

## MEMORANDUM

**To:** NAIC Members

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

**Date:** April 16, 2021

**Subject:** NAIC Institutional Investor Virtual Roadshow hosted by Wellesley College

On March 31<sup>st</sup>, NAIC held the second Institutional Investor Roadshow of the month hosted by Wellesley College. Twelve NAIC member firms were invited to attend and participate in an interactive discussion and private meetings with senior members of the endowment's investment staff. The roadshow participants and relevant contacts, with email addresses, are included below:

### Wellesley College

**Rose Carpenter**, Deputy CIO – rcarpent@wellesley.edu

**Matthew Veilleux**, Investment Director – mv100@wellesley.edu

**Gregory Rozolsky**, Investment Director – gr100@wellesley.edu

**Emmett Jennett**, Investment Associate – ereuder@wellesley.edu

### NAIC Leadership & Staff

Robert L. Greene, President & CEO – rgreene@naicpe.com

Carmen Ortiz-McGhee, Chief Operating Officer – com@naicpe.com

Tina McIntyre, Chief Financial Officer – tmcintyre@naicpe.com

Alan Hughes, Chief Content Officer – ahughes@naicpe.com

David Smith, Programs & Initiatives Manager – dsmith@naicpe.com

Jasmine Elbarbary, Alliance & Marketing Manager – jelbarbary@naicpe.com

Nia White, Capital Access Advisor – ngandy@naicpe.com

Twelve NAIC member firms and their respective representatives were selected to participate in the event: **Brasa Capital Management**, Alexis Lewis; **GenNx360 Capital Partners**, Daphne Dufresne; **GPI Capital**, Philip Lo; **Graham Allen Partners**, Kevin Deeth; **ICV Partners**, Lloyd Metz; **Pharos Capital**, Adam Persiani; **RLJ Equity Partners**, Rufus Rivers and Otey Smith; **Stellex Capital Management**, Ray Whiteman; **Topspin Consumer Partners**, Ojas Vahia; **Vistria Group**, Marty Nesbitt; **Wind Point Partners**, Alex Washington; and **WM Partners**, Vanessa Gabela.

Bob Greene, NAIC's President and CEO, began the meeting introducing himself and thanking the Wellesley endowment investment team members for their participation. He described how the NAIC Institutional Investor Roadshows began eight years ago and have transitioned to a virtual format with sessions at least monthly. Greene thanked NAIC's COO, Carmen Ortiz-McGhee; Program and Initiatives Manager, David Smith; Capital Access Advisor, Nia White, and introduced the newest member of the NAIC team, Jasmine Elbarbary, Alliance & Marketing Manager.

Greene covered the agenda and format for the roadshow. He said the host remarks would be provided by Rose Carpenter, Wellesley's Deputy CIO, and he would then present the NAIC market overview to share information most institutional investors do not usually know about the diverse manager industry. Greene said the meeting would continue with an overview of Wellesley's sourcing and selection criteria by Matt Veilleux. He added there would be Q&A and a short break before the prearranged private meetings. Greene then turned the floor to Rose Carpenter. Carpenter welcomed everyone and thanked the NAIC team for organizing the roadshow. She said her team was "excited to broaden our network and get to know more diverse managers in the space."

Carpenter then provided a high-level overview of the endowment for Wellesley College, located in Wellesley, Massachusetts. She shared Wellesley's mission is to educate woman who will make a difference in the world. Carpenter said the endowment staff is a team of nine people, with six of them on the investment side. She described how each of the investment professionals work as generalists, led by Debbie Kuenstner, Wellesley's CIO. She introduced Matt Veilleux, an Investment Director, who helps lead on buyouts; Greg Rozolsky, an Investment Director, who helps to lead on real estate and growth equity portfolios; and Emmett Jennett, a Wellesley alum and an Investment Associate, who has been working with the endowment for six years across asset classes.

The Wellesley endowment, Carpenter said, has approximately \$2.8 billion in assets, which supports 40% of the college's operating budget and requires high rates of return. She said the plan has a large allocation to private market investments, which are one-third of the overall portfolio. Carpenter commented on the endowment's "strong performance as of late, which has led to an overallocation in privates and a mature portfolio across asset classes." She commented that the endowment's alternatives exposure today is slanted toward venture and growth. Carpenter described the portfolio's capacity for increased exposure to buyouts and real estate commitments, the latter of which accounts for just two percent of plan. Carpenter said Matt Veilleux would go into the details regarding the endowment's sourcing and manager-selection process.

