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**DATE:** March 4, 2020  
**TO:** Board of Retirement  
**FROM:** Donald C. Kendig, CPA, Retirement Administrator

**Staff Contact:** Douglas Kidd, Investment Officer

**SUBJECT:** **Approval of Hamilton Lane Guideline Changes - APPROVE**

#### **Recommended Action**

1. Approve the proposed changes to the target allocation, consisting only in altering the mix between secondary investment and primary investments, as recommended by the manager (Hamilton Lane.) There is no change in the total commitment amount. The original mix was \$25mil for secondaries and \$225mil for primaries. That targeted mix would be changed to \$10mil for secondaries, and \$240mil for primaries.

#### **Alternative Action**

1. Hamilton Lane would continue to scout for additions to the secondary investment pool, despite their opinion being that the ideal time to do so may have passed.

#### **Fiscal and Financial Impacts**

It is impossible to predict the impact on investment returns which may result from this change. However, Hamilton Lane points out that fees on direct secondary transactions are higher than primary commitments.

#### **Background and Discussion**

The original terms of the contract with Hamilton Lane for advisory services regarding our private equity portfolio included a targeted split between primary and secondary investments, where secondary investments are LP interests acquired from another LP, rather than in an original fund raising; i.e. the proceeds of the purchase go not to the GP managing the fund, but to another LP with interests similar to our own.

*From Hamilton Lane:*

We would propose that we roll the \$15 million for secondaries into the allocation for primaries, so the full \$90 million remaining would be invested in primary funds. We're recommending this for the following reasons:

1. While the investment in HL Secondary Fund IV is technically outside of the separate account due to the timing of the close, we can effectively consider it when looking at the performance of the separate account. As such, at 26% of the total separate account commitments (assuming the remaining \$90 is allocated to primaries), the separate account has appropriate exposure to secondaries as it is currently constructed.
2. Due to the market conditions, it is very difficult to include the side letters that are necessary for FCERA when investing in secondaries.
3. The fee structure for primary investments is advantageous for FCERA compared to the fees for secondaries. The separate account charges management fees of 0.25% for non-secondary investments and 0.65% for secondary investments. There is also carried interest of 10% (after an 8% preferred return) for secondary investments, while the primary investments do not have a related carried interest charge. (Note the investment in HL Secondary Fund IV is not subject to these fees/carry.)

**Attachment:**

Second Amendment to the Hamilton Lane IMA

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
AND  
HAMILTON LANE ADVISORS, L.L.C.**

**AMENDMENT 2 TO INVESTMENT MANAGEMENT AGREEMENT**

This Amendment No. 2 to the Investment Management Agreement effective November 1, 2017 (as amended, restated and/or otherwise modified, the "Agreement") is made by and between the Fresno County Employees' Retirement Association (the "Client") and Hamilton Lane Advisors, L.L.C. (the "Manager"). Capitalized terms used but not defined in this Amendment shall have the meanings ascribed to them in the Agreement.

**WHEREAS**, Section 31 of the Agreement provides that the Agreement may be amended in writing by both parties; and

**WHEREAS**, the Client and the Manager desire to amend the Guidelines attached as Exhibit A to the Agreement.

**NOW, THEREFORE**, in consideration of the mutual covenants herein contained, and intending to be legally bound, the Client and the Manager hereby agree as follows effective on the last date signed below:

1. Exhibit A. Exhibit A of the Agreement is hereby amended and restated in its entirety as set forth on Exhibit A attached hereto (with additions shown in double underline and deletions shown in strikethrough).
2. Applicable Law. This Amendment shall be governed by and interpreted in accordance with the laws of the State of California without regard to conflicts of laws principles.
3. Effectiveness of Agreement. Except as expressly set forth herein, all provisions of the Agreement shall remain in full force and effect.
4. Counterparts. This Amendment may be executed in counterparts, each of which shall constitute an original and all of which together shall constitute one and the same instrument.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be executed by their respective duly appointed officers as of the date(s) written below.

**FRESNO COUNTY EMPLOYEES’  
RETIREMENT ASSOCIATION**

**HAMILTON LANE ADVISORS, L.L.C.**

\_\_\_\_\_  
Signature-  
Title:

\_\_\_\_\_  
Signature-  
Title:

Date: \_\_\_\_\_

Date: \_\_\_\_\_

## EXHIBIT A

### Guidelines

**Eligible investments:** The Assets may be invested in private markets funds, including HL Products dedicated to secondary funds or co-investments.

**Allocations:** Capital Commitments shall initially be allocated based upon the following parameters:

Secondaries	\$ <del>25</del> <b>10</b> million
Primaries:	\$ <del>225</del> <b>240</b> million

The portfolio should be diversified based on geography, industry, fund manager, sub-asset class and vintage year. The following long-term diversification guidelines should be taken into consideration:

#### **Geography Targets:**

North America	65% to 70%
Western Europe	10% to 20%
Rest of World	5% to 15%

#### **Permitted Strategies:**

Corporate Finance/Buyout  
Special Situations  
Capital/Growth  
Secondaries

#### **Restrictions:**

Maximum commitment to a single Investment: \$15 million  
May not represent more than 20% of commitments to a single Investment