

## MEMORANDUM

**To:** NAIC Members

**From:** Robert L. Greene, President & CEO

**Date:** March 28, 2018

**Subject:** NAIC and UAW Retiree Medical Benefits Trust Roadshow in Detroit

On March 21, 2018, NAIC made its first roadshow stop this year to Detroit, Michigan. Six institutional investors and one consulting firm participated in the event. The afternoon meeting was hosted by the UAW Retiree Medical Benefits Trust ("UAW" or the "Trust") and was inspired by a prior meeting NAIC's President & CEO, Robert L. Greene, had with Ryan Bigelow, CIO of the two Detroit public pension plans, City of Detroit General Retirement System and City of Detroit Police and Fire Retirement System. Thomas Henley, Senior Managing Director of Strategic Opportunities at UAW, graciously offered to host the meeting and invite other local capital allocators to participate.

The capital allocator and consultant representatives included:

### **UAW Retiree Medical Benefits Trust**

Hershel Harper, Chief Investment Officer

Thomas Henley, Senior Managing Director, Strategic Opportunities (thenley@rhac.com)

Adrian Ohmer, Manager, Strategic Opportunities (aohmer@rhac.com)

Brian Gimotty, Director, Investments

Malcolm Goepfert, Senior Managing Director - Private Markets, Investments

Randy Griffith, Senior Manager

Scott Lupkas, Senior Managing Director, Investments

Fran Parker, Executive Director, Executive/Operations

### **City of Detroit General Retirement System**

Ryan C. Bigelow, Chief Investment Officer (rbigelow@rscd.org)

Kristi Grden, Investment Analyst (kgrden@rscd.org)

Kevin Kenneally, Investment Officer

Rev. Dr. Wendell Anthony, General Trustee, Mayoral Appointee

Kimberly Hall-Wagner, General Trustee, Elected

### **City of Detroit Police and Fire Retirement System**

Ryan C. Bigelow, Chief Investment Officer

Portia Roberson, Mayoral Appointee

**Kresge Investments**

John A. Barker, CFA, Managing Director (JABarker@kresge.org)

**DTE Energy**

Angela J. Buk, Chief Investment Officer (angela.buk@dteenergy.com)

Greg Duren, Manager, Investment Strategy

**Michigan Department of Treasury**

Ann Marie Storberg, Senior Advisor to Treasurer (StorbergA@michigan.gov)

**Rocaton Investment Advisors**

Robin Pellish, Founding Partner & CEO (robin.pellish@rocaton.com)

Sixteen NAIC members joined the roadshow to represent their respective firms: Chris Allen, Palladium Equity Partners; Kathlika Fontes, Grain Management; Craig Fowler, HarbourVest Partners; Nili Gilbert, Matarin Capital; William Heard, Heard Capital; Brian P. Mathis, Pine Street Alternative Asset Management LP; Chris Melvin, Chicago River Capital; Malik Murray, Ariel Investments; André Rice, Muller & Monroe Asset Management; Chris Salley, Auldbrass Partners; Sengal Selassie, Brightwood Capital Advisors; Donna Sims Wilson, Smith Graham; Dwight Skeritt, Hollis Park Partners; Stephen Usher, Standard General; Scott Warner, PAAMCO; Nia White, Astra Capital Management; Willie Woods, ICV Partners; and NAIC's President & CEO, Robert L. Greene. Three members – Robert Azeke, Farol Asset Management; Thomas Kearney, The Wicks Group; and Carmen Rojas, GenNx360 – were unable to attend owing to weather-related travel cancellations, but their firms were mentioned during the meeting. Another NAIC member, Erik Hall from GCM Grosvenor joined for the networking event following the meeting.

Thomas Henley welcomed everyone and thanked them for making the trip in spite of the weather challenges in the northeast. He introduced UAW, expressing the organization's commitment to diversity, and David Lewis, a key member of the UAW Trustee Board. David Lewis continued the welcoming remarks describing the UAW Medical Trust. Lewis described how the Trust was organized in 2010 with an asset base of \$55 billion to address the healthcare needs of Chrysler and GM employees. Over the next seven years, the Trust has paid \$30 billion in benefits, and as of December 2017, the Trust had \$60 billion in assets. Currently, all of the funds are overfunded, which Lewis attributed to a great administrative team. Three years ago, the Trust adopted a business diversity policy. Lewis said that the meeting with NAIC and its members is part of the Trust's genuine effort to maintain an open-door policy. He remarked on NAIC's "long and distinguished history going back to its days as an AAMESBIC" and how he looked forward to hearing about its more recent highlights, like the NAIC Home Run Club.

Henley introduced additional team members throughout the meeting. His next intros were Scott Lupkas, Senior Managing Director, who leads the Trust's hedge fund efforts and Randy Griffith, a Senior Manager on the hedge funds team. Adrian Homer, a Manager in Strategic Opportunities, supports Henley with private equity investments. Henley then welcomed each of the institutional investors and thanked them for coming, beginning with Ryan Bigelow, CIO of Detroit General and Detroit Fire and Police and invited each allocator to introduce themselves. John Barker, Manager Director of Kresge Foundation; Angela Buk, CIO of DTE Energy, and Ann Marie Storberg, Senior Advisor to Treasurer of Michigan Department of Treasury all briefly introduced themselves.

Robert Greene described how a conversation about the outperformance of diverse managers that took place in Ryan Bigelow's office led to the meeting at UAW, and then each of the present NAIC members introduced themselves and their firms. Two NAIC members noted their partnerships with two of the participating capital allocators. Sengal Selassie of Brightwood Capital Advisors mentioned that UAW Medical Trust was one of its LPs, and Donna Sims Wilson noted that Detroit Police and Fire is one of Smith Graham's clients.

Greene then began the formal NAIC presentation. Acknowledging that he never knows where an investor comes to the discussion, he began by saying that none of the NAIC members are social investors or focused on doing anything but generating top returns. He provided a historical perspective of NAIC and how the membership has grown to represent over \$90 billion in AUM (excluding the larger funds-of-funds) and to include more hedge funds in recent times. He highlighted the Siris and Sycamore case studies, and noted the growth of NAIC's largest member, Vista Equity. When reviewing emerging and diverse manager allocators by geography, Greene shared he is always surprised by states with high diverse populations, which do not invest a significant amount with diverse managers.

Greene also touched on the role of consultants and gatekeepers and mentioned the steps Wilshire Consulting had recently taken under Andrew Junkin's leadership to include diverse managers in every search and establish key metrics to reward its staff for diversity inclusion. Greene mentioned several NAIC initiatives before concluding his presentation, including "In, Up, and Beyond," the campaign to hire, promote, and seed women-owned firms in private equity; the *NAIC Managers in the Market (MINT)* quarterly report, noting that each participant in the meeting would be added to future distributions; and the upcoming NAIC Annual Conference, which will be held October 24-25, 2018 in Chicago.

Following each participating NAIC member's firm introduction, each of the capital allocators spoke more about their respective programs:

#### ***UAW Retiree Medical Benefits Trust***

UAW (International Union, United Automobile, Aerospace and Agricultural Implement Workers of America) is a labor union that represents workers in the United States and Puerto Rico. UAW Retiree Medical Benefits Trust encompasses UAW retirees of GM, Ford, and Chrysler. Thomas Henley described the \$60 billion UAW Trust in more detail. He also introduced Hershal Harper, CIO, and Ben Cotton, who leads the traditional Public Markets team, and representatives from UAW's consultant, Rocaton Investment Advisors: Robin Pellish, Founding Partner & CEO, and another Rocaton Senior Partner. Henley described that UAW has a great governance structure with a diverse team, and that they have been big proponents of allocating to diverse managers. Henley added that the investment process is the same process for every manager. While UAW does not share its specific asset allocations publicly, Henley stated that its Alternatives allocation is north of 35% of the portfolio and continues to grow.

Hershal Harper said that Henley did a great job of capturing where UAW's portfolio sits today. He added that it all begins with great governance, which gives the team flexibility. He shared that they have debated internally whether to include MWBE targets, as their only targets today are by asset class and to then look for great investments within each. Today, three and a half to four percent of the UAW's investment portfolio is managed by diverse or emerging managers. Harper expects that to be closer to five percent, but said that it will be a statistic at year-end versus a target.

### ***City of Detroit General Retirement System and City of Detroit Police and Fire Retirement System***

Ryan Bigelow, CIO of City of Detroit General Retirement System (“Detroit General”) and City of Detroit Police and Fire Retirement System (“Detroit Police and Fire”) introduced Kristi Grden, Investment Analyst; Portia Roberson, Mayoral Appointee to the Police and Fire Board, and mentioned that others from the General Board would be joining later. Bigelow described how each of the two pension plans are independently run, and both have a strong history of allocating to diverse firms.

Detroit General has over \$2 billion in AUM and provides retirement, disability and pension services for the employees of the City of Detroit. The system has approximately 13,000 active members and 11,000 retirees and beneficiaries. Detroit General has a policy to allocate to 25% MWBE firms across all asset classes. Bigelow was the only staff member for both plans until a year and half ago, so Detroit General invests in hedge funds via two funds of funds, who have discretion and understand the plan’s desire to be diverse. NEPC is the private equity consultant for Detroit General, and Bigelow noted that NEPC has not implemented a Rooney Rule. He shared that Detroit General has not allocated to private equity in several years, owing to an overallocation issue, but that he hopes to become active in both private equity primary and secondary funds soon.

Detroit Police and Fire has over \$3 billion in AUM and is a public pension fund that provides retirement, disability, and death benefits. The retirement system is comprised of a defined benefit plan and a defined contribution plan. Detroit Police and Fire has an Emerging Manager program for public assets, across equities and fixed income. Wilshire Consulting advises the plan, so he noted that they were happy to hear about Wilshire’s recent diversity developments. The plan also uses Hamilton Lane as its discretionary private equity advisor; Bigelow volunteered that Hamilton Lane has been very open with respect to diversity discussions and that he wants to expand upon them. Given the diversity of the city of Detroit, Bigelow said he wants the plan to bear the responsibility to work with diverse managers as opposed to solely making it the responsibility of the consultants.