Before continuing with the NAIC overview, Greene paused to recognize others who supported the event: Diana McCaskill of Fruition Consulting, Chris Norwood of Elemental DM, and Alan Hughes, NAIC's Chief Content Officer. He then highlighted that one of the NAIC members in attendance, Vanessa Gabela of WM Partners, is also a Wellesley alum. Greene described NAIC's membership of 115 member firms, who manage \$224 billion in assets under management (AUM) in the aggregate. Greene stated the median member firm AUM is above \$1 billion and the average firm AUM is \$1 billion, noting the largest member firm now has \$73 billion in total assets. Greene went on to present how NAIC member firms operate across a broad spectrum of industries, and together, have invested in 873 portfolio companies globally which generate \$96 billion in annual revenue. In terms of the employment impact, NAIC member firms' portfolio companies together employ over 681,000 people and over 133,000 in the state of Massachusetts.

Greene highlighted the key takeaways early in the session:

- 1) There is a vibrant and growing population of diverse-owned firms;
- 2) The track record and ongoing performance is competitive with the broader market and does not require a lowering of underwriting standards; and
- 3) A growing number of institutional investors are allocating increased capital to diverse-owned managers, evidenced by frequent oversubscription.

Greene shared how he is increasingly impressed with the “growing number of managers, complexity of the strategies, impressive returns, and quality of the teams.” He described the 115 members in categories; the majority of members invest in mid-market buyouts with “gray lines” between the numerous member firms with venture or growth and expansion strategies. He touched on the “household brands” NAIC member firms hold within their portfolios and how some of the venture members are on the cutting edge investing in industries which do not revolve around Silicon Valley.

Greene added there are eight fund of funds members, some of them are bulge-bracket investment banks, while others are diverse-owned “pure-play” fund of funds focused on investments in funds led by emerging and diverse managers. He mentioned how NAIC recognized a need to include hedge fund and other liquid alternative strategies several years ago, which represents another significant membership subset. A growing category of membership Greene touched on was investment management, which includes members such as Blackstone, BlackRock, KKR, Invesco, William Blair, and NAIC’s first non/GP capital allocator member, Global Endowment Management. Greene said NAIC is also pleased to have a growing number of real estate member firms, which the organization does not recruit, but welcomes and holds to the same performance standards. Finally, Greene touched on the broader category of service provider members, which includes law firms, insurance companies, investment consultants, with whom NAIC works closely.

Greene continued with one of the common misnomers about emerging managers: that they are “new investors.” He emphasized emerging managers are new or newer firms, but not new investors and gained relevant transactional experience at firms like The Carlyle Group, Goldman Sachs, Ripplewood, Deutsche Bank, and Golden Gate. He highlighted how the founders and leaders of Stellex led a group within Carlyle and those from Sycamore Partners spun out of Golden Gate Capital, while other members have previously invested on behalf of firms like JLL Partners, SAC Capital, and Credit Suisse. Greene said many limited partners have chosen to invest with diverse and emerging managers because interests can be more closely aligned on a long-term basis. He compared that with many of the larger firms, which have grown significantly at the expense of limited partner alignment.

Greene stated, “Wellesley could be well served on its journey with diverse managers because they have been great firms to work with because of alignment with LPs.” He also noted the positive experience many public and private pension plans and corporations have had generating strong returns with diverse managers with genuine alignment. He said NAIC “advocates for diverse managers, not on the basis of social justice, but because we fundamentally focus on performance.” He commented on two pieces of research he said are central to the marketplace: first, the *Diversifying Investments* Study (2020) and second, the *Examining the Returns* NAIC Performance Study (2019). He described how the first study, *Diversifying Investments*, led by Harvard Business School professor Josh Lerner, documented three key findings: (1) diverse managers perform as well as their general market counterparts, (2) there is a deep pool of diverse managers, and (3) one would be reasonable to assume a portfolio of diverse managers would outperform the standard industry benchmarks.

Greene outlined the process required to produce the *Examining the Returns* NAIC Performance Study. He described how NAIC collected performance data from its private equity members on a blind and unattributed basis. That performance data was then sent to KPMG, who works with GCM Grosvenor, Fairview Capital, HarbourVest Partners and a number of fund of funds partners to conduct the benchmarking analysis. Meredith Jones from Aon then provides the commentary driven from the output.

Greene highlighted how *Examining the Returns* reported NAIC member firms produced higher DