

## MEMORANDUM

**To:** NAIC Members  
**From:** Robert L. Greene, President & CEO  
**Date:** November 21, 2018  
**Subject:** NAIC Austin Roadshow

On November 16th, NAIC made the final roadshow stop of the year to Austin, TX. The meeting was hosted by Teacher Retirement System of Texas (TRS) and included four other significant institutional investors: Employee Retirement System of Texas (ERS), Texas County & District Retirement System (TCDRS), Texas Municipal Retirement System (TMRS), and University of Texas Investment Management Company (UTIMCO). In the aggregate, the participating institutional investors manage over \$284 billion of assets. The roadshow meeting was the largest to date and included a general session in the morning followed by private meetings for participating members with each of the allocators. The institutional investor representatives included:

### **Teacher Retirement System of Texas (TRS)**

Jarvis Hollingsworth, Board Chairman - [jarvis.hollingsworth@bracewell.com](mailto:jarvis.hollingsworth@bracewell.com)  
Jerry Albright, CIO - [jerry.albright@trs.texas.gov](mailto:jerry.albright@trs.texas.gov)  
Jase Auby, DCIO - [jase.auby@trs.texas.gov](mailto:jase.auby@trs.texas.gov)  
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### **Employee Retirement System of Texas (ERS)**

Sharmilla Kassam, DCIO - [Sharmila.Kassam@ers.texas.gov](mailto:Sharmila.Kassam@ers.texas.gov)  
Aris Oglesby, Investment Analyst - [aris.oglesby@ers.texas.gov](mailto:aris.oglesby@ers.texas.gov)

### **Texas County & District Retirement System (TCDRS)**

Amy Penn, Director, Credit - [amyp@tcdrs.org](mailto:amyp@tcdrs.org)

### **Texas Municipal Retirement System (TMRS)**

T.J. Carlson, CIO - tcarlson@tmrs.com

### **University of Texas Investment Management Company (UTIMCO)**

Ken Standley, Chief of Staff - kstandley@utimco.org

A record-breaking twenty-six NAIC members participated in the roadshow to represent their respective firms: Runa Alam, DPI; Julian Bostic, Vista Equity Partners; Peter Braffman, GCM Grosvenor; Marta Cotton, Matarin; Fred Cummings, Elizabeth Park Capital Management; Kathlika Fontes, Grain Management; Craig Fowler, HarbourVest; Renae Griffin, GCM Grosvenor; William Heard, Heard Capital; Derek Jones, GCM Grosvenor; Philip Lo, Siris Capital; Irwin Loud III, Muller & Monroe Asset Management; Larry Manson, NexTier; Melissa Morris, Neuberger Berman; Malik Murray, Ariel Investments; Adam Persiani, Pharos Capital Group; Chris Salley, Auldbress Partners; Keith Shoates, Vista Equity Partners; Julia Stiglitz, GSV Acceleration; Stephen Usher, Standard General; Nia White, Astra Capital Management; Ray Whiteman, Stellex Capital Partners; Donna Sims Wilson, Smith Graham; Joanne Yoo, DPI; Kneeland Youngblood, Pharos Capital Group; and Alex von Ziegesar, Advent Capital; along with NAIC's Chairman, Joseph Haslip, and NAIC's President & CEO, Robert L. Greene.

Jarvis Hollingsworth, Board Chairman of Teacher Retirement System of Texas (TRS) began the meeting sharing that it was an honor to welcome everyone on behalf of the board and that he was honored to host the roadshow and the four other plans. Hollingsworth said that NAIC has been an important partner to TRS for many years, playing a valuable role to attract capital to emerging manager firms. Hollingsworth stated that TRS champions diversity at all levels. He reflected back to 2004 when his board began discussions regarding the establishment of an Emerging Manager Program (EM Program) and in 2005 when TRS made an initial emerging manager commitment to the Credit Suisse Customized Fund Investment group (CS CFGI, now GCM Grosvenor). He noted the rarity of fund of funds dedicated to the emerging manager space during that time comparing it with the \$100 billion of combined assets NAIC member firms manage today. He said TRS committed to emerging managers knowing they offered alignment of interest, outsized returns, and a path to more diverse managers.

Today, over 50% of TRS's emerging manager assets are managed by diverse managers. Hollingsworth shared the ultimate goal of the EM Program and Emerging Manager Select Program is to have managers become part of the TRS Premier List. He emphasized the importance of diversity flowing through to the portfolio companies and the markets emerging and diverse managers serve, flagging that TRS will begin asking managers to report on portfolio company diversity going forward. The chairman also spoke about the diverse employee bases of both of its advisors, GCM Grosvenor and Rock Creek. He said he wants to celebrate the work TRS has already done, acknowledging that there is still much more work to be done and that the roadshow event was one step towards their shared goal to do more. Hollingsworth ended his remarks sincerely thanking everyone for participating and expressing his interest in spending the day with each of the NAIC members and allocators.

Robert L. Greene, President & CEO of NAIC, thanked Jarvis Hollingsworth and the entire TRS team for being a friend to NAIC since 2004. Greene reflected back to his first term as President of NAIC in 2004, when Jarvis was initially serving the TRS board and held the first meeting with CS CFGI to make investments to emerging and diverse managers. He said we can now contrast that meeting with the billions of dollars TRS has committed to the space and the TRS Emerging Manager Conference, which grows each year with over 1,500 participants most recently. Joseph Haslip, Chairman of NAIC, also welcomed everyone to the NAIC roadshow and thanked TRS, adding that it was a privilege to work with

the plan when he was at New York City Retirement Systems also working with CS CFGI to grow the emerging and diverse manager space. Greene then asked each of the NAIC member and institutional investor attendees to briefly introduce themselves.

When Jerry Albright, CIO of TRS, introduced himself, he stated his view that the roadshow meeting was a great turnout from everyone from Texas. He said TRS likes to be a leader in everything it does and that he appreciated all of the institutional investors for coming. Albright continued with his appreciation and admiration for NAIC and the working relationship enjoyed over the years to grow the space. He added that it has been great to leverage NAIC's feedback to grow its allocations to diverse and emerging managers. Albright commended Sylvia Bell for taking the program from where it was to "sky high working to be broader across the world." He said the TRS staff spends 80% of their time trying to get the asset allocation right and the rest looking for managers who offer something special.

Before turning the program back over to each of the investment plans, Greene covered the agenda for the day, including the private meetings scheduled for members with each of the allocators. He also provided an overview and update on NAIC and the emerging and diverse manager landscape at the end of the general session. Greene began the discussion: "If you think diversity is a compromise on performance, then you really have some work to do." He stated that TRS has proven you can have diversity and generate outsized performance. He mentioned *Examining the Returns*, the 2017 performance study which revealed diverse managers outperformed the general market by 500 bps. Greene also provided an update on NAIC's membership with 57 managers today across alternatives with the exception of real estate. He commented on the challenges consultants present, discussing how most of them don't know the emerging and diverse manager space. Greene mentioned some of the case studies, oversubscribed funds, and home run deals across the NAIC membership. Before concluding, Greene reiterated that it all comes down to performance and referred to some of the quotes NAIC had obtained from both R. David Kelley and Sylvia Bell regarding diverse manager outperformance.

### ***Teacher Retirement System of Texas (TRS)***

Jase Auby, Deputy CIO of Teacher Retirement System of Texas, provided an overview of the \$150 billion retirement system, one of the largest in the country. Auby reiterated what Hollingsworth said during his welcome about how TRS wants to celebrate its past and what it is planning to do in the future. Since 2005 and Hollingsworth's first board position, TRS has committed \$3.7 billion to emerging managers and \$1.7 billion to emerging managers in alternatives over the 13 years. Including \$1.1 billion of commitments to Emerging Manager graduates, TRS has made over \$2.8 billion in alternative commitments to emerging managers and graduates of the program.

Auby shared that there are 152 TRS employees. He said two full-time employees are dedicated to emerging managers and another six employees devote a significant amount of time to the program. The importance of the six employees across the business is their goal to integrate emerging managers into the core programs. Auby said they are most proud of the 162 commitments they have made to emerging manager firms, noting that the balance of the \$148 million managed by TRS has probably been spread across the same number of firms. He said the TRS partnerships with GCM Grosvenor and Rock Creek have been very important to their level of emerging manager deployment with limited staffing resources, noting they were not outsourcing relationships but true partnerships.

As he continued his remarks, Auby shared more information about the EM Program. Of the \$1.7 billion that has been committed, 49% of the AUM has been to diverse managers (25% to women, 25% to African Americans, 25% to Asians, and 25% to Hispanics). After spending a significant amount of time thinking about the whole spectrum of emerging and diverse firms, TRS has announced \$2 billion of commitments to the EM Program over the next two years. He acknowledged that there had been a gap

between the commitments TRS was making to smaller funds and larger funds. To address that, he described the \$1 billion commitment TRS has made to EM Select, which is for emerging manager graduates and should narrow the gap between emerging manager commitments and \$300 million+ commitments in the core program. The first tranche of the new emerging manager commitment was approved by TRS's investment committee on the Wednesday prior to the roadshow meeting.

Auby said the TRS team has also spent time thinking about the fact that not every emerging manager launches their business with a fund. He shared that their team is now ready to expand to have an open architecture of investing in the space beyond just a funds program to include all platforms, given how they work with GCM Grosvenor. TRS expects 60% of its emerging manager capital to go to new managers and 40% to re-ups. There is a current search for an Emerging Manager Head, which is one of the two full-time emerging manager staff positions and currently held by Sylvia Bell, COO of TRS. Auby commented on the significance of the program to TRS, given the amount of time Bell devotes to it while serving as COO. Additionally, GCM Grosvenor has provided a full-time employee for the EM Program onsite. Auby concluded his remarks highlighting how the EM Program has been defined by Jarvis Hollingsworth and Jerry Albright over the years but that TRS is fully committed to diversity. The first hallmark he described was diversity in terms of dollars, people, and commitments to diverse firms, the second hallmark was performance, and the third was creating lasting relationships where \$100 million commitments grow to \$300 million.

For additional information, please see the attached materials TRS distributed during the meeting.

#### ***Employee Retirement System of Texas (ERS)***

Shar Kassam, Deputy CIO of Employee Retirement System of Texas, spoke on behalf of the \$29 billion plan. She shared the regrets of Tom Tull, CIO of ERS, who was not able to join the meeting. She said that ERS has had an established Emerging Manager Program for eight years, noting that ERS was later to make direct commitments to alternatives (it began in private equity, real estate, and hedge funds in 2009, 2010, and 2011, respectively). Kassam described how emerging managers are integrated into each asset class with one team member within each asset class leading on emerging managers and working with her and Aris Oglesby, Investment Analyst, to ensure consistency. The ERS team believes that direct access for emerging managers to the core teams works best for its plan, where two-thirds of its assets are managed internally, and one-third are managed externally. Of the externally managed portion, 10% or \$1.2 billion has been allocated to emerging manager invested capital and commitments.

The success of the EM program at ERS has been based on performance – emerging managers have returned 300 bps over established managers. Diverse managers account for 40% of ERS's EM Program. Kassam shared that ERS has launched a joint venture, called the ERS Launchpad, with PAAMCO to invest in hedge funds. The ERS team believes the ERS Launchpad could be used across other asset classes. For hedge funds, ERS and PAAMCO will each commit \$150 million to three managers with the goal to increase their commitments to \$1 billion. Hedge funds are used across the trust and represent 6.5% of its total assets. ERS leverages advisory partnerships to execute its EM program: GCM Grosvenor for private equity, Oak Street Real Estate Capital for real estate, and Legato Capital for public equity. Kassam concluded saying ERS wants to continue the great work it has started.

For additional information, please see the attached materials ERS distributed during the meeting.

#### ***Texas County & District Retirement System (TCDRS)***

Amy Penn, Director in Charge of Texas County & District Retirement System, represented the \$30 billion plan. Penn joined TCDRS at the end of July. She described TCDRS as a "young pension plan" despite its 40-year history, because its commitments to alternatives only began 10 years ago. She said that the

plan's CIO, Casey Wolf, joined last year and created a new silo for credit. Today, TCDRS has a 20% allocation to credit, 18% to hedge funds, and 16% to private equity. Penn shared her excitement to be part of the roadshow and said, "this is the first step to establishing a program and being thoughtful regarding how we can support emerging managers." She said TCDRS has a lot of capital to deploy, and the team wants to be thoughtful and creative about how they are doing it, as well as work with some of the other Austin plans.

### ***Texas Municipal Retirement System (TMRS)***

TJ Carlson, CIO of Texas Municipal Retirement System, spoke about the \$30 billion pension plan. He said that TMRS uses a 6.75% discount rate, which he believes give them an advantage through structuring opportunities. Carlson joined TMRS five years ago when the plan was 60/40 indexed. Today, he said the allocations are as follows: 20% credit (13% private), 5% private equity, 10% hedge, 10% real estate, and 10% real assets.

The TMRS investment team is comprised of 22 people. Carlson said TMRS does not have an emerging manager program, but that there is a focus on emerging managers and diversity. TMRS has made 34 emerging manager commitments over a five-year period, which represents 7-9% of assets, and 25-30% of the emerging manager investments have been to diverse managers. Carlson said selecting emerging managers has been built into its investment research process, where the team takes 1,200 – 1,500 meetings per year. He said they take a lot of meetings trying to find the best managers. TMRS allocates to emerging managers across asset classes, except for public assets where they have made very large commitments like the \$15 billion allocation it had to Blackrock when he arrived there.

Carlson described the plan's aim to keep manager numbers low by selecting higher conviction managers, thinking critically about capital placement, and the disintermediation of some managers. He said TMRS tries to improve the alignment of interest. Carlson shared that Chris Schelling, Director of Private Equity, is a prolific writer and has written numerous pieces on the alignment of interest. Carlson advised that managers not email him directly to engage with TMRS but to instead go to the plan's website and click on an asset class. Managers seeking allocations should share their best ideas and strengths. Carlson concluded, "If you want to come in and get a place, we want high conviction and to put out higher dollar amounts, so you need to know what makes you good enough to fire other managers."

### ***University of Texas Investment Management Company (UTIMCO)***

Ken Standley, Chief of Staff of University of Texas Investment Management Company, represented the \$45 billion investment program. Standley said \$30 billion of UTIMCO's assets are in endowment vehicles and that 60% of those assets are equally divided among private equity, real estate, and real return. He said UTIMCO does not have an emerging manager program, noting that when he joined one of its largest managers was also in the TRS EM Program. Standley admitted it is "not easy to get in front of them" but to communicate directly with the investment staff within each asset class to engage.