The Largest Network of Diverse-Owned
Private Equity Firms and Hedge Funds

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MEMORANDUM
For NAIC Member Use Only

To: NAIC Members
From: Robert L. Greene, President & CEO
Date: December 21, 2020
Subject: NAIC Institutional Investor Virtual Roadshow with the University of Pennsylvania

On Thursday, December 10, 2020, NAIC held its sixth and final Institutional Investor Roadshow of the year hosted by the University of Pennsylvania (Penn). Nineteen NAIC member firms were invited to join the leadership and investment team of the University of Pennsylvania endowment for the general roadshow session and private, one-on-one meetings, according to the allocator's investment criteria. The roadshow participants and relevant contacts, with email addresses, are included below:

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There were thirteen NAIC private equity member firms selected by Penn to participate: **Argand Partners**, Kay Blackwell; **Arkview Capital**, Vijay Mehta; **Astra Capital Management**, Nia White; **Development Partners International (DPI)**, Joanne Yoo; **GPI Capital**, Philip Lo; **Lumos Capital Group**, James Tieng; **NexPhase Capital**, Ted Yun; **OceanSound Partners**, Joe Benavides; **Otundi Ventures**, Nnena Nkongho; **Pharos Capital Group**, Adam Persiani; **ROCA Partners**, Ravi Sarin; and **Valor Equity**

Partners, Joseph Haslip. Four hedge fund member firms were invited to participate and included **Elizabeth Park Capital Management**, Craig Cimoroni; **Heard Capital**, William Heard; **Hollis Park Partners**, Ajai Thomas; and **Standard General**, Stephen Usher. Two NAIC member firms with real estate investment strategies were also selected to join: **Brasa Capital Management**, Alexis Lewis; and **Standard Real Estate Investments**, Jerome Nichols.

Bob Greene, NAIC's President and CEO, kicked off the session, thanking Peter Ammon, Chief Investment Officer of the University of Pennsylvania, and the entire investment team for hosting NAIC's final roadshow of the year. Greene introduced himself and Joseph Haslip, NAIC's Chair, and Michael Smart NAIC's Vice-Chairman. Greene commented that this is one of the roadshows he has been the most excited about since meeting Peter Ammon. Penn represents a "new face" for NAIC and an organization that has spent many months building a relationship with NAIC to not only execute an Institutional Investor roadshow, but also ensure the foundation is laid for a longstanding, mutually productive partnership.

Greene described how the NAIC Institutional Investor roadshows began roughly seven years ago. In February 2020, NAIC began the series with it first and only in-person stop for the year to Boston, MA to meet with Harvard Management Company. Following the onset of the COVID-19 pandemic, Greene explained how NAIC went to work to retool and "put new tires for the bus to continue to roll on with a virtual format to produce five more roadshows," including this last one with Penn. He thanked Dani Gastner, Managing Director and Head of Real Estate, and other members of the investment team who worked closely with NAIC to curate a roadshow to ensure Penn would meet privately with 19 NAIC members who meet their investment criteria.

Peter Ammon said he was thrilled to welcome NAIC and its members and introduced the Penn senior investment team and asset class heads: Dani Gastner; Thomas Scriven, Managing Director and Head of Private Equity; and Thomas Woodbury, Managing Director and Head of hedge funds and said he would turn the floor over to them after providing an introduction to the endowment. Ammon also expressed his sincere disappointment that the meeting could not take place in person. He went on to describe how the Penn investment team executes its investment strategy. He stated the Penn endowment currently has $15 billion in assets under management (AUM), which supports the university and the health system, which represents 25% of the endowment. He said the investment team shares a firm belief in Penn's excellence as an academic institution and the teaching, research, and medical services it provides, which gives them a shared mission to protect and growth their portfolios to support the university's extraordinary platform.

Ammon said Penn has a roster of long-term partnerships with external investment management firms. The institution's investment approach, he stated, is characterized by three main elements: (1) a long-term institutional investment horizon, (2) a requirement for equity-like returns, and (3) a people-driven model of investing. He shared how the investment team views their jobs "to find long-term partners, never as entering into a trade." Ammon continued, describing the team's focus on returns, versus asset gathering, and transparency. He provided an example of a manager who returned to the Penn endowment for a follow-on allocation after being fully transparent about the investment situation and the value that could be created with additional capital. Ammon emphasized how Penn may be a provider of more than just capital and described how the investment team and university system often serves as a valuable resource to its external investment managers. The investment team can bring the university and all of its resources to bear to assist with due diligence, especially in areas of medicine and technology. Given the thousands of managers and companies the investment team meets, it also can provide insights and facilitate with investment company due diligence processes. Ammon concluded his remarks and shared that each of the asset class heads would elaborate and provide details regarding each area of investment.

