

DATE: June 14, 2018

TO: Members, State Board of Investment

FROM: Mansco Perry III

SUBJECT: Potential Secondary Sales of SBI Private Market Funds

In recent years the market for secondary sales of Limited Partnership interests in private funds has changed significantly, becoming more robust and efficient as more and more capital enters the secondary market. Staff has observed these changes through our investment in funds which seek to purchase LP interests on the secondary market. However, the SBI has historically not been an active seller of LP interests on the secondary market. Staff believes that in the current market environment it would be prudent and appropriate to explore the possibility of selling certain fund interests.

The SBI's Private Markets portfolio includes a substantial amount of capital invested in funds that may be good candidates for liquidation via the secondary market. In many cases these funds are nearing the end of their contractual term, or have been extended beyond their initial term. In certain cases the Investment Manager and General Partner of the fund may no longer be a going concern, or do not have the confidence of SBI staff going forward. Some funds may simply not be a good fit for the SBI portfolio from a strategic perspective.

The SBI Staff believes that in many of these cases, the value of the underlying investments in the funds are unlikely to increase. By continuing to hold these funds until final liquidation the SBI is forgoing potential return from other investment opportunities that could be funded not only with the capital already invested, but also the undrawn capital that has been committed to these funds. In this sense, these older, mature funds represent a significant opportunity cost to the SBI.

Staff believes the SBI could benefit from exploring what options are available in the secondary market. Staff would seek to establish price expectations for LP interests by soliciting bids from secondary buyers, as well as potentially engaging a broker specializing in secondary transactions. Staff may ultimately reach the conclusion that a sale is unattractive due to pricing or other concerns, but we cannot make that determination without the ability to fully engage and negotiate in good faith with potential buyers.

RECOMMENDATION:

The SBI authorizes the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute the sale of certain Limited Partnership interests that Staff believes are substantially mature or otherwise do not represent the optimal use of capital going forward. Approval of this recommendation is not intended to be, and does not constitute in any way, a binding or legal obligation on the State Board of Investment to engage in any transaction. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations with respect to the terms and conditions of any potential sale will continue.