National Association of Investment Companies

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

1300 Pennsylvania Avenue, NW, Suite 700
Washington, DC 20004

MEMORANDUM

To: NAIC Members
From: Robert L. Greene, President & CEO
Date: March 18, 2021
Subject: NAIC Institutional Investor Virtual Roadshow hosted by Mercer

NAIC held the first Institutional Investor Roadshow of the year on March 9, 2021. The virtual event was the second in a series of roadshows with **Mercer**, who in September 2020 hosted, NAIC's largest roadshow to date, in terms of both the represented assets under management and advisement by Mercer and its invited guests and the number of NAIC participants. Mercer, once again, did not disappoint, drawing another large audience for the March 9th event.

Mercer hosted the NAIC Institutional Investor roadshow, and five clients and active alternatives investors participated**: Arizona Community Foundation**, **Geisinger Health**, **Pittsburgh Foundation**, **Southern Company**, and **Yale New Haven Health.** Mercer's capital allocator guests represented approximately $22 billion in assets under management, and the event was NAIC's initial engagement with Arizona Community Foundation and Geisinger Health. The roadshow participants and relevant contacts, with email addresses, are included below:

<u>**Institutional Investors**</u>
Mercer

- **Brad Young,** Partner and Global Co-CIO, Private Markets, Alternatives – brad.young@mercer.com
- **Catherine Abely**, Principal – catherine.abely@mercer.com
- **Turner Bailey**, Principal, Alternatives – turner.bailey@mercer.com
- **Alex Chouzhyk**, Associate – aliaksandr.chouzhyk@mercer.com
- **Taylor Irvin,** Senior Associate – taylor.irvin@mercer.com
- **Terrence Jones,** Associate – terrence.jones@mercer.com
- **Harry Leggat**, Partner, Head of U.S. Private Equity – harry.leggat@mercer.com
- **Robert Nelson**, Associate – robert.nelson@mercer.com
- **Matt Reckamp**, Principal – matt.reckamp@mercer.com
- **Amy Ridge**, Principal – amy.ridge@mercer.com
- **Erik Sebusch**, Private Markets – erik.sebusch@mercer.com
- **Reid Smith**, Principal – reid.smith@mercer.com
- **Schon Williams**, Principal – schon.williams@mercer.com

Arizona Community Foundation

- Casey Stevens, Senior Director, Investments – cstevens@azfoundation.org

Geisinger Health

John Luthi, Treasury Lead – njluthi@geisinger.edu

Pittsburgh Foundation

Brad Jones, Senior Investment Analyst – jonesb@pghfdn.org

Southern Company

Tim Acklin, Investment Principal – tpacklin@southernco.com
Brad Gates, Director of Private Markets – bjgates@southernco.com
Jonathan Farr, Private Markets – jlfarr@southernco.com

Yale New Haven Health

Bill Camelio, Senior Investment Strategist – william.camelio@ynhh.org
Geeta Kapadia, Associate Treasurer, Investments – geeta.kapadia@ynhh.org
Mallika Nair, Senior Investment Strategist – mallika.nair@ynhh.org

NAIC Leadership & Staff

Robert L. Greene, President & CEO – rgreene@naicpe.com
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Alan Hughes, Chief Content Officer – ahughes@naicpe.com
David Smith, Programs & Initiatives Manager – dsmith@naicpe.com
Nia White, Capital Allocator Advisor – ngandy@naicpe.com

Twenty-seven representatives from NAIC member firms were selected to join by Mercer: Academy Investor Network, Sherman Williams; Ardinall Investment, Maria Jelescu; Argand Partners, Kay Blackwell; Avenue Growth Partners, Ryan Russell; BK Coin Capital, Kevin Kang; Brasa Capital, Alexis Lewis; Brickell Opportunity Partners, John Hall; DigitalDX Ventures, Michele Colucci; DPI, Joanne Yoo; Elizabeth Park Capital Management, Craig Cimoroni; GPI Capital, Philip Lo; Graham Allen Partners, Kevin Deeth; KAH Capital Management, Donna Sims Wilson; Lumos Capital, James Tieng; Madryn Asset Management, Kimberly Schroeder; Nile Capital Group, Mel Lindsey; Ocean Park Investments, J. Dennis Jean Jacques; OceanSound Partners, Joe Benavides; Palladium Equity Partners, Chris Allen; Pharos Capital Group, Adam Persiani; Recast Capital, Courtney McCrea; Standard General, Robert Galeano; Standard Real Estate Investments, Jerome Nichols; Stellex Capital Management, Courtney Mehrotra; V-Square Quantitative Management, Habib Moudachirou; and WM Partners, Vanessa Gabela.