Greene then continued with his remarks, thanking the NAIC team for coordinating the event. He recognized and congratulated Carmen Ortiz-McGhee, who was promoted to serve as NAIC's Chief Operating Officer earlier that week. Greene also acknowledged David Smith, NAIC's Program & Initiatives Manager, for his first full year of NAIC roadshow management and Nia White, Partner of Astra Capital Management, for advising on the roadshows over the last five years. Finally, he asked Nia White, Michael Smart and the three or four other participating Penn alums to acknowledge themselves with a Quaker wave!

Greene then went on to describe NAIC's fifty-year history of advocating for experienced and top-performing diverse managers and the organization's membership, which has now grown to 112 firms. Today, Greene said NAIC members manage $178 billion in assets in the aggregate, which does not include assets managed by some of the larger fund-of-fund members who operate across asset classes and strategies. He continued that NAIC member firms employ over 630,000 workers, including 88,000 employees across Pennsylvania, noting that NAIC is now able to aggregate statistics regarding member firms via its IntelligentNAIC tool and look through to members' portfolio companies to understand the broad scope of the NAIC member firms' investments and relevance to the U.S. economy.

Greene touched on two common misperceptions regarding diverse managers: (1) that they are difficult to find and (2) that investing with them comes with a compromise to performance. On the first point, Greene said that in the mid-2000's, many U.S. institutional investors traveled all over the world to identify and invest in BRIC funds, while ignoring diverse managers right here in the U.S., who were generating strong returns with investments in the emerging domestic market. He also recommended that everyone visit NAIC's website (naicpe.com), where links are provided to the websites of all 112 NAIC member firms. Regarding the second claim, he shared that numerous studies have documented how diverse managers perform as well as, and often outperform, their non-diverse peers with top-quartile funds. Greene stated the growth in many of the individual NAIC member firms' AUM is attributed to their strong performance, highlighting firms like Heard Capital, which has seen a four to five time increase in its hedge fund's AUM since joining NAIC.

Greene encouraged the members of Penn's investment team to look far and wide for talent and recognize that emerging managers are not new investors, noting that many NAIC members manage funds that are now outperforming many of the funds led by the firms where they trained and worked prior to launching their own firms. Greene shared the findings of the 2019 *Examining the Returns: The Financial Returns of Diverse Private Equity Firms* report, which was commissioned by NAIC and produced in collaboration with Aon and KPMG. The study showed Diverse Private Equity funds, over the period, represented by NAIC member funds in the NAIC Private Equity Index, recorded a net IRR of 18.96%, compared to the Burgiss Benchmark upper quartile net IRR of 17.33% percent and median net IRR of 9.22%. In fact, he shared, Diverse Private Equity funds performed better than the Burgiss Median Quartile in 78.6% of the vintage years studied. He also described the data reporting and collection process required to anonymize the managers' returns, work with KPMG to tabulate the results and GCM Grosvenor to run the benchmark analysis, and ultimately, generate the report. Greene said that it is time for NAIC to launch the process for the 2021 NAIC performance study. Another study Greene referenced was the 2020 *Diversifying Investments* study led by Harvard Business School professor Josh Lerner, which reported diverse alternatives managers perform as well as or better than their majority counterparts.

"NAIC members are also often generating headline news," Greene shared. Several well-known brands have been acquired by NAIC member firms, and a number of the NAIC hedge fund members are regularly featured on major network news, such as MSNBC and NBC's *Squawk Box*. Institutional investors, who have taken note of NAIC members' outperformance, who have led to the oversubscription of several NAIC member funds. Greene noted 17 diverse firms have raised 30 oversubscribed funds since 2014, calling out NAIC members on that list, such as Grain Management, One Rock Capital Partners, Stellex Capital Management, The Vistria Group, Valor Equity Partners, and Vista Equity Partners and his desire to see that list continue to grow.

Greene commented on a number of NAIC Resources and Initiatives he encouraged the Penn team to take advantage of to learn more about NAIC members and the diverse manager landscape. NAIC's Resources have been broken into three primary verticals: (1) increasing access to capital, (2) delivering market education, and (3) addressing industry challenges. Greene mentioned the ENGAGE Trustee Education Series NAIC launched with GCM Grosvenor in 2019 to provide trustees with strategies and insights regarding investing with diverse managers. He spent some time discussing NAIC's commitment to women-led alternatives firms and supporting women to go "In, Up, and Beyond" via the NAIC Women in Alternatives Initiative. He also shared the announcement from earlier in the week that NAIC had partnered with The Robert Toigo Foundation and the American Investment Council to recruit women from non-traditional backgrounds into private equity internships and eventually, longer-term careers. Greene concluded that through the NAIC Institutional Investor Roadshows, he is able to tell the story of outstanding diverse managers and, thus far, has been able to share that message with 96 allocators across 18 states with $13 trillion in aggregate AUM.

Dani Gastner thanked Greene for his comments and said she would touch on how the Penn investment team approaches investments within real estate before her colleagues provide more insights into their private equity and hedge fund strategies. She said within real estate, her team focuses on generating equity-like returns with a partial hedge against inflation. Gastner said they also focus on real estate managers with operational expertise and a leaning towards value-add for current income and potential upside. She added they avoid pure development strategies and try to understand managers' risk exposure. The real estate team has a preference for smaller managers (funds up to $500 million) and the majority of their portfolio is in the U.S. with some exposure in Europe and none in the emerging markets.

