

Contact: Patrice Sayre

FUND MANAGER ISSUES – PRIVATE MARKETS RECOMMENDATION

Action Requested: Recommend that the Board approve Neuberger Berman to manage a custom account across the private market space for the Long Term Endowment Pools, subject to any final due diligence which would include, but not necessarily be limited to, legal review of investment documents and account structures.

This would include a commitment to both Private Equity and Private Real Assets over a three year period. The asset allocation policy targets approved by the Board of Regents are 10% for Private Equity and 15% for Private Real Assets. The total recommended commitment amounts to be invested over the next three years are as follows and are consistent with commitment “pacing” studies conducted by Wilshire Associates for both the Private Equity and Private Real Assets allocation.

PRIVATE EQUITY

- ♦ Iowa State University: \$13.0 million *
- ♦ University of Iowa: \$37.0 million *

PRIVATE REAL ASSETS

- ♦ Iowa State University: \$25.0 million *
- ♦ University of Iowa: \$56.0 million *

** Recommended commitment amount is shown. Fund manager will draw capital over time.*

Executive Summary: The Board of Regents investment policy requires that the investment advisor (Wilshire Consulting) provide recommendations and advice on matters regarding investment manager selection, retention, and termination. (<http://www.regents.iowa.gov/Policies/Chapter%207/chapter7.04.htm>)

The arrival at this recommendation follows numerous discussions about how to address the ongoing investment needs in the private market programs. Since the inception of the Private Equity (2006) and Private Real Assets (2006) portfolios, exposure to each asset class has been achieved by making ongoing commitments primarily to fund-of-fund vehicles (with the exception of one investment into a core open-ended direct private real estate fund).

With the landscape in the Private Market fund-of-funds industry evolving constantly, investment management firms have been transitioning their focus on tailored, customized solutions for their clients. These customized solutions are structured in the form of a separate account or “fund of one” providing potential benefits for clients when compared to fund-of-funds investments. Benefits of a custom account on average would include:

- ♦ Lower fees versus fund-of-funds structure;
- ♦ More concentrated yet diversified investments;
- ♦ Ability to create and structure specific guidelines tailored to each investment program; and
- ♦ Efficient implementation at the Board level with one recommendation every three years versus multiple fund-of-funds recommendation.

This custom account would be managed by one investment firm with capital commitment being invested over the next three years (2015, 2016, and 2017).

Background: The universities, with the assistance of Wilshire Consulting, sent out a Request for Information (RFI) to seven private market firms on January 9, 2015. This process was conducted to gain a better understanding of each of the firm's expertise and track record in the following private market categories:

- ◆ Private Equity (Buyout, Venture Capital, Debt Opportunities, Special Situations)
- ◆ Private Real Estate (Value-Added, Opportunistic)
- ◆ Private Real Assets (Infrastructure, Energy, Natural Resources, Other)

Responses were collected by January 26, 2015, and an initial conference call was conducted on February 2, 2015. The list of respondents were narrowed down from seven to four based upon a collective assessment of both qualitative and quantitative factors. The four firms were: The Carlyle Group, Grosvenor, Hamilton Lane, and Neuberger Berman. Institutional staff and Wilshire Consulting conducted in-person interviews with the four firms on February 18, 2015, in Chicago at the Big Ten Conference Center. Each interview session focused on a number of areas including but not limited to general overview of each firm, investment philosophy, market outlooks, track record, fees, and investment structure.

Following the interviews, institutional staff along with Wilshire Consulting concluded and collectively agreed that further due diligence would be conducted with both Grosvenor and Neuberger Berman. This additional due diligence occurred ~~is scheduled~~ on the morning of Tuesday, March 10th, in Iowa City and included ~~includes~~ institutional staff, Wilshire Consulting, Board Office staff, and Audit/Compliance and Investment Committee Chair Regent Downer. Based upon these final set of interviews, the a final recommendation was Neuberger Berman ~~will be made at the Wednesday, March 11th Board meeting.~~

As an update for the Board, a recommendation for commitment amounts of \$7.8 million (Iowa State University) and \$17.9 million (University of Iowa) was passed by the Board at the December 3, 2014, meeting. Further due diligence was conducted on the Ardian Secondary Fund VI Infrastructure ("ASF VI Infrastructure" or "ASF VI") related to the legal review of investment documents and fund structure. After numerous discussions with Ardian, Wilshire Consulting, and legal counsel, the group arrived at a collective decision not to move forward with this fund manager recommendation. The commitment amounts that were previously allocated to Ardian will be reflected in the private market commitments.

Recommendation:

Wilshire supported ~~supports~~ an investment in either Grosvenor or Neuberger Berman to manage a custom account across the Private Market space including Private Equity, Private Real Estate, and Private Real Assets. Structurally, this investment plays a strategic role within the private market programs and enables the universities to continue to build upon each of the private market programs in a unique and efficient manner with the benefits laid out above. This recommendation is subject to any final due diligence which would include, but not necessarily be limited to, legal review of investment documents and account structures.