021
## Private Equity Investment Vehicles
### Traditional Co-Investments in the Private Equity Landscape

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Benefits</th>
<th>Concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Co-Investments</strong></td>
<td>▪ Lower fees</td>
<td>▪ Extremely high concentration</td>
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<tr>
<td></td>
<td>▪ High customization</td>
<td>▪ Significant time and expense to implement</td>
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<tr>
<td></td>
<td>▪ Accelerates time to attain targeted private equity exposure</td>
<td>▪ Usually available only to primary fund investors</td>
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<tr>
<td></td>
<td>▪ Accelerates time to attain targeted private equity exposure</td>
<td>▪ Short time frame for investment decisions</td>
</tr>
<tr>
<td><strong>Primary Fund</strong></td>
<td>▪ One level of fees</td>
<td>▪ Requires large number of funds to manage concentration risk; A diversified portfolio available only for larger portfolios</td>
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<td></td>
<td>▪ Ability to make tactical allocations</td>
<td>▪ Significant time required to build &amp; manage portfolio</td>
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<tr>
<td></td>
<td>▪ Better control of timing and amounts of capital deployment</td>
<td>▪ Cost to find managers and review legal documents</td>
</tr>
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<td></td>
<td>▪ Allocations can be tailored directly to overall plan’s risk appetite</td>
<td>▪ Requires large number of funds to manage concentration risk; A diversified portfolio available only for larger portfolios</td>
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<tr>
<td><strong>Secondary Funds</strong></td>
<td>▪ High diversification</td>
<td>▪ Two layers of fees; but lower than a Fund of Funds</td>
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<tr>
<td></td>
<td>▪ Faster investment and distribution cycle</td>
<td>▪ Returns highly impacted by secondary market conditions.</td>
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<tr>
<td></td>
<td>▪ High initial returns help mitigate portfolio J-curve</td>
<td>▪ Returns highly impacted by secondary market conditions.</td>
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<tr>
<td></td>
<td>▪ Can accelerate time to reach target private equity allocation.</td>
<td>▪ Returns highly impacted by secondary market conditions.</td>
</tr>
<tr>
<td><strong>Fund of Funds</strong></td>
<td>▪ High level of diversification</td>
<td>▪ Two levels of fees reduce returns</td>
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<tr>
<td></td>
<td>▪ Administratively efficient</td>
<td>▪ Index like returns</td>
</tr>
<tr>
<td></td>
<td>▪ May provide access to specific regions or niche strategies</td>
<td>▪ No control of timing or amount of capital deployment</td>
</tr>
<tr>
<td></td>
<td>▪ Available for small commitments</td>
<td>▪ No customization</td>
</tr>
</tbody>
</table>

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Co-Investment Activity
Expected Demand Remains Strong in 2021

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.
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

- **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

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

- **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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