### ***Kresge Investments***

John Barker, Managing Director, from Kresge Investments leads the \$3.5 billion investment portfolio for the Kresge Foundation. He spoke about the mission of the 94-year-old foundation, originally the American Cities Foundation, to expand opportunities in America’s cities through grantmaking and social investing in arts and culture, education, environment, health, human services and community development in Detroit. The foundation is a closed foundation, given that its final inflow of capital was in 1969. Kresge Foundation allocates \$200 million each year in grants; 20% of which are made in Detroit.

Barker described that Kresge manages a \$4 billion endowment via a 14-person team. Barker said that diversity has been a focus of the investment team over the last three years, and that 10% of its portfolio is managed by MWBE firms. He spoke of how diversity is encapsulated within the work on its portfolio and the composition of its staff, noting that their team has done better with the portfolio than they have improving diversity across their staff because there has been no turnover.

Kresge has taken efforts to broaden their diversity efforts. He noted that Kresge has not hired a public manager for 11 years and that he does not expect to in the future. The private markets portfolio has been a net capital drag. They have had to use funds from their public side to pay their grant budget each year. Historically, 75% of the foundation’s private equity managers have been international. Going forward, Barker said Kresge wants to deploy capital in small and mid-size buyouts based on where its team believes opportunities lie, and that they are “always looking for top talent”.

### ***DTE Energy***

Angela Buk, CIO, described DTE Energy, Detroit's local gas and electric company. DTE Energy manages \$11 billion in assets via several pools of capital, including a savings plan pension, healthcare, nuclear decommissioning trust, and other pension plans. The investment team is comprised of five professionals, including Buk who has been there for a year and half. Buk shared that DTE Energy allocates to three to five new private equity and private credit managers each year (typical bite sizes are at or above \$50 million), and that she wants to "find new and better ways to source new and better names".

Currently 28% of DTE Energy's portfolio is allocated to private equity and hedge funds. Buk shared NEPC is its general consultant and that one fund of funds, Aetos Capital, manages a customized fund. She noted that DTE Energy does not hire many public managers. DTE Energy historically had programs to include diverse managers, but those programs have been eliminated while the diverse firms that were hired through them continue to manage money for the pensions. There are no current mandates to require the inclusion of women- and minority-owned firms in manager searches. Buk said that the roadshow meeting had provided her with "a lot of good ideas".

### ***Michigan Department of Treasury***

Ann Marie Storberg, Senior Advisor to Treasurer, spoke on behalf of the \$90 billion state pension plan (\$70 billion of which is in a DB plan). She shared that she has been at Treasury for over a year and a half working closely with the CIO across all of the asset classes. The Treasury oversees the DB plan, the DC plan, and various trusts and agencies and has a significant allocation to private equity and hedge funds. Storberg mentioned that Treasury continues to allocate significant dollars to private equity and hedge funds and that their team works with GCM Grosvenor to access Emerging Managers in private equity, given their limited resources. She said that Treasury has no specific diversity mandates, but that they are "open to the conversation."

It is worth noting that Storberg shared that she had debriefed Michigan Treasury's CIO, deputy CIO and Manager of the Private Market Division following the roadshow meeting, and she requested the overview with each of the participating NAIC firm intros, saying that "there is great interest in seeking out and learning more about the investing opportunities provided by diverse managers that can deliver high-performing funds."

### ***Rocaton Investment Advisors***

Robin Pellish, Founding Partner & CEO, spoke briefly about Rocaton's role as a consultant to UAW and mentioned that she had the opportunity to collaborate with the UAW team on the conference the Trust held last fall. As of December 2017, Rocaton had more than 60 clients and approximately \$430 billion in assets under advisement. Rocaton provides investment advisory services across all public and private markets on a discretionary and non-discretionary basis. These services include: governance consulting; asset liability modelling and asset allocation advice; investment structure design; manager evaluation, search, selection and monitoring; service provider evaluation, search and selection; on-going program advice; and fee and expense analysis.

Rev. Dr. Wendell Anthony, General Trustee and Mayoral Appointee of Detroit General, effectively provided the closing remarks. He said he was pleased to hear from each of the NAIC members and said that it is not often he sees "so many of us around the table." Anthony said he often hears people say they can't find experienced diverse managers, and he commented on the earlier discussion regarding diversity targets. He said that they also debated at Detroit General whether to have a metric, not a

target. Anthony went on to say that people often use the word “target” in a more exclusionary versus an inclusionary manner. He said that sometimes people get “comfortable” because they have a target. He shared his view that targets and metrics should be “the floor not the ceiling.” Anthony stated that he knows DTE Energy and UAW are concerned with being more diverse and that Ryan Bigelow is doing a great job at Detroit General and Detroit Fire & Police to increase the diversity of those plans. Anthony emphasized the importance of acknowledging there are gatekeepers who let people in and keep people out and the human characteristic to bring in people whom you know and like. He wrapped up the meeting with his view that diverse manager inclusion must come “from the top down.”