Bob Greene, NAIC's President and CEO, began the meeting thanking the Mercer team and Brad Young, Mercer's Global Co-CIO and Partner, for the hosting the event, along with the NAIC team for their coordination. Greene said he appreciated Mercer for working with NAIC to host multiple roadshows, and then he invited Young to provide welcome remarks. Young said it was "great to get the group back together again." He also thanked David Smith, NAIC's Programs & Initiatives Manager, for his work on the roadshow, which included arranging private meetings for the NAIC members, Mercer team, and participating allocators across 12 virtual rooms.

Young then shared brief background information on Mercer. He said Mercer has $170 billion of private markets assets under advisement and another $23 billion of private markets assets under management.

He described how Mercer is an active allocator across the private markets platform. Young ended with "everybody will have an audience today, and I don't want to stand in the way of a successful meeting."

Greene thanked Young for his commitment to diversity and this process and then walked everyone through the agenda for the day. In the interest of providing more time for each of the participating capital allocators to meet individually with NAIC members, Greene shared that the general session had been condensed to just twenty minutes. Greene then shifted to a structured presentation of the diverse manager marketplace, which he said had two primary objectives: (1) to validate that diverse managers are generating top performance, and (2) to support how diverse managers can be the backbone of a successful investment program.

Greene then provided the participating capital allocators with an overview of NAIC. He said NAIC is one of a number of organizations advocating for diverse managers to have access to manage institutional capital, but the differentiating factor is that NAIC is the "de facto" and largest trade association for diverse managers in the alternatives space. Greene shared how NAIC's membership had grown since the last session with Mercer to 115 members with $200 billion in aggregate assets under management. Greene stated the median assets under management per firm was $1.3 billion, as of May 2020, and the largest member, Vista Equity Partners, had increased its assets under management from $57 billion to close to $70 billion. Greene covered the broad spectrum of industries NAIC member firms invest in—commercial services and products, communications, consumer goods, containers and packaging, financial services, healthcare, hospitality, retail, software, and transportation—highlighting how "diverse managers are investing across all industry segments with great success."

Greene continued his remarks pointing out how when one looks at the number of deals completed by NAIC member firms, over 200 in 2019, it is evident the diverse marketplace is vibrant and growing. He emphasized the purpose of the roadshow to remove barriers preventing institutional investors from engaging with diverse managers. Greene then touched on the history of NAIC. He said the organization began as a trade association for private equity firms— buyouts, growth equity, venture, co-investments, secondaries, and fund of funds—and expanded to include hedge funds five years ago and now includes members investing in other alternatives asset classes.

The outperformance of the diverse manager marketplace was something Greene said could not be denied. He mentioned the 2019 performance study of diverse managers, *Examining the Returns*, in which NAIC members outperformed the majority of U.S. Private Equity funds on a median and top quartile basis. He described how KPMG produced the results of the bottoms-up study after collecting and analyzing cash flows provided by a broad section of the NAIC members. Greene said the KPMG study documented how the diverse manager median performance exceeded that of the general industry, the top quartile diverse managers outperformed the general top quartile, and the top decile of the diverse managers also outperformed the top decile of the general industry.

The other study Greene referenced was the 2020 *Diversifying Investments* study led by Harvard Business School professor Josh Lerner, which found that diverse alternatives managers perform as well as or better than their majority counterparts. He also touched on the high volume of financial and business press NAIC members generate, evidenced by the member news feed featured on the NAIC website (naicpe.com), which further supports the vibrancy and high level of activity across the diverse manager marketplace.

Staying on the topic of outperformance, Greene turned to the visual representation of oversubscribed diverse-led funds, depicted via a series of bar charts for each year since 2014 with the 47 diverse-led funds and the amounts the managers raised over their fund target amounts. Greene said the high levels oversubscription were attributable to the outperformance of the managers. He called out a few examples, “Palladium had $800 million on the cover of its Fund IV and raised $1.14 billion in 2014. Siris Capital set out to raise $1 billion for Fund III and closed on $1.8 billon in 2015. In 2018, Clearlake targeted a $2.5 billion fund and raised $3.6 billion. Most recently, One Rock, during the middle of the pandemic, raised over $1.7 billion for its Fund III that had an original $1.5 billion target.” Greene reiterated, “diverse managers on this chart would not be able to raise Roman numeral fund after Roman numeral fund with oversubscription without outperformance.” Greene encouraged the participating institutional investors to “look at the Fund I’s, Fund II’s, and Fund III’s that come behind them.”

Greene then provided an introduction to NAIC’s Resources, which fall under three main categories: (1) increasing access to capital for members and the broader diverse manager universe, (2) delivering market education, and (3) addressing industry challenges. He highlighted a few examples of the large portfolio of resources within each category. Greene began with the NAIC initiatives to increase the access to manage capital for diverse managers and spoke about the NAIC *Managers in the Market* report (MINT) a quarterly publication of NAIC member funds that are either in the market or have recently closed. Greene described how MINT was “designed to demystify this industry,” and provides an efficient way for institutional investors to learn about the numerous diverse managers actively raising funds.

Next, Greene expanded on the NAIC programs focused on delivering market education, such as the NAIC Performance Study, NAIC *Perspectives* videos, IntelligentNAIC, and the E.N.G.A.G.E. trustee education series. Greene then discussed NAIC’s mission to solve big industry challenges. He spoke about “In, Up, and Beyond”, NAIC’s strategy to help “move women into the alternatives industry, up the continuum, and beyond their firms” as experienced alternative investment professionals. Greene then touched on map of the United States within the presentation, which illustrates the states where NAIC has engaged with investors via the NAIC Institutional Investor Roadshows. Through the roadshows, NAIC and its members have met with 96 capital allocators managing over $3 trillion collectively across 18 states, which were shaded dark blue on the map. Greene said the states on the map with light blue shading were those where NAIC has not yet engaged with institutional investors. He added, “I don’t know if we will ever complete the map and get it to go all dark blue, but it won’t be for lack of trying.”

Greene summarized the key messages from his presentation:

- NAIC member firms offer a wide range of private equity and hedge fund strategies;
- The market is recognizing that emerging managers are experienced investors;
- Several emerging and diverse managers, including NAIC members, are outperforming their larger, well-known peers;
- Some of the highest performing and oversubscribed funds are those of diverse managers and NAIC members; and
- Many sophisticated investors are expanding their allocations to high-performing emerging and diverse managers.

Greene concluded saying that was the fastest he had ever given an overview of NAIC and directed the capital allocators to contact the NAIC team to follow up on what he had shared. David Smith then provided instructions for the private meeting sessions held into the afternoon, whereby each of the 27 NAIC member representatives had fifteen-minute meetings with two institutional investors. Greene closed out the meeting thanking the Mercer team for assembling five significant institutional investors and hosting the event. Additional information on each of the participating institutional investors is included below.

Mercer
Mercer is a global provider of consulting, outsourcing, and investment services, which dates back to 1937. The firm has $321.4 billion of global assets under management (as of September 30, 2020) and another $15 trillion in assets under advisement (as of June 30, 2019), which makes it the top-ranked consultant globally by assets under management and advisement. Mercer's investment consulting business is a global provider of investment consulting services and offers customized guidance at every stage of the investment decision, risk management, and investment monitoring process. The firm has served clients across 46 countries, including fiduciaries of pension funds, foundations, endowments, and other investors, for over 40 years. It also provides solutions to financial services and firms which service high net-worth investors and the wealth management sector more broadly. Mercer has $170 billion of private markets assets under advisement and another $23 billion of private markets assets under management. (Sources: mercer.com and preqin)

Arizona Community Foundation
Arizona Community Foundation (ACF), based in Phoenix, Arizona, works to improve the quality of life in Arizona by promoting and facilitating effective philanthropy. The foundation was founded in 1978 and has approximately $1 billion in assets under management. ACF accumulates and preserves philanthropic capital and distributes investment returns to charitable beneficiaries, such as those focused on children, families, education and the environment within and outside Arizona. The foundation seeks global investment exposure with a focus on North America, Europe, Asia, and the emerging markets. It invests through a variety of private equity fund types, including buyout, co-investment, distressed debt, early to late stage, growth, mezzanine, secondaries, special situations, turnaround, venture, and fund of funds vehicles. When committing to new private equity funds, ACF typically invests between $5 million and $10 million per fund. ACF will consider investing in first-time funds and funds prior to their initial close. ACF invests in hedge funds through both direct single-manager hedge funds and funds of hedge funds. It invests in a variety of strategies, including distressed, event-driven, long/short equity, macro, mortgage-backed securities, and alternative risk premia strategies. It targets returns in excess of 4% against T-Bills for its hedge fund portfolio. When investing in new hedge funds, the foundation typically invests between $8 million and $12 million per fund and is willing to accept lock-up periods. The foundation prefers hedge fund managers with track records of at least ten years. (Sources: azfoundation.org and preqin)

Geisinger Health
Geisinger Health System is an integrated health services organization based in Danville, PA, which was established in 1975. The endowment plan has $4.4 billion in assets under management. Geisinger is an active investor in private equity as part of its alternative asset strategy. It allocates two percent of its total assets to the asset class. Geisinger invests in hedge funds as part of its alternative asset strategy, allocating less than one percent of its total assets to hedge funds via strategies such as fixed income and long/short equity. (Source: preqin)

Pittsburgh Foundation
The Pittsburgh Foundation was established in 1945 to work to improve the quality of life in the Pittsburgh region by evaluating and addressing community issues, promoting responsible philanthropy and connecting donors to the critical needs of the community. The community foundation manages $1.3 billion in assets, which represents 2,220 in charitable trusts and a number of portfolios. Approximately $350 million of the foundation's assets sit within the direct private equity program. The Pittsburgh Foundation has a preference for private equity fund of funds vehicles and will also invest in venture capital, buyout, distressed debt, and natural resources vehicles. It will also consider secondaries funds, which it will invest in through fund of funds vehicles. The foundation invests on a global scale including Asia, Europe, North America, and the emerging markets and will consider committing to first-time funds and being a first close investor. The Pittsburgh Foundation invests in hedge funds through single-manager funds and funds of hedge funds. Through such investments, it gains exposure to a diverse range of hedge fund strategies, including long/short equity, multi-strategy, and distressed, and Asia, Europe, North America, and the emerging markets. (Sources: NAIC, pittsburghfoundation.org, and preqin)

Southern Company
Southern Company Pension Plan is the private pension plan of Southern Company. It was established in 1949 and also provides certain medical care and life insurance benefits for retired employees through post-retirement benefit plans. Southern Company is one of the largest U.S. private pension plans with $14 billion in assets—26% of the portfolio is in alternatives, real estate accounts for 14% of the portfolio, 9% of the portfolio is in private equity, and 3% is in special situations. Of the private equity allocation, approximately 70% is within the buyout space, and 30% is in venture and growth. The plan's real estate investments are across the spectrum, and its special situations bucket was created to be opportunistic after the global financial crisis of 2008. Southern Company seeks global exposure with a focus on North America, Europe, Asia, and the emerging markets. It invests in a variety of private equity fund types, including balanced, buyout, co-investment, co-investment multi-manager, distressed debt, early-stage, fund of funds, growth, mezzanine, special situations, turnaround, venture, and venture debt. Southern Company invests in hedge funds via direct-single manager funds. The pension plan is known to invest in a variety of hedge fund strategies, including distressed, special situations, and long/short credit. (Sources: NAIC and preqin)

Yale New Haven Health
Yale New Yaven Health was established in 1826 as Yale-New Haven Hospital, Inc. and operates as a not-for-profit hospital that provides health care services in Connecticut. The health system operates four hospitals across the state of Connecticut and a small facility in Rhode Island. The portfolio is comprised of approximately $3.5 billion in operation assets and $1.2 billion in pension assets. The foundation is active across asset classes and building out its alternative portfolio with the advisement of Mercer.
Yale New Haven seeks global private equity investment exposure with a focus on North America, Europe, Asia, and the emerging markets. It invests in a variety of private equity fund types, including buyout, fund of funds, and venture vehicles. The foundation will consider first-time funds and has demonstrated investment interest in a wide variety of industries. (Sources: NAIC and preqin)