

## MEMORANDUM

**To:** NAIC Members

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

**Date:** May 30, 2019

**Subject:** NAIC New York City Roadshow to New York State Common Retirement Fund, New York State Teachers' Retirement Fund, New York State Insurance Fund, and Neuberger Berman

On May 23rd, NAIC made the third roadshow stop of the year to New York City to meet with four active and significant capital allocators: **New York State Common Retirement Fund (NYSCRF), New York State Insurance Fund (NYSIF), New York State Teachers' Retirement System (NYSTRS) and Neuberger Berman (NB)**. While we have enjoyed a longstanding relationship with NYSCRF, NAIC had not yet had an official NAIC Institutional Investor Roadshow meeting with the plan. It was a highly productive session with NYSCRF and the other institutional investors, who together have \$670 billion in assets under management (AUM).

The event was hosted by Neuberger Berman and was one of our larger roadshow meetings with participation from the following allocators:

### **New York State Common Retirement Fund (NYSCRF)**

**Anastasia Titarchuk**, Interim Chief Investment Officer - [atitarchuk@osc.state.ny.us](mailto:atitarchuk@osc.state.ny.us)

**Nav Patel**, Opportunistic, Deputy Interim Chief Investment Officer - [npatel@osc.ny.gov](mailto:npatel@osc.ny.gov)

**Sheryl Mejía**, Director of Emerging Managers - [smejia@osc.ny.gov](mailto:smejia@osc.ny.gov)

**David Anderson**, Senior Investment Officer, Emerging Managers - [danderson@osc.ny.gov](mailto:danderson@osc.ny.gov)

**James Celestine**, Senior Investment Officer, Real Assets - [jcelestine@osc.ny.gov](mailto:jcelestine@osc.ny.gov)

**Jay Chambers**, Investment Officer, Global Equities - [jchambers@osc.ny.gov](mailto:jchambers@osc.ny.gov)

**Evril Clayton**, Special Investment Officer, Alpha Portfolio - [eclayton@osc.ny.gov](mailto:eclayton@osc.ny.gov)

**Joe Dawson**, Deputy Director of Private Equity - [jtdawson@osc.state.ny.us](mailto:jtdawson@osc.state.ny.us)

### **NYSCRF Program Partners**

*Farol Asset Management (NAIC member)*

Robert Azeke, Managing Partner - [robazeke@farol-group.com](mailto:robazeke@farol-group.com)

Douglas Kelly, Partner - [dkelly@farol-group.com](mailto:dkelly@farol-group.com)

### *FIS Group*

Kevin Childs, Assistant Vice President, Investor Relations - [kchilds@fisgroup.com](mailto:kchilds@fisgroup.com)

*GCM Grosvenor (NAIC member)*

Peter Braffman, Managing Director, Real Estate Investments - pbraffman@gcmlp.com

Shawn Menz, Principal, Real Estate Investments - smenz@gcmlp.com

*HarbourVest Partners (NAIC member)*

Craig Fowler, Managing Director - cfowler@harbourvest.com

*Lenox Park*

Jason Lamin, Founder & CEO - jason.lamin@lenoxparkinc.com

*Muller & Monroe Asset Management (NAIC member)*

Rendel Solomon, Managing Director - Rendel.Solomon@m2am.com

*The Rock Creek Group*

John O'Brien, Managing Director - john.obrien@therockcreekgroup.com

Monica Villarreal, Senior Counsel - monica.villareal@therockcreekgroup.com

**New York State Teachers' Retirement System (NYSTRS)**

Gerald Yahoudy, Managing Director, Private Equity - gerald.yahoudy@nystrs.org

**New York State Insurance Fund (NYSIF)**

Milci Artiga, Director of External Managers - martiga@nysif.com

David Ourlicht, Investment Committee Chairman - Dourlicht@gabelli.com

**Neuberger Berman (NB)**

Rahel Ayalew, Vice President, Institutional Client Group - rahel.ayalew@nb.com

Maura Reilly Kennedy, Managing Director - maura.kennedy@nb.com

Carter Reynolds, Managing Director - carter.reynolds@nb.com

Pat Miller Zollar, Managing Director - patricia.zollar@nb.com

Eighteen NAIC members joined NAIC's Chairman, Joseph Haslip; President & CEO, Robert L. Greene, Executive Vice President, Carmen Ortiz-McGhee, and intern, O'Kelly McWilliams IV to participate in the general session and private meetings: Avinash (Avi) Amin, M.D., Madryn Asset Management; Daniel Black, The Wicks Group; Jihan Bowes-Little, Bracket Capital; Troy Dixon, Hollis Park Partners; Michael Duran, Mill Point Capital; William Heard, Heard Capital; Von Hughes, PAAMCO Prisma; Martin Hunt, Providence Friends Capital; Jamie Kaufman, NexPhase Capital; Chuck Kerrigan, Providence Friends Capital; Valerie King, Ariel Investments; Daniella Kranjac, Dynamk Capital; Andrea Martinez Logan, Grain Management; Dale Pescatore, Palladium Equity Partners; Julie Rancourt, William Blair; Carmen Rojas, GenNx360; Ferenc Sanderson, Elizabeth Park Capital Management; and Nia White, Astra Capital Management.

Six representatives from four NAIC member firms participated as NYSCRF Program Partners: Robert Azeke and Doug Kelly from Farol Asset Management; Peter Braffman and Shawn Menz from GCM Grosvenor; Craig Fowler, HarbourVest Partners; and Rendel Solomon, Muller & Monroe Asset Management. NYSCRF's additional Program Partners included two representatives from The Rock Creek Group, Monica Villarreal and John O'Brien; Kevin Childs, FIS Group; and Jason Lamin, Lenox Park.

Bob Greene began the meeting thanking each of the allocators for their participation, noting that it was the first official roadshow meeting with NYSCRF and NAIC's initial engagement with NYSTRS and NYSIF. He thanked Neuberger Berman for hosting the roadshow and the private one-on-one manager meetings earlier in the afternoon. Greene continued with a tremendous thank you to Sheryl Mejía, NYSCRF's Director of Emerging Managers, for making the event one of NAIC's largest roadshow gatherings. Joseph Haslip also shared his sincere appreciation with each of the participants.

#### **New York State Common Retirement Fund (NYSCRF)**

Sheryl Mejía thanked her team and commented that Anastasia Titarchuk, Interim Chief Investment Officer, and Nav Patel, Interim Deputy Chief Investment Officer, have been working double duty and that David Anderson, Senior Investment Officer for the Emerging Manager Program, has enabled the team to do so much more in private equity with emerging managers since joining the team. Mejía welcomed comments from Titarchuk and Patel. She then mentioned that there are more NAIC members they are invested with than those who they have not yet committed to, which reflects the long-term partnership NYSCRF has with NAIC and its members.

New York State Common Retirement Fund had \$210.2 billion of assets under management as of March 31, 2019. Mejía reported that NYSCRF has \$7 billion invested with 120 MWBE managers. She also shared that its most recent Program Partner addition was GCM Grosvenor for Real Estate. Mejía said the goal for the Emerging Manager Program is to scale with managers to become graduates, which takes many years in some instances. The NYSCRF Emerging Manager program is now 25 years old. In recognition of that milestone, the plan embarked on a strategic planning exercise of the EM program, which Mejía noted NAIC took part in. She explained how the Program Partners have helped NYSCRF to achieve its objectives. She also acknowledged that the NYSCRF team is looking at technological solutions to give responses in a timelier fashion and to track managers more effectively. Mejía shared that they look at thousands of managers per year with the capacity to invest in about 15. She said there is a lot of mentorship that occurs during the process. She concluded commenting on the MWBE survey Lennox Park helps to produce.

Titarchuk provided additional remarks on behalf of NYSCRF. She thanked Neuberger Berman for hosting and Bob Greene for organizing the roadshow. She continued emphasizing how the emerging and MWBE managers are very important to New York State Comptroller Thomas DiNapoli and their entire staff. Titarchuk shared that 25% of their external capital is managed by MWBE managers. She recalled that when the figure was at 20% last year, they didn't know how much higher they could raise it, but that they found plenty of high-quality managers to increase the MWBE proportion. Nav Patel added a few comments, first noting how closely he, Anderson, and Mejía work to grow their emerging manager portfolio. He reiterated the importance of emerging managers to NYSCRF and his view that their team enjoys building and expanding relationships with them.

Mejía then asked each of the Program Partners to identify themselves, pointing out how critical they have been in developing relationships with new emerging and diverse managers. Greene shared his appreciation for NYSCRF's emerging and diverse managers efforts. He said that Comptroller DiNapoli has demonstrated his support and that their plan does what they say and has been working the longest to expand the emerging and diverse manager space.

#### **New York State Teachers' Retirement System (NYSTRS)**

The New York State Teachers' Retirement System (NYSTRS) is one of the 10 largest public pension funds in the nation and among the best-funded teacher systems. NYSTRS manages \$119.9 billion in assets.

Gerald Yahoudy, Managing Director in Private Equity, provided a description of the plan. He said NYSTRS manages pensions for all of the teachers in the state of New York outside of New York City. NYSTRS is currently below its 8% target to private equity with \$8.5 billion (7.1%) in the asset class today. Yahoudy noted that NYSTRS created an allocation for private debt in 2017 with a one percent target, and the plan is currently below that target as well.

He described how NYSTRS has a different operating platform from NYSCRF, in that they do not leverage numerous program partners. He said they work with Lenox Park to help certify MWBE managers. He added that 12% of their private markets portfolio by asset value is managed by 16 MWBE firms today. About a decade ago, NYSTRS began going down market to invest in smaller managers and worked with GCM Grosvenor and Horsley Bridge Partners to make a number of commitments to smaller managers. In 2012, NYSTRS partnered with Bank of America Merrill Lynch Capital Access Funds group (now HarbourVest Partners) to focus exclusively on MWBE managers, initially with allocations of \$10 million each to 10 MWBE managers. Historically, NYSTRS worked with Parish Capital to invest in newer firms. NYSTRS' general partners include several diverse-led firms, including NMS Capital and NAIC member firms Valor Equity Partners, Clearlake Capital, and Siris Capital Group.

Yahoudy has been at NYSTRS since 2003 and on the private equity team since 2004. He said that the average private equity commitment is \$50-75 million. NYSTRS has invested in funds as small as \$300 million, but he disclosed that is atypical. Additionally, he said they have only committed to a handful of first-time funds, which have spun out of larger firms. Yahoudy noted that NYSTRS has an annual MWBE Conference, the day before the NYSCRF Emerging Manager and MWBE conference. Yahoudy described NYSTRS' engagement style as one with an "open door policy" where the team tries to cast a wide net. He said he is personally on the phone with managers constantly. Regarding the decision-making process, Thomas Lee, NYSTRS' Executive Director and Chief Investment Officer, has discretion from the board for allocations up to \$200 million. The NYSTRS staff drives the strategic plan, which is buy-out oriented, and Lee and the managing directors comprise the investment committee. Larger commitments must be approved by the board, which meets quarterly. Since 2014, NYSTRS has been working with Torreyco as its non-discretionary consultant for private equity (StepStone was the plan's consultant from 2008-2014).

#### **New York State Insurance Fund (NYSIF)**

David Ourlicht, Chairman of the Board of the New York State Insurance Fund (NYSIF), described the fund as a \$19 billion insurance fund which writes workers' compensation insurance policies that cover 35% of the insurance for every worker in the state of New York. Today, 70% of the fund's external public market managers are MWBE managers. NYSIF is in the process of building out its internal committee for alternatives. He said that given the diversity of the NYSIF board, including himself, minority and MWBE managers will continue to be important to them as they develop an alternatives portfolio. He expects they will be active with NAIC member firms.

Ourlicht said that it is premature to say too much about NYSIF's private markets portfolio, because there is an active search for a consultant now. He did say the portfolio will include private equity, private credit, and real assets. NYSIF has 12-14 staff members, who manage \$10 billion in assets. Ourlicht explained how the organization relies on the surplus for funding the investment plan and for asset/liability management.

Milci Artiga, NYSIF's Director of External Managers, shared that asset allocation studies were underway when he joined following revelations from the Global Crisis regarding high correlation with the market.

Artiga expects NYSIF to commit up to 7% of its assets to alternatives, focused on private markets before moving into bank loans and high yield. Plans will be established once a private markets consultant is selected (the RFP is public). Greene offered NAIC's help in mirroring the public markets proportion of MWBE managers within the private markets portfolio.

### **Neuberger Berman (NB)**

Maura Reilly Kennedy, Managing Director in Private Equity at Neuberger Berman (NB), welcomed everyone to their headquarters and briefly described NB's investment portfolio. She said that NB manages \$320 billion in equity and debt today. The firm has \$70 billion in private equity assets under management, which includes primary fund investments, co-investments, secondaries, and minority stakes in private equity, hedge, and specialty strategies firms via Dyal Capital Partners. She stated that their organization believes that it is in its DNA to bring in diverse and next generation managers. She explained how NorthBound manages customized portfolios of diverse and emerging managers and how the idea is to augment those pools with diverse managers across its larger portfolio of assets.

### **NAIC Overview and Manager Introductions**

Bob Greene continued the session with the history of NAIC, which has the longest history of the trade associations focused on greater access for diverse and emerging managers. He described how Fairview Capital was an idea hatched out of the NAIC Board of Directors. While NAIC has been principally focused on private equity and hedge funds, he touched on how other strategies and firms with a range of profiles (larger asset managers, consultants, law firms, etc.) have chosen to affiliate. During his review of the NAIC membership, he highlighted that buy-outs are where most of the capital has been deployed.

Greene highlighted the outperformance of diverse and NAIC member firms, supported by numerous studies. When he compared their performance over that of the mega funds, he said he likes to think of the mega firms as "wonderful training grounds" for many of the NAIC member firms. Greene said that today the majority of your fund commitments, not just the minority, can go to diverse managers, given the growth of the diverse manager marketplace, noting the case studies of Hollis Park Partners, Siris Capital Group, Stellex Capital Management, and Sycamore Partners.

Greene also highlighted what some of the NAIC members have been doing to benefit the next generation of private equity managers. He spoke about how Ray Whiteman, Managing Partner of Stellex, spoke at NAIC's first *Establishing the Next Generation of Private Equity Firms* Symposium, sharing his experience of raising his firm's inaugural fund. Greene talked about the leadership at Palladium Equity Partners and how Marcos Rodriguez, Chairman and CEO, was a longtime Chairman of the Toigo Foundation and David Perez, President and COO, was a former Chairman of NAIC. Finally, he mentioned how Robert Smith, Chairman and CEO of Vista Equity Partners has an ever-growing portfolio of foundations and charitable contributions.

Greene also spoke about the level of oversubscription of diverse-owned funds and that with Grain Management's recent fund closing at \$899 million versus its \$750 target, 17 diverse firms have raised 26 oversubscribed funds since 2014. He highlighted the research reports that support the overperformance of diverse managers, including that the NAIC biennial performance report would be released this fall. Greene made a request, asking each of the allocators to hold their consultants more accountable for identifying high-quality diverse managers and hiring more diverse staff members. He reviewed the map of where the NAIC roadshow has been over the last five years and said that a lot of the map is not in play, hence a lot of the capital is not in play. Haslip added that the Council of Institutional Investors (CII) has a number of initiatives related to diversity that are not reflected in the members' portfolios.

Following each of the NAIC manager introductions, Greene spoke about William Blair's participation in the roadshow, as NAIC's largest multi-year partnership, noting that the firm had completed \$13.5 billion in transactions with diverse managers to date. He then announced that Maura Reilly Kennedy from Neuberger Berman had recently joined the NAIC board and then invited Pat Miller Zollar, Managing Director of Neuberger Berman, to make a few remarks, given her role on the board for the prior decade. Zollar said that this has been a shared journey to grow the emerging manager pool and that she is excited that there is a new generation of managers.

Before concluding the event, Greene asked Carmen Ortiz-McGhee to provide a summary of NAIC's current initiatives. She called everyone's attention to the upcoming NAIC Annual Conference, which will be held October 23-24<sup>th</sup> in Los Angeles at UCLA. She also mentioned the NAIC Performance Study, the *Managers in the Market* quarterly distribution, Institutional Roadshows, NexGen (*Establishing the Next Generation of Private Equity Firms*), ENGAGE (*Educating the Next Generation of Allocators on Growth utilizing Emerging and Diverse Managers*), and NAIC's Diverse Manager Certifications.