Thomas Scriven spoke about Penn's approach to private equity. He said buyouts and venture represent 30% of the endowment. He said they focus on a concentrated set of manager relationships with the belief they can outperform with a limited number of longstanding partners. The investment team believes their model allows them to be closer to partners and occasionally, bring more than capital to the table. He said a significant portion of Penn's balance sheet is within the University of Pennsylvania healthcare system. Scriven shared that the team is primarily focused on buyouts and looks to commit $50 – 60 million with first-time relationships, which they look to grow over time. He said they are "not dogmatic, do not use a checklist, and maintain a very bottoms-up approach to manager-selection," understanding “what works for one firm, might not work for another.” He also said there are no targets for industry, geography, or fund size within private equity.

Scriven described the soft factors his team spends a lot of time thinking about, such as GP alignment and managers that think of themselves as managers of a private equity firm and real business, not just as a pool of capital. He went on to describe other characteristics they seek in external managers. First, he said their private equity team has a bias toward managers who, like them, seek concentrated portfolios with high hurdles for new investments. Next, in terms of size, the team looks for “strategies that are capital-constrained for their opportunity set.” Scriven continued that they want to invest with managers with deep domain expertise, an operational playbook, an understanding of how the companies they invest in work in real life, how to underwrite their growth and margin improvement, and what the manager can do operationally to grow them over time. He said cash flows matter, and the team has a preference for value orientation.

Joanne Yoo, DPI, asked Scriven what target returns the private equity team uses to underwrite managers, noting that she has heard it is difficult to start a first-time relationship with Penn unless the private equity firm has a track record MOIC (multiple over invested capital) of 3 times or higher. Scriven responded, while the team does care about money multiples over IRR, that IRR is the second check. He added they do invest in first-time funds, which represent four of their last twenty commitments. Scriven stated the team does not use any hard rules to evaluate past performance.

James Tieng, Lumos Capital, asked Scriven whether they have concentration limits. Scriven said that some of their funds have a single portfolio company. He shared what he said was his favorite statistic, “if they look through their ten largest portfolio company positions in private equity, they account for 20% of the NAV,” which he thinks speaks to their focus on alignment of interest. Peter Ammon added that the Penn endowment is not restricted to only represent a certain portion of a fund and that they have the flexibility to commit any amount to any fund. Tieng followed up asking whether the private equity team would make a commitment along with a staple for a first-time fund. Scriven commented that they co-invest to support their existing managers, not to bring down costs and fees.

Nnena Nkongho, Otundi Ventures, asked about the approach to venture manager selection. Scriven said they have a preference for early-stage / series A, but that their approach has evolved to include some growth. He said it is difficult to be a generalist in venture, though their manager roster includes names like Benchmark Capital and Sequoia Capital. The team has primarily added specialist venture firms, more recently, with deep domain knowledge and capital-constrained approaches.

Thomas Woodbury spoke next about the team’s approach to hedge fund investments. He said one of the benefits of going third was that Gastner and Scriven had already covered many of the things the investment team also looks for in hedge. They tend to prefer smaller funds where there is alignment and demonstrable manager skill. He noted how inefficient markets are today. Woodbury said they are exclusively focused on manager skill and have a “very open mandate.” He referred back to Ammon’s earlier comments, adding that the duration of the endowment’s capital pushes them to being value investors.

Woodbury shared guardrails for their hedge fund strategy or where the team finds value, such as long-short equity, event-driven, relative value, or a combination of those. Woodbury said they will make some niche investments, but generally appreciate “broad skills that span asset classes and geographies.”

He said they are biased towards single-strategy managers who dynamically allocate to the best ideas and biased against macro-driven, black boxes where managers are not able to articulate their strategies. Woodbury shared they are “very comfortable partnering with emerging managers” and typically get to know them for many years, usually at their prior institutions, before investing. He added they want to “know the talented individuals at marquee shops” before they launch.

Michael Smart asked Woodbury how he defines the smaller managers they prefer. Scriven responded, “it is all relative.” He said they are typically looking for capital-disciplined investors, who understand the necessity to maximize the return threshold of their portfolio. The amount of capital raised, he said, “needs to make sense.” Scriven finished his remarks recalling how some hedge funds have accumulated a lot of capital, and said, “the team believes, as a general rule, size is the enemy of returns.”

David Smith, NAIC’s Programs and Initiatives Manager, then provided the instructions for the private, one-on-one meetings that followed the general session of the roadshow, whereby each representative of an NAIC member firm met with Peter Ammon, CIO, and members of the investment team for twenty minutes. Peter Ammon thanked the NAIC team for the presentation and opportunity. Greene then wrapped up the year’s last roadshow stop with a final word of appreciation to the Penn team and word of encouragement to NAIC members to use their twenty minutes wisely.