

MEMORANDUM

To: NAIC Members

From: Robert L. Greene, President & CEO

Date: April 22, 2019

Subject: NAIC Tallahassee Roadshow to Florida State Board Administration

On April 17th, NAIC made the second roadshow stop of the year to Tallahassee, FL for a meeting with Florida State Board of Administration (SBA). The SBA team was very well represented with 23 participants from the investment team:

Florida State Board of Administration

Ash Williams, Executive Director & CIO - ash.williams@sbafla.com

John Benton, Senior Investment Policy Officer - john.benton@sbafla.com

Wes Bradle, Senior Portfolio Manager, Private Equity - wesley.bradle@sbafla.com

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Subhasis Das, Senior Portfolio Manager, Strategic Investments - subhasis.das@sbafla.com

Terrance Davis, Portfolio Manager, Strategic Investments - terrance.davis@sbafla.com

Michael Fogliano, Senior Portfolio Manager, Externally Managed Portfolio, Real Estate - michael.fogliano@sbafla.com

Luanne Good, Senior Portfolio Manager, Private Equity - luanne.good@sbafla.com

Sara Geiger, Portfolio Manager, Real Estate - sara.geiger@sbafla.com

Clark Griffith, Senior Portfolio Manager, Private Equity - clark.griffith@sbafla.com

Reid Hanway, Portfolio Manager, Private Equity - reid.hanway@sbafla.com

Mike McCauley, Senior Officer, Investment Programs and Governance - mike.mccauley@sbafla.com

Kevin Moose, Senior Portfolio Manager, Fixed Income - kevin.moose@sbafla.com

Kent Perez, Deputy Executive Director - kent.perez@sbafla.com

Tom Proctor, Portfolio Manager, Real Estate - tom.proctor@sbafla.com

Lucy Reams, Senior Quantitative Analyst, Private Equity - lucy.reams@sbafla.com

Alison Romano, Senior Investment Officer, Global Equity - alison.romano@sbafla.com

Jeff Smith, Senior Portfolio Manager - jeff.smith@sbafla.com

Stephen Spook, Senior Investment Officer, Real Estate - stephen.spook@sbafla.com

Lamar Taylor, Chief Operating and Financial Officer - lamar.taylor@sbafla.com

Tim Taylor, Senior Investment Officer, Global Equity - tim.taylor@sbafla.com

Trent Webster, Senior Investment Officer, Strategic Investments & Private Equity - trent.webster@sbafla.com

Katy Wojciechowski, Senior Investment Officer, Fixed Income - katy.wojciechowski@sbafla.com

Fourteen NAIC members joined NAIC's President & CEO, Robert L. Greene, and NAIC's Executive Vice President, Carmen Ortiz-McGhee, to participate in the general session and private meetings with the SBA team: Philip Alphonse, The Vistria Group; Avi Amin, Madryn Asset Management; Rahel Ayalew, Neuberger Berman; Marta Cotton, Matarin Capital Management; Craig Fowler, HarbourVest Partners; Patrick Gilligan, Clearlake Capital Partners; Malik Murray, Ariel Investments; Adam Persiani, Pharos Capital Group; Dale Pescatore, Palladium Equity Partners; Ferenc Sanderson, Elizabeth Park Capital Management; Nia White, Astra Capital Management; Ray Whiteman, Stellex Capital Management; Joanne Yoo, DPI; and Ted Yun, NexPhase Capital.

Ash Williams, Executive Director and CIO, began the session saying that it was the SBA's second meeting with NAIC. The first meeting was actually NAIC's first Institutional Roadshow in 2014. Williams offered to begin with an overview of SBA. He said that SBA is a constitutional board created in 1930 to invest assets in accordance with Florida law. When Florida's boom in real estate development of the 1920s led to widespread bond defaults, the SBA was created to establish an independent body to validate the legitimacy of the bonds issues for each development. In the 1970s, the Florida Retirement System (FRS) was created. The SBA was given authority to oversee FRS to provide independent oversight.

The SBA has three trustees: the Governor, the Attorney General, and the Chief Financial Officer. Since inception, the administration has been a meritocracy which is paid for by fees. Today, the SBA has just over 200 employees; approximately 50 of them are investment professionals.

Williams offered to provide a description of the pension fund, specifically the defined benefit plan, which he said would be of most interest to the NAIC members. He said the investment staff also manages a defined contribution plan, the Florida Hurricane Catastrophe Fund, and several other smaller funds for the state, which amounts to \$200 billion in assets in the aggregate. The investment staff manages the equity and debt internally and is active across both spectrums, which includes all facets of alternatives. The team also manages half of the real estate assets internally. He shared his understanding that the investment staff is well-respected and that they have outperformed their peers based on ten-year trailing figures as of June 31, 2018. Williams continued that the SBA manages one of the lowest cost plans in North America. He said that the team "knows what we don't do well" and will stop managing those things to hire people who can do it better.

Regarding emerging managers, Williams stated that unlike many other public pension funds, the SBA does not have an explicit mandate for emerging managers. He said the SBA is an investment meritocracy, which seeks the best managers. Williams said that the SBA was the first to invest in NAIC member firm, Ariel Investments, because they were good professionals first and foremost. He said that being a person of color or a female is not a "gating factor." Williams shared the team's desire to establish relationships that can grow to meaningful levels. He said they want to be one of the more attractive partners for their managers, because they seek to scale overtime and innovate while working with them. Williams continued that it is difficult to get the SBA as a limited partner, but worth the wait. He also mentioned the Florida Growth Fund, which SBA manages to invest in funds focusing on investment opportunities within the state across private equity (buy-outs, growth equity, venture capital and mezzanine). The allocations for its core private equity commitments are \$100 million on average, but could be as low as \$50 million, and smaller for the Florida Growth Fund, which will make minimum commitments of \$5 million.

Following brief introductions from each of the SBA participants, Robert Greene thanked Ash Williams and his staff for hosting NAIC again. He described how the NAIC Institutional Investor Roadshow has

traveled across the country to meet with approximately 70 allocators since the first roadshow meeting in Tallahassee. While the roadshows have covered a lot of ground, Greene described that there were still many public plans in the midwestern and the southern states who have been unwilling to meet. Williams offered to assist in securing additional meetings with some of the plans which have been more difficult to access. NAIC members then went around the room for brief introductions. Williams asked whether any of the NAIC members invested in liquid fixed income. When none of the members replied affirmatively, he invited some of the SBA staff covering that asset class to leave; however, everyone stayed for the full meeting.

Robert Greene then provided an update on NAIC. He described the growth of the organization to approximately 60 members with \$110 billion under management in the aggregate. He touched on Ash Williams' comment that it is difficult to break into the SBA program, agreeing that it should be difficult and that managers should demonstrate outperformance, as many NAIC members have. Greene provided an overview of the members by segment and highlighted some of NAIC's larger members, such as Vista Equity with approximately \$50 billion under management.

Greene commented that he couldn't have provided a long list of diverse managers with oversubscribed funds five years ago, but that since then 16 diverse firms had raised 25 oversubscribed funds. He noted that you would not see such high levels of oversubscription or the overperformance supported by the most recent performance study if investing with diverse managers was just about a specialized program or meeting a diversity mandate. Greene discussed how many of the consulting firms had not familiarized themselves with diverse managers and their outperformance. He then also spoke about a number of NAIC resources, including the *Perspectives* videos and the *Managers in the Market* report. Each NAIC member then provided their firm introductions.

Trent Webster asked whether the consultants are working to address the lack of diversity across their clients' portfolios. Greene said there is recognition that diversity comes in a number of flavors and said that most consultants had not made a true effort to include diverse managers in their searches. He added his view that public pensions should have diversity within their portfolios reflective of the diversity of their populations. He reiterated his appreciation for SBA hosting NAIC twice and for having so many members of the investment team participate.

Ash Williams said that the SBA private equity book has moved away from mega cap managers to invest with smaller firms with industry specializations. He said that SBA has not yet invested with Vista Equity, but that he knows Robert Smith well and meets with members of his team often. He also noted that Cambridge Associates, SBA's consultant, regularly makes the argument that smaller, newer managers outperform. When he asked which consultants NAIC believes has done an exemplary job, Greene responded that several fund of funds have done very well by aligning themselves with the small, emerging, and diverse manager space. Greene noted that Meketa has been apologetic and that Wilshire Associates has made great strides by employing the Rooney Rule to include diverse managers in its manager selection processes and aligning its staff's compensation with their efforts around diversity.

Trent Webster said that over the last year, SBA has committed to five new private equity managers and that three of the five were diverse-owned or woman-owned firms, including one which was both. He said they were selected because they were the best option of the groups they were considering. Ash Williams highlighted SBA's recent \$100 million commitment to NAIC member firm Grain Management. He also mentioned that David Grain did a great job as a member of the SBA advisory council. Robert Greene added that Grain made the initial introduction for NAIC to have the first meeting with SBA in

2014. Webster stated that he sees a clear advantage in private equity firms with the ability to speak to women and diverse populations, noting that women represent a larger proportion of the overall consumer base and entrepreneurs.

Marta Cotton revisited the discussion around consultants and shared her view that Marquette Associates does well in public markets and that Callan has Callan Connects to meet diverse managers, Verus Investments recently hosted diverse and emerging manager days, and Wilshire Associates has made numerous strides to incorporate diversity into its manager searches. Before closing the meeting, Greene said that diversity is often seen as extracurricular and off-strategy; however, the outperformance of diverse managers certainly disproves that idea. He ended the session saying he looks forward to working more closely with the SBA team and engaging with other public pension plans with whom they have relationships. Following the general meeting, the entire SBA team networked and met with each of the NAIC members during private meetings by asset class.