EXAMINING THE RETURNS | 2021

naic
National Association of Investment Companies

THE FINANCIAL RETURNS OF DIVERSE PRIVATE EQUITY FIRMS

Aon Empower Results®

Special thanks to Aon for their contributions to this report.

A Letter from the NAIC

Dear Friends and Colleagues,

If there was a bright side to the tumultuousness of 2020, it was that much of American society finally realized the degree to which racial biases still exist within the nation. While Corporate America and other institutions proclaimed their support for diverse communities, it remains a disappointing fact that women- and diverse-led funds – which create thousands of jobs in these same neighborhoods – still manage only a small fraction of the investment industry's assets. At NAIC's core is an unwavering dedication to see this unjustified exclusion change in a meaningful way.

Which brings us to this report, "Examining the Returns: The Financial Returns of Diverse Private Equity Firms." In the industry's only comprehensive study quantifying the performance of diverse-owned private equity firms, the biennial NAIC Performance Study has become a critical tool for our engagements with institutional investors. It is also a valued resource for the business media, our allied organizations and member firms themselves. In addition, the report serves as a reality check to those who still subscribe to the erroneous belief that supporting diversity is antithetical to high-performance.

To that end, I am pleased to announce that the 2021 NAIC Performance Study concluded that diverse managers again beat their benchmarks, including the Burgiss median, for net IRR, MOIC and DPI from 1998 to 2020 and from 2011 to 2020. As you will read in this report, diverse managers – represented as The NAIC Private Equity Index – also posted higher net multiples on invested capital than the median Burgiss private equity fund. The NAIC Private Equity Index outperformed the Burgiss median in 83.3 percent of the periods measured. In virtually every performance indicator, diverse firms bested industry averages.

While these findings are consistent with those from previous Performance Studies, we find it is crucial to reinforce the fact that diverse asset managers represent an overperforming yet underutilized talent pool. Further, it demonstrates that institutional investors not significantly investing with them fail to meet their fiduciary responsibilities to maximize returns for their stakeholders. Diverse asset managers have repeatedly shown they possess the investing acumen to compete with anyone in this industry.

The NAIC would like to thank the member firms that participated in this study by sharing their performance data. Without their continued support, we would be unable to measure performance accurately. We would also like to thank KPMG for serving as our data aggregation partner. KPMG's diligence, combined with its stellar reputation in the industry, lends to this report's integrity and validity. Finally, we would like to express our profound gratitude to this report's author, Meredith Jones of Aon, for her tireless work and meticulous attention to detail. We could not have asked for better partners for this critical undertaking.

This performance study is a crucial component of NAIC's toolkit. It serves as a resource to educate the industry about the talent and insight in the diverse marketplace as we advocate for greater capital allocations. The report also underscores the simple truth that inclusion and outperformance often go hand-in-hand.

Best regards,

Robert L. Greene
President & CEO

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Introduction

Research has consistently shown the benefits of diversity for all types of organizations. Diverse perspectives, differentiated behavior and/or access to distinctive networks can lead to better decision making and greater profits on a micro level, and economic growth on a macro level.

Over the years, a growing number of asset owners have recognized the benefit of diversity in investment portfolios and have established diverse manager investment programs or implemented other measures geared towards increasing diversity within their investment portfolio. These measures often include open door policies, a Rooney Rule[1] or extended outreach to women and minority fund managers. However, recent studies and surveys indicate there is still much work to be done. For example, the Knight Foundation, an often-cited diverse manager study, famously found in 2019 that women- and minority-owned fund management firms continue to manage just 1.3 percent of the $69 trillion in the asset management industry.[2]

Additional research from the Securities and Exchange Commission (SEC) Asset Management Advisory Committee Subcommittee on Diversity and Inclusion found "[i]ndependent from AUM [assets under management], across the industry of asset management firms, percentages of ownership interests by women and people of color in asset management firms remain startlingly and disproportionately low, by any and every objective measure. Women and people of color also remain dramatically underrepresented (by all objective measures) at the board and senior management levels within asset management firms and fund complexes. This severe underrepresentation also extends to general employment within the industry."[3]

McKinsey and Company looked specifically at women and minority leadership within private equity and its report confirms the SEC's findings. In a 2020 study, the global consulting firm found that women comprised just 20 percent of senior leadership in private equity firms, compared with 30 percent in public companies, while Blacks comprised less than 2 percent.[4] Other people of color comprised an additional 11 percent to 12 percent of firms.[5] While these numbers are objectively poor, trailing diversity both in public companies and the general population, they are also perhaps not surprising. After all, another 2020 survey of 100 asset managers with AUM of $1 trillion or more found that 56 percent of these firms do not collect data on employee race and that, of the asset managers that do collect this data, 52 percent have no Black/African American investment team members.[6] It seems impossible to mitigate what isn't being measured.

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[1] The Rooney Rule, named after the former owner of the Pittsburg Steelers Dan Rooney, came about after a study showed that, despite winning a higher percentage of games, black coaches were less likely to be hired and more likely to be fired than white head coaches. The rule requires that ethnic minorities be interviewed for head coaching jobs. It did not require that these jobs be "given" to minority candidates, however.
[2] https://knightfoundation.org/articles/diverse-asset-managers-opportunities-for-inclusion/
[3] https://www.sec.gov/files/amac-recommendations-di-subcommittee-070721.pdf
[4] https://www.ai-cio.com/news/diversity-efforts-private-equity-firms-long-way-go/
[5] https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/how-private-equity-can-catalyze-diversity-equity-and-inclusion-in-the-workplace
[6] https://www.bloomberg.com/news/articles/2020-11-17/most-fund-managers-ignore-racial-diversity-in-staff-study-shows

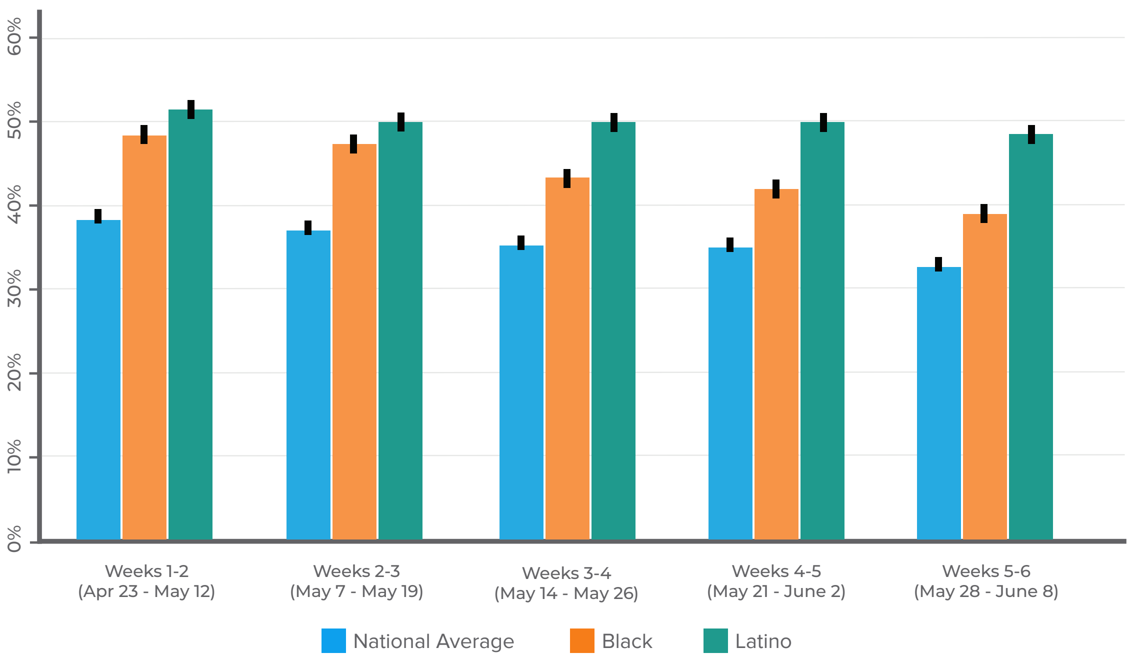
Introduction (continued)

Unfortunately, it seems unlikely that, at least in the short term, 2020 did much to improve the prospects of women and minorities in the workforce generally and in asset management specifically. In a McKinsey study of the COVID-19 crisis, women's jobs were found to be 1.8 times more vulnerable to pandemic job losses than men's jobs, with women often shouldering a greater percentage of unpaid care.[7] As if specifically geared to bolster that claim, in December 2020, all 140,000 jobs lost in the U.S. economy were women's.[8]

Per National Women's Law Center analysis of Bureau of Labor Statistics data, men gained 16,000 jobs while women lost 156,000.[9] Other studies similarly found that Black and Latino job losses were set to outpace the national average during the pandemic **(Figure 1)**.

Figure 1: Anticipated 2020 COVID-19 Job Losses by Race and Ethnicity

Share of adults in households where at least one person expects to lose employment income in the next four weeks



Source: Urban Institute calculations from the Racial Equity Analytics Lab's COVID-19 racial equity recovery tracker, based on US Census Bureau's Household Pulse Survey. https://www.urban.org/urban-wire/covid-19-crisis-continues-have-uneven-economic-impact-race-and-ethnicity
Note: Because of small survey sample sizes, these averages are imprecisely estimated with large margins of error. To illustrate that uncertainty, we've shown margin of error for each data point.

What's more, these types of disproportionate job losses don't just have personal or local repercussions, but could also significantly impact economic growth, for better or worse. For example, McKinsey ran scenarios looking at the impact of female job loss on global gross domestic product (GDP)[10] and found that a no remediation scenario resulted in a $1 trillion lower 2030 GDP while immediate action would add $13 trillion to global GDP.

This underscores a key message of much of the research on diversity, equity and inclusion: it's not just a feel-good move – it's an economic imperative.

[7] https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects
[8] https://fortune.com/2021/01/08/covid-job-losses-women-december-us-unemployment-rate/
[9] https://nwlc.org/wp-content/uploads/2021/01/December-Jobs-Day.pdf
[10] https://www.mckinsey.com/featured-insights/future-of-work/covid-19-and-gender-equality-countering-the-regressive-effects

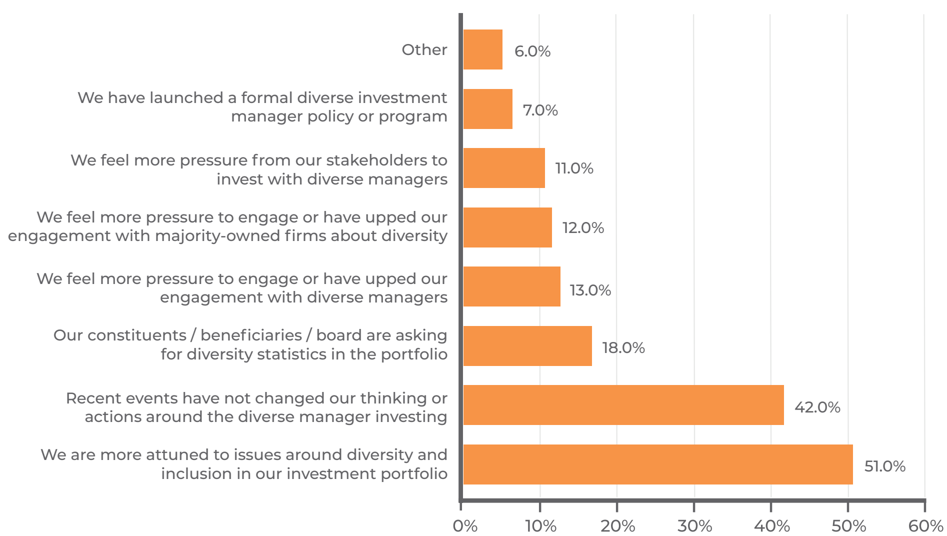
Introduction (continued)

Diversity can also be a driver of not just economic gains, but of asset manager success as well. When looking at diversity, equity and inclusion (DEI) within the investment management universe, Aon found that firms that do not adhere to DEI best practices (e.g. track recruitment of diverse individuals, provide for DEI in succession planning) have five percent more operational risk flags overall compared to firms that do, based on a sample of 118 firms.[11] For compliance, regulatory, legal, and controls testing: Aon observes two times greater prevalence of risk exceptions at firms that do not adhere to best practices (roughly 20 percent vs. 10 percent).[12] Some specific risks include a lack of a sexual harassment policy, less ability to raise assets, higher employee turnover and substandard internal controls testing.[13]

Despite ever clearer evidence of the financial benefits of diversity within asset management and the broader economy, diversity continues to lag within the asset management industry. And while the economic impact (not to mention the loss of life) from COVID-19 may continue to be felt for years, 2020 may yet have a silver lining for diversity, equity and inclusion. While senseless and tragic, the murders of people of color and the subsequent Black Lives Matter protests focused national and international attention on social and economic justice issues, bringing support for racial and social justice to new heights. A Washington Post – Schar School poll found that "69 percent of Americans say the death of George Floyd in the custody of Minneapolis police last month reflects a broader problem in the way Black people are treated by police, compared with 29 percent who say it was an isolated incident."[14] A mere six years earlier, a similar poll found much less support for this viewpoint, with only 43 percent of Americans in agreement.[15]

Aon found a similar surge in support for diversity in investment portfolios. Roughly 51 percent of 100 institutional investors polled reported that 2020 had made them more attuned to diversity and inclusion in their portfolio **(Figure 2)**.[16]

Figure 2: How 2020 Changed Institutional Investors' Approach to Portfolio Diversity



Source: Aon Investments USA : "Aon Institutional Investor Survey on Diverse Investment Initiatives 2021" Spring 2021

[11] Aon plc ODD IQ research
[12] Ibid.
[13] Ibid.
[14] https://www.washingtonpost.com/national/how-the-black-lives-matter-movement-went-mainstream/2020/06/09/201bd6e6-a9c6-11ea-9063-e69bd6520940_story.html
[15] Ibid.
[16] https://insights-north-america.aon.com/alternative-investing/aon-diverse-manager-investing-survey-report

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Introduction (continued)

Of those polled, a further 25 percent reported they were either in the process of launching a diverse manager program or planned to do so in the next 12 to 18 months.[17]

In short, research consistently shows the benefits of diversity and inclusion, but asset owners and asset managers still have a long way to go to achieve it. And while 2020 was an incredibly difficult year for women and minorities by economic and social justice standards, it could potentially prove to be a catalyst for real change. Organizations like the Institutional Investors Diversity Council (IIDC), the Institutional Limited Partners Association (ILPA), the Investment Consultants Sustainability Working Group (ICSWG), and, of course, individual asset owners, investment consultants and managers, are increasingly tackling diversity and inclusion issues, including disclosure, best practice policy guidelines and diverse manager initiatives and allocations.

[17] Ibid.

Key Findings

The NAIC Private Equity Index **outpaced the Burgiss median for net Internal Rate of Return (IRR), Multiple on Invested Capital (MOIC) and Distributed to Paid In (DPI) from 1998 to 2020 and from 2011 to 2020** (the period of continuous performance measured in the 2020 study, made available for direct comparison).

Diverse PE funds represented by the **NAIC Private Equity Index produced higher net IRRs than the Burgiss Median Quartile in 76.5 percent of the vintage years studied.**

Roughly **40 percent of the funds in the NAIC Private Equity Index produced top quartile net IRRs and MOICs** during the period, while approximately 30 percent of the funds produced top quartile DPIs.

The NAIC Private Equity Index also posted higher net multiples on invested capital than the median Burgiss private equity fund. **The NAIC Private Equity Index outperformed the Burgiss median in 83.3 percent of the periods measured based on net MOIC.**

The NAIC Private Equity Index DPI outperformed the Burgiss median DPI in 85.7 percent of the periods measured. On a total period basis, **the NAIC Private Equity Index posted a 0.6x to the Burgiss median's 0.4x DPI.**

Despite expanding conversations about diversity, equity and inclusion in the investing world, private equity continues to lag. In a 2020 McKinsey study, **women comprised just 20 percent of senior leadership in private equity firms, compared with 30 percent in public companies, while Blacks comprised less than 2 percent.** Other people of color comprised an additional 11 percent to 12 percent of firms.

Based on an Aon study, **roughly 51 percent of 100 institutional investors polled reported that 2020 had made them more attuned to diversity and inclusion in their portfolio,** and many planned to take action. These attitudes, combined with the strong showing of diverse private equity firms in this study, may provide additional impetus for change.

Private equity teams **have the ability to influence diversity at portfolio companies, which can, in turn, improve financial (and ultimately fund) performance.** Again, when combined with strong performance figures for diverse private equity, this could be another reason for allocators to choose diverse fund managers.

Methodology

To produce this report, the NAIC partnered with outside firms to collect, aggregate, analyze and explain performance data submitted by member firms of the NAIC.

The financial returns of a representative sample of diverse private equity firms (based on firm ownership), as well as those focused on Emerging Domestic Markets ("EDMs") within the continental United States, were compiled for this report. These returns are intended to serve as a directional proxy for a broader sample of diverse asset management firms. The performance data was collected from audited financial statements from the years included in the study (1998- through September 2020).

To enable objectivity and transparency, NAIC engaged KPMG LLP ("KPMG"), a global network of professional services firms providing Audit, Tax and Advisory services, to manage the collection and compilation of the performance data. NAIC member firms uploaded their completed performance data to a secure platform, where KPMG removed individual firm attribution and aggregated the data.

KPMG then provided GCM Grosvenor with obfuscated performance data templates. Throughout this process, identifying information for Diverse PE Funds has been restricted to KPMG.

After receiving obfuscated data from KPMG, analysts at GCM Grosvenor compiled performance benchmark analysis (the "NAIC Private Equity Index") across a number of metrics and a variety of time periods. Performance metrics included Internal Rate of Return ("IRR"), Multiple on Invested Capital ("MOIC"), and Distributed to Paid-In capital ("DPI").

Data was compiled using a sample of 27 firms and 93 investment funds. All funds were reviewed to ensure cash flows reconciled to the reported track records and net IRRs were vetted and corrected for 10 of the funds in the sample.

GCM Grosvenor also compiled all benchmark data. Benchmark is obtained from The Burgiss Group ("Burgiss"), an independent subscription-based data provider, which calculates and publishes quarterly performance information from cash flows and valuations collected from a sample of private equity firms worldwide. The performance is compared to that of its peers by asset type, geography and vintage year as of the applicable valuation date. GCM Grosvenor's Asset Class and Geography definitions may differ from those used by Burgiss. GCM Grosvenor has used its best efforts to match each vintage year, asset class and geography with the appropriate Burgiss strategy but material differences may exist. Benchmarks for certain investment types may not be available. Additional information is available upon request.

Methodology (continued)

Burgiss' definition of each of its benchmark categories follow:

- The Quartile Rankings provided are based on The Burgiss Group's definition of quartiles, as follows:
- First Quartile: Returns are equal to or greater than the Upper Quartile Threshold (i.e., limit at which 25 percent of all returns are greater)
- Second Quartile: Returns are equal to or greater than the Median but lower than the Upper Quartile Threshold
- Third Quartile: Returns are greater than the Lower Quartile Threshold but lower than the Median
- Fourth Quartile: Returns are lower than the Lower Quartile Threshold (i.e., limit at which 75 percent of all returns are greater)

Burgiss Report Criteria

End Date	Pooled / Individual Currency	Vintage Year By
9/30/2020	USD / USD	First cash flow

Direct Funds benchmarked as per the below methodology to benchmarking provider:

Asset Class

NAIC	Burgiss
Buyout	EQUITY - Buyout
Venture	EQUITY - Venture Capital
Growth Equity	EQUITY - Expansion Capital
Special Situations	DEBT - (All)
PE Growth Capital	EQUITY - Expansion Capital

Location

NAIC	Burgiss
North America	North America
Western Europe	Europe
Global	Global
Emerging Markets	Global

Methodology (continued)

Burgiss benchmark subtotal downloaded on 6/03/2021

Aggregate Summary

Vintage Year(s)	Asset Class	Geographic Focus
1998, 2000, 2005, 2006, 2007, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020	Equity (All), Debt (All)	All

Summary by Vintage (Direct)

Vintage Year(s)	Asset Class	Geographic Focus
1998, 2000, 2005, 2006, 2007, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020	Equity (All), Debt (All)	All

Summary By Vintage (FOF)

Vintage Year(s)	Asset Class	Market Focus
2011, 2012, 2014, 2016, 2017, 2019	Equity, Debt	Primary

Summary By Vintage & Asset Class (Direct)

Vintage Year(s)	Asset Class	Geographic Focus
1998, 2000, 2005, 2006, 2007, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020	Equity (All), Debt (All)	All

Summary By Vintage (VY 2009-2020)

Vintage Year(s)	Asset Class	Geographic Focus
2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020	Equity (All), Debt (All)	North America

Summary By Vintage (VY 2011-2020)

Vintage Year(s)	Asset Class	Geographic Focus
2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020	Equity(All), Debt(All)	North America

Summary By Vintage & Asset Class (FOF)

Vintage Year(s)	Asset Class	Geographic Focus
2011, 2012, 2014, 2016, 2017, 2019	Equity, Debt	Primary

Demographic Information for NAIC Member and Participating Firms[18]

The NAIC is comprised of **135 member firms,** ranging from growth equity firms to buyout firms, to funds of private equity funds, to hedge funds.

The **largest member firm manages $77 billion in AUM,** while the smallest member firm manages less than $10 million.

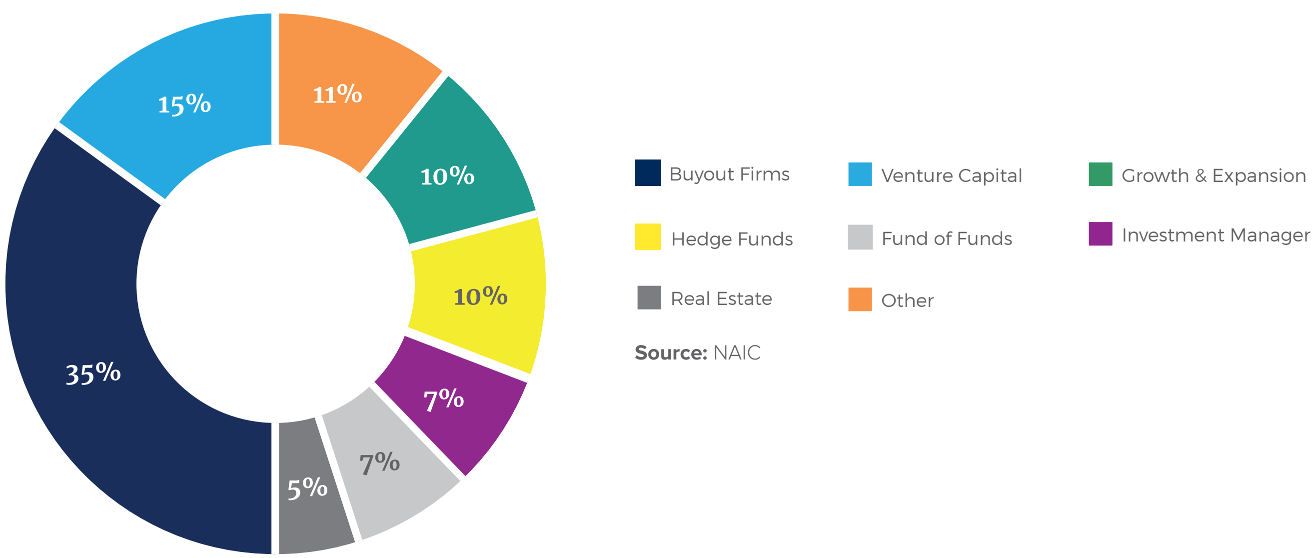
Since 2015, **17 NAIC member firms have raised 30 oversubscribed funds.**

NAIC member firms **manage over $260 billion in AUM**, and have a median AUM of $500 million.

Funds captured for this study ranged in size **from $5.5 million to $16.9 billion in AUM.** The average fund size in this study was roughly $851 million.

Funds **range from Fund I to Fund VI,** while several firms offer separate private equity accounts rather than fund structures.

Figure 3: Breakdown of NAIC Member Firms By Investment Strategy



Source: NAIC

[18] All demographic data on NAIC member firms in this section was provided by the National Association of Investment Companies and is accurate as of December 2020.

Demographic Information for NAIC Members and Participating Firms (continued)

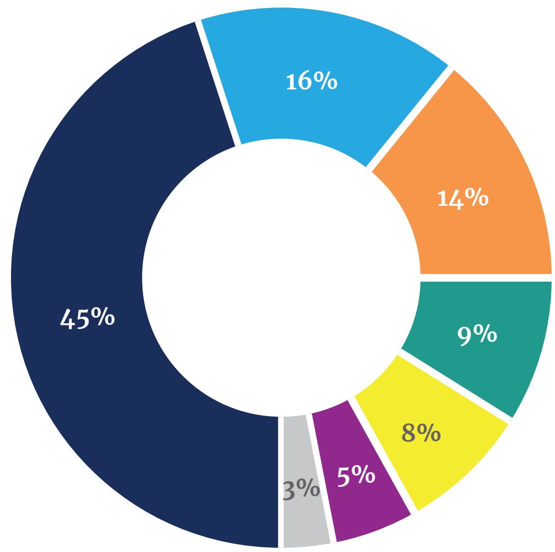
The NAIC member firms that participated in this study gather capital from a diverse investor base. However, nearly half (45 percent) comes from public pension funds (Figure 4). This is likely due to the prevalence of emerging and diverse investing initiatives within the public fund community. “Other” investors, including insurance companies, foundations (16 percent) and corporate pensions (14 percent) were the next most likely groups to fund diverse private equity funds. Funds of funds, which have been in the top three funders in the past, slipped to the number four spot at 9 percent.

NAIC member firms surveyed employ a total of **488 full-time investment staff and 157 investment partners.**

The average NAIC member firm surveyed **employs 6 investment partners.**

On average, **53 percent of the investment professionals at NAIC member firms included in this study are women or racial/ethnic minorities.**

Figure 4: Who Funds Diverse Private Equity Firms



Source: NAIC Data

Performance & Analysis

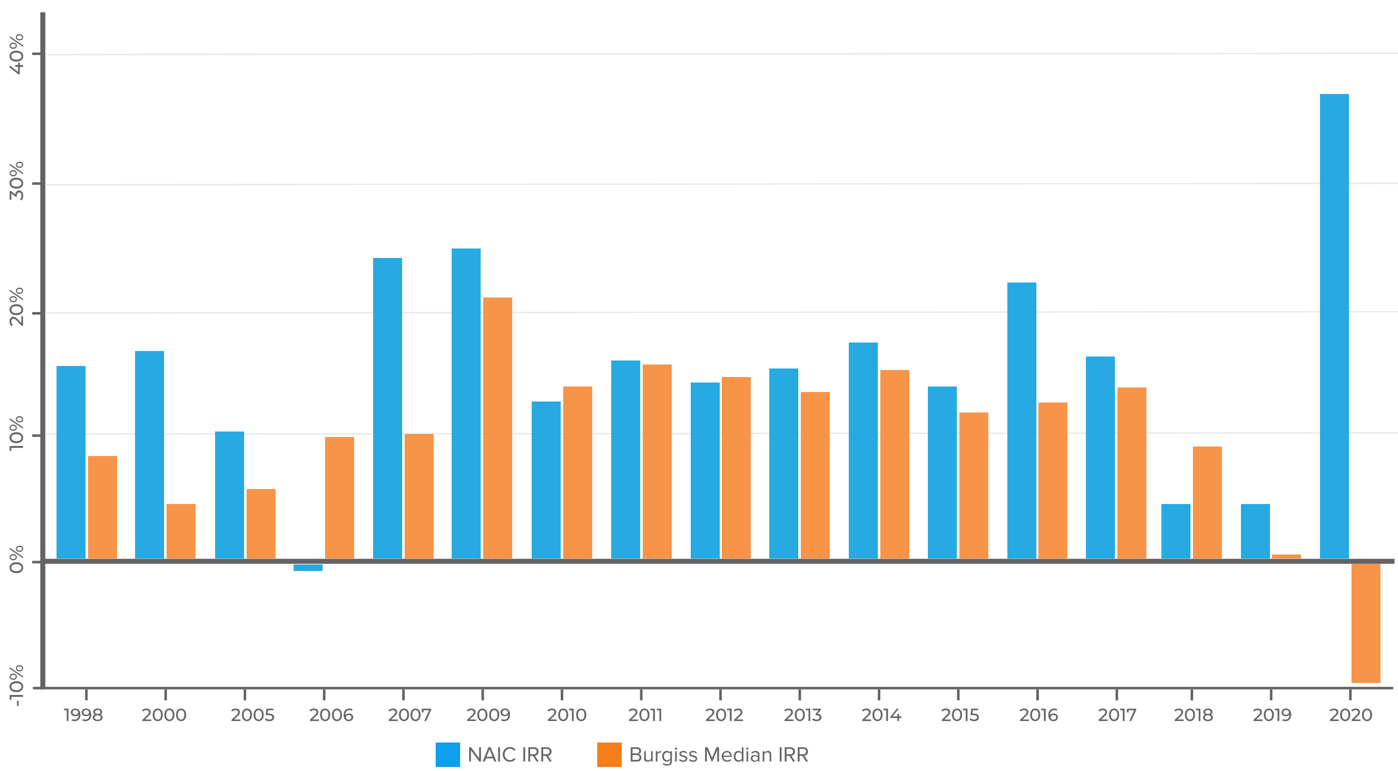
For the period 1998 through 2020[19], diverse PE funds, represented by the NAIC Private Equity Index, recorded a net IRR of 17.18 percent, a net MOIC of 1.62x and DPI of 0.64x. For the continuous reporting period of 2011 to 2021, the NAIC Private Equity Index reported a net IRR of 17.42 percent, a net MOIC of 1.57x and a net DPI of 0.47x.

To help put those performance figures into perspective, we compared IRR, MOIC and DPI of the NAIC Private Equity Index to benchmarks calculated from The Burgiss Group data by Vintage Year, the full period 1998 through 2020 and the continuous reporting period 2011 through 2020, which encompasses roughly the elapsed time since the first NAIC diverse private equity performance report and subsequent update reports.

By any of the measures in this study, the NAIC cohort produced fairly consistent outperformance over the benchmark. For example, when looking at IRR by vintage year in Figure 5, one can determine that diverse PE funds represented by the NAIC Private Equity Index performed better than the Burgiss Median Quartile in 76.5 percent of the vintage years studied.

Figure 5: IRR of NAIC Private Equity Index Versus Burgiss Median Quartile by Vintage Year

NAIC PRIVATE EQUITY INDEX NET IRR VERSUS BENCHMARK



[19] There were no NAIC member funds that reported performance for vintage years 1999, 2001-2004, or 2008. At the time of publication, only one vintage 2021 fund is included in the calculations.

Performance & Analysis (continued)

For the full period studied, the NAIC Private Equity Index outperformed the median fund in the Burgiss benchmark group, generating a net IRR of 17.18 percent versus median Burgiss performance of 9.48 percent. For the continuous performance period 2011-2020, performance was similar, with the NAIC Private Equity Index posting a 17.42 percent return versus the Burgiss median net IRR of 10.52 percent (**Figure 6**). Roughly 40 percent of the funds in the NAIC Private Equity Index produced top quartile net IRRs during the period.

Likewise, the diverse PE funds represented by the NAIC Private Equity Index also generally posted higher net multiples on invested capital (MOIC) than the median Burgiss private equity fund.

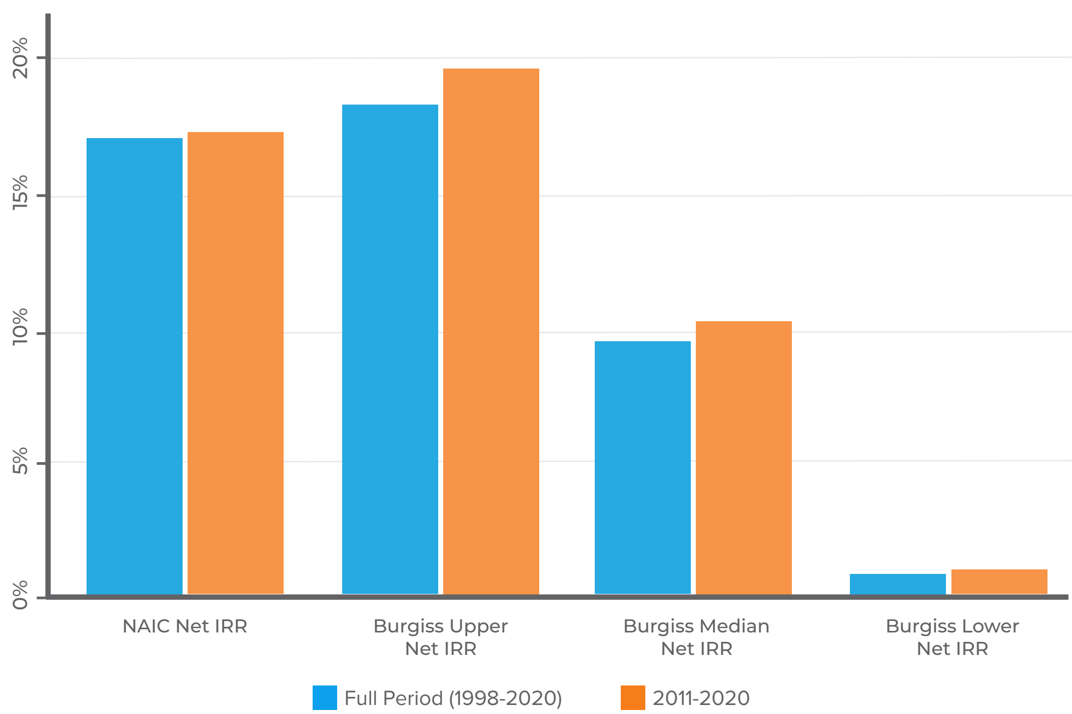
The NAIC Private Equity Index outperformed the Burgiss median in 83.3 percent of the periods measured, respectively (**Figure 7**).

For the full period studied, the NAIC Private Equity Index posted a median MOIC of 1.62, handily outperforming the median Burgiss performance of 1.28 (**Figure 8**). The same held true for the continuous performance period 2011 to 2020, where the NAIC Private Equity Index posted a multiple on invested capital of 1.57 versus the median Burgiss MOIC of 1.25.

In both cases, the NAIC Private Equity Index was narrowly edged by Burgiss' upper quartile (1.67 and 1.62, respectively), however, it is interesting to note that roughly 40 percent of the NAIC cohort produced top quartile performance.

Finally, we looked at Distributed to Paid In (DPI) ratios for individual vintage years, as well as for the full period and the continuous period matched to the prior study (2011 to 2020). As one might expect with more recent vintage funds, DPI for recent periods are low. As funds mature and more exits are realized, one would expect DPI for both diverse PE funds and the funds that comprise the Burgiss median to increase.

Figure 6: IRR of NAIC Private Equity Index Versus Benchmark, Full and Consecutive Periods



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Performance & Analysis (continued)

With that caveat, the NAIC Private Equity Index outperformed the Burgiss median in 85.7 percent of the periods measured (**Figure 9**). On a total period basis, the NAIC Private Equity Index posted a 0.64x to the Burgiss median's 0.40x DPI. The NAIC Private Equity Index also outperformed the Burgiss median for the continuous performance period 2011 to 2020, posting a 0.47x DPI versus 0.11x for the benchmark (**Figure 10**). Once again, the upper quartile of the Burgiss edged the NAIC Private Equity Index, generating 1.13x and 0.54x Distributed to Paid In, respectively. However, the NAIC member firms appeared in the top quartile for roughly 30 percent of the period.

Figure 7: MOIC of NAIC Private Equity Index Versus Burgiss Median Quartile by Vintage Year

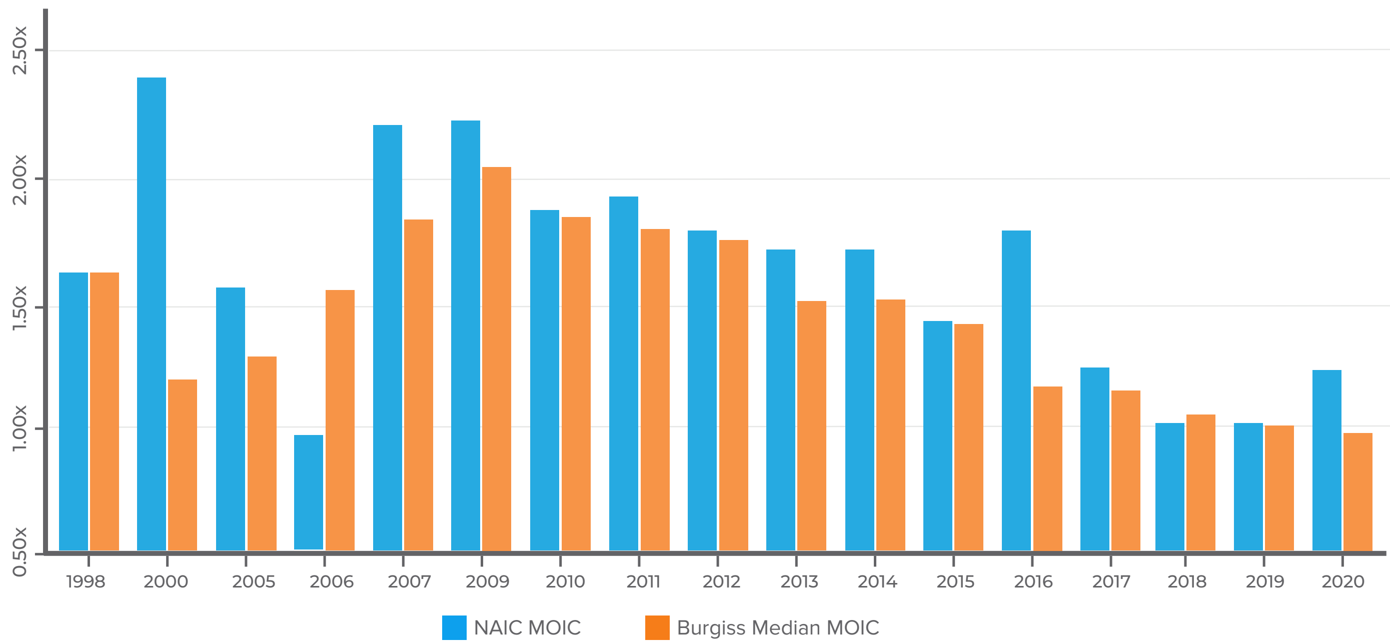
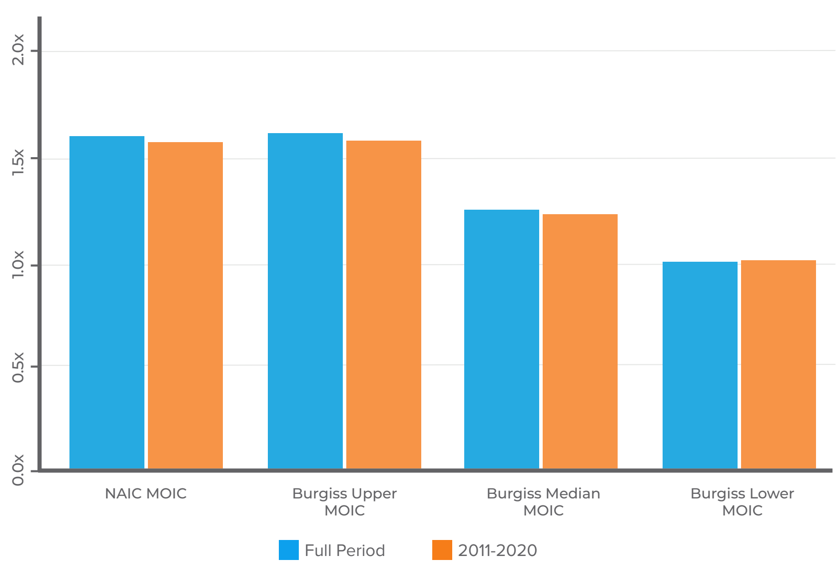


Figure 8: MOIC of NAIC Private Equity Index Versus Benchmark, Full and Consecutive Periods



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Performance & Analysis (continued)

Figure 9: DPI of NAIC Private Equity Index Versus Burgiss Median Quartile by Vintage Year

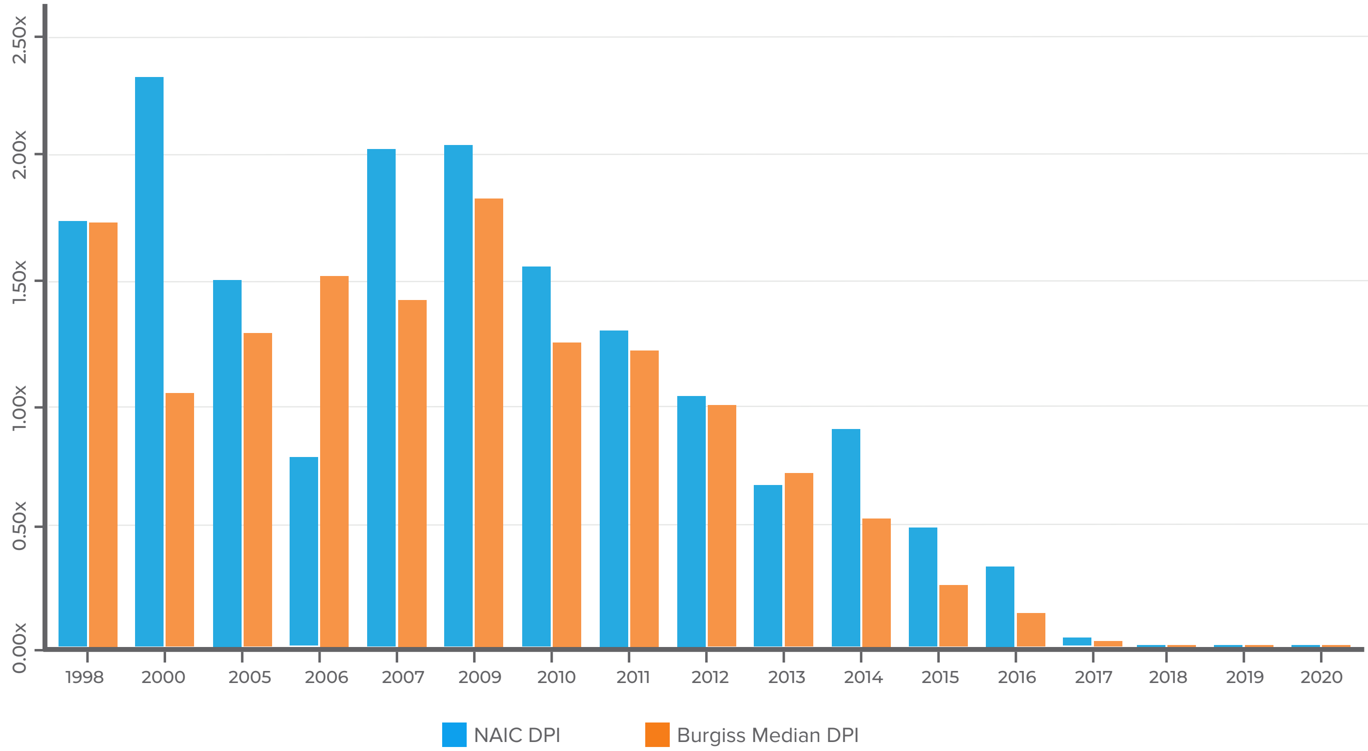
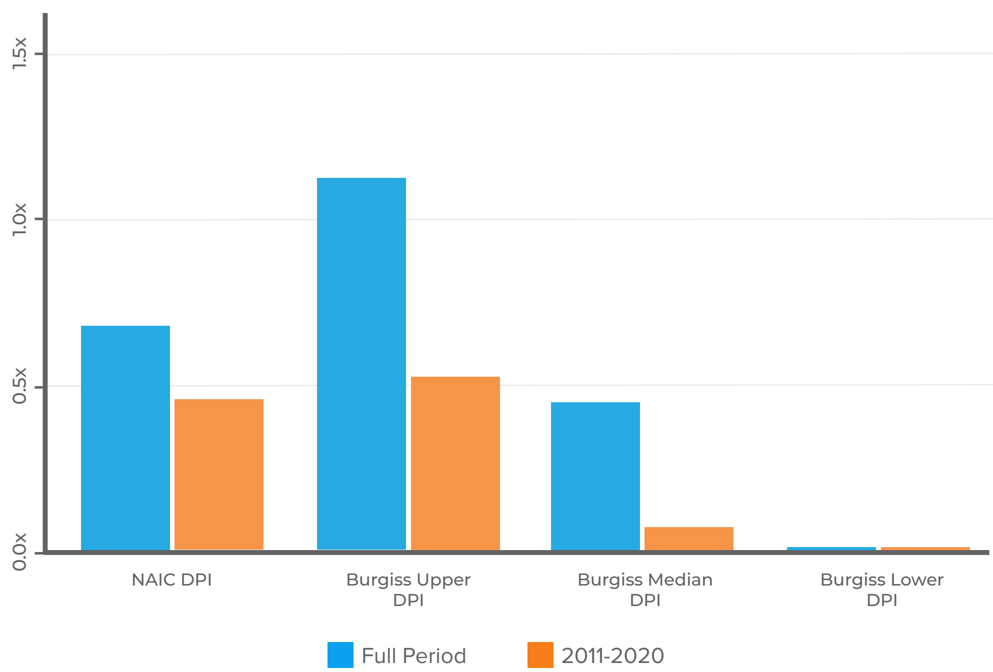


Figure 10: DPI of NAIC Private Equity Index Versus Benchmark, Full and Consecutive Periods



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Implications for Investors

Building on earlier research, this paper affirms that diverse private equity funds can offer alpha enhancements for investors. This is true not just because diversity within the private equity general partner can lead to better investment decision-making and differentiated deal flow, but also because private equity firms have the opportunity to drive diversity at the portfolio company level.

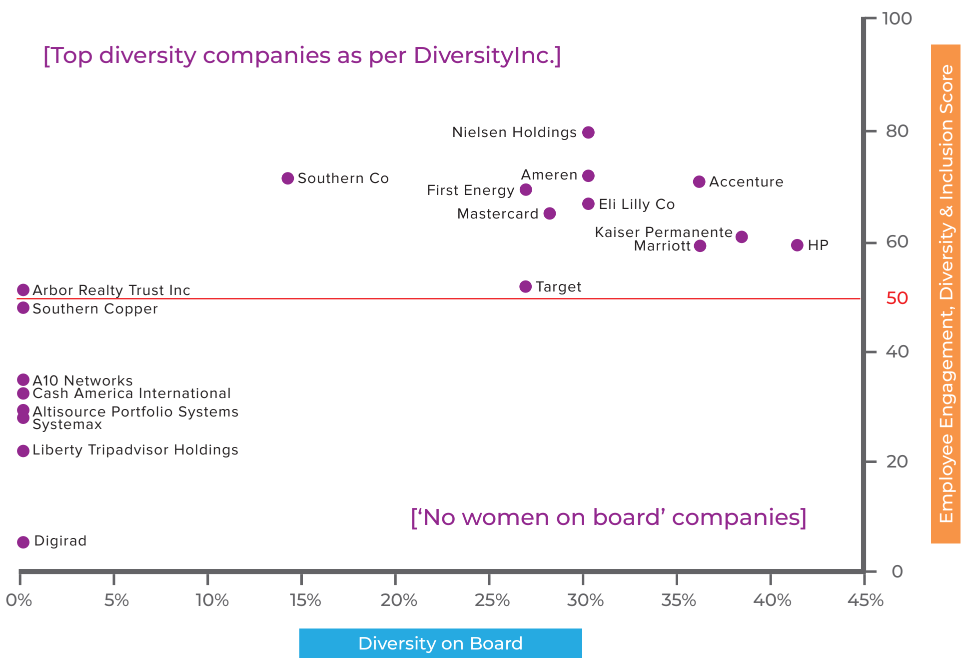
Often working with smaller and more nimble companies that may also be less burdened by corporate bureaucracy and reputational risk, private equity firms have the opportunity to increase the pace of change within executive teams and boards. And while this is certainly beneficial from a social justice point of view, once again, the financial benefits are tangible as well.

For example, a study by Diversity Inc, while not limited to small companies, does show how firms with diverse boards are more likely to have a higher Employee Engagement Diversity and Inclusion (EEDI) score **(Figure 11)**.[20] And of course, highly engaged employees are a driver for revenues.[21]

A 2019 McKinsey study goes even further, quantifying the value of diversifying executive teams. The likelihood of financial outperformance goes up substantially for firms in the top quartile for gender and racial diversity **(Figure 12)**.[22]

Figure 11: Diverse Boards Drive Employee Engagement

Performance in EEDI category reveals diversity gap between top performers and 'No women on board' companies: Big companies are more diverse than smaller ones



[20] https://corpgov.law.harvard.edu/2020/10/11/board-diversity-no-longer-optional/#:~:text=In%202018%2C%20McKinsey's%20report%20stated,revenues%20than%20companies%20with%20below%2D

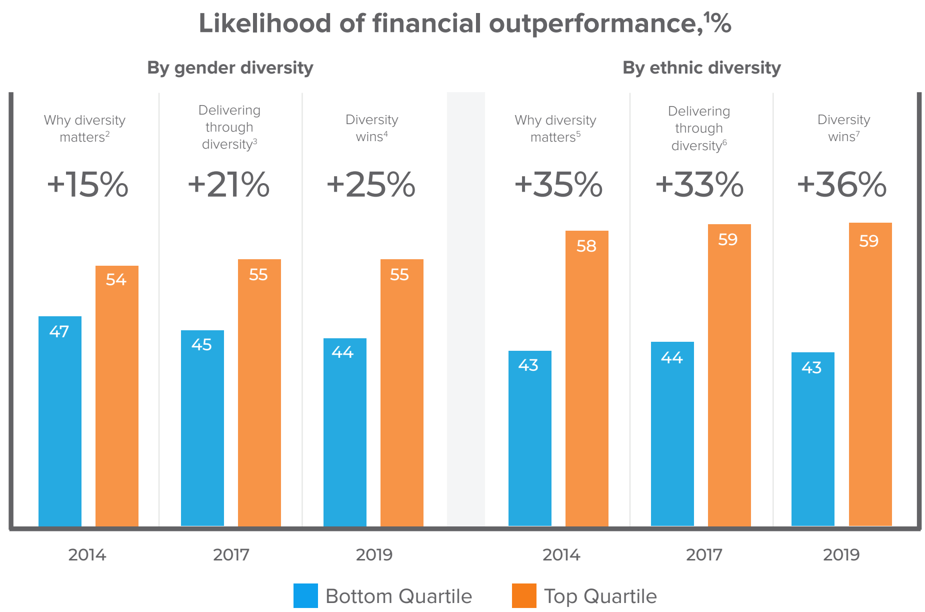
[21] https://www.forbes.com/sites/nazbeheshti/2019/01/16/10-timely-statistics-about-the-connection-between-employee-engagement-and-wellness/?sh=5c5ad8d822a0

[22] https://www.mckinsey.com/featured-insights/coronavirus-leading-through-the-crisis/charting-the-path-to-the-next-normal/most-diverse-companies-now-more-likely-than-ever-to-outperform-financially

Implications for Investors (continued)

Figure 12: Diverse Companies More Likely to Outperform

The business case for diversity in executive teams remains strong.

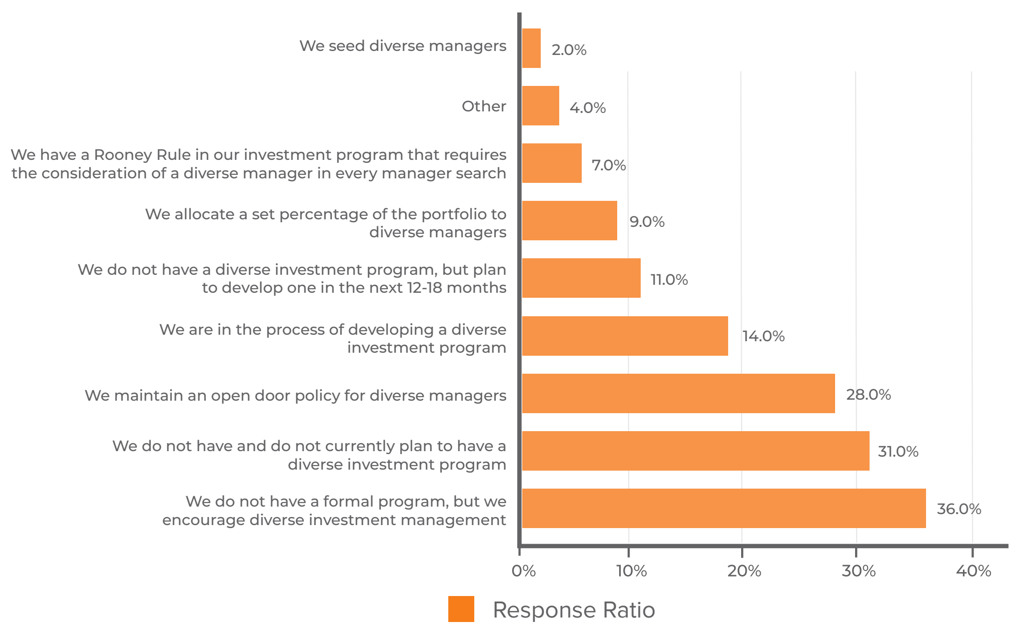


Source: Diversity Wins dataset

[1]Likelihood of financial outperformance vs the national industry median; p-value <0.50, except 2014 data where p-value <0.1.
[2]n=383; Latin America, UK, and US; earnings before interest and taxes (EBIT) margin 2012-2013.
[3]n=991; Australia, Brazil, France, Germany, india, Japa, Mexico, Nigeria, Singapore, South Africa, UK and US; EBIT margin 2011-2015.
[4]n=1,039; 2017 companies for which gender data available in 2019, plus Denmark, Norway and Sweden; EBIT margin 2014-2018.
[5]n=364; Latin America, UK and US; EBIT margin 2010-2013.
[6]n=589; Brazil, Mexico, Singapore, South Africa, UK and US; EBIT margin 2011-2015.
[7]n=533; Brazil, Mexico, Nigeria, Singapore, South Africa, UK and US, where ethnicity data available in 2019; EBIT margin 2014-2018.

Given that diversity, equity and inclusion appear to be firmly tied to corporate profitability, it seems inevitable that asset owners will increasingly look to the asset managers in their portfolios as a source of diversity and as a mechanism for increasing diversity at corporate holdings. In fact, Aon's recent survey on diversity in investing, Aon Institutional Investor Survey on Diverse Investment Initiatives, Spring 2021, found institutional investors are employing a variety of tactics to boost diversity within their portfolios **(Figure 13)**.

Figure 13: How Institutional Investors Engage with Diverse-owned Firms



Implications for Investors (continued)

Asset owners are not the only group looking at diversity in investment management. In a July 2021 meeting of the U.S. Securities and Exchange Commission, the agency indicated it is looking at potentially adding disclosure requirements for asset manager workforce and management diversity. Additional disclosures are also being considered for firms that recommend investment advisers and asset management firms.

Regardless of the impetus for change, we expect to see investors taking additional steps to monitor and address diversity through direct investment, increased monitoring, open-door policies and additional interaction with diverse managers in in the coming months. We hope these actions will lead to meaningful gains for diverse asset managers and their investors.

Acknowledgements

The National Association of Investment Companies was formed in 1971 and serves as the trade association and largest network of diverse-owned private equity firms and hedge funds. NAIC's membership represents diverse private equity firms and hedge funds investing in emerging domestic and global mid-market opportunities and collectively manage over $260 billion in assets.

Throughout our rich history, NAIC member firms have invested in high-growth companies in the middle market across industries that include business services, healthcare, infrastructure, natural resources, software, industrial manufacturing, consumer services and technology. NAIC members help build stronger, more agile companies by fostering growth through investments that produce superior returns for investors in addition to creating economic impact and job creation.

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KPMG Staff

ANTHONY POLSELLI Partner	**ANTHONY FABRIZIO** Audit Associate
TRISTA HUANG Audit Senior Manager	

Aon Investment Consulting Staff

MEREDITH A. JONES
Partner
meredith.jones@aon.com

Acknowledgements (continued)

GCM Grosvenor Staff

DEREK JONES Managing Director	**SHANA C. JOHNSON** Principal
BRIAN GRZYWACZ Executive Director	**KYLE SCHLATMANN** Principal

NAIC Staff

ROBERT L. GREENE President & CEO	**CARMEN ORTIZ-MCGHEE** Chief Operating Officer
DAVID SMITH Programs & Initiatives Manager	**DAWN SIMMONS** Office Manager

Appendix: 2021 NAIC Members

Academy Investor Network
Advent Capital Management
Ardinall Investment Management
Argand Partners
Ariel Investments
Arkview Capital
Asland Capital Partners
Auldbrass Partners
Avante Capital Partners
Avenue Growth Partners
B.I.G. Capital
Barings
BharCap Partners
BKCoin Capital
Black Dragon Capital
BlackRock
Blackstone Strategic Partners
Blueprint Capital Advisors
Boresight Capital
Bracket Capital
Brasa Capital Management
Brickell Opportunity Partners
Brown Venture Group
Cabrera Capital Markets
Cadre
Carrick Capital Partners
Chicago River Capital
Clearlake Capital Group
College Hill Capital Partners
Corsair Capital
Crewcial Partners
Development Partners International
DigitalDx Ventures
Diverse Communities Impact Fund
DLA Piper
DXA Investments
Dynamk Capital
Earnest Partners LLC
Elizabeth Park Capital Management
Empowerment & Inclusion Capital I Corp.
EquiTrust Life Insurance Co.
Ernst & Young
Exaltare Capital Partners
Excel Group
Fairview Capital Partners
FVLCRUM Partners
GCM Grosvenor
GenNx360 Capital Partners
Global City Development
Global Endowment Management
GPI Capital
Graham Allen Partners
Grain Management
Greenspring Associates
Griot Holdings Limited
HarbourVest Partners
Harlem Capital
Health Equity Ventures
Heard Capital
Hollis Park Partners
ICV Partners
IMB Partners
Invesco
J.P. Morgan Asset Management
Jacmel Growth Partners
Jumpstart Eclipse
Kah Capital Management
Kirkland & Ellis
KKR
Knox Lane
L'Attitude Ventures
Laurel Oak Capital Partners
Leeds Illuminate
Lightspring Capital Partners
Lumos Capital Group
MaC Venture Capital
Madryn Asset Management
Meteora Capital
Mill Point Capital
Mintz Levin
Montreux Growth Partners
Muller & Monroe Asset Management
Mvision
Navigation Capital Partners
Neuberger Berman
NexPhase Capital
Ocean Park Investments
OceanSound Partners
One Rock Capital Partners
Otundi Ventures
PAAMCO Prisma
Palladium Equity Partners
Pharos Capital Group
Recast Capital
Recognize
Red Arts Capital
RLJ Equity Partners
ROCA Partners
Sango Capital Management
Sidley Austin
Siris Capital Group
Standard General
Standard Real Estate Investments
Stellex Capital Management
Stonehenge Capital
Sycamore Partners
The Rock Creek Group
The Vistria Group
Three Line Capital
Topspin Consumer Partners
Triad Investments
Trident
True Road Capital Partners
Tuatara Capital
V-Square Quantitative Management
Valor Equity Partners
VeriStar Capital Management
Verus Investment Partners
Vicente Capital Partners
Vista Equity Partners
Wilshire Lane Partners
Wind Point Partners
WM Partners
William Busch III (FMG Leading)
Laurence Lederer (Branford Castle Partners)
Marcus Daniels (NAI Global)
Cedric Powell (Sheppard Mullin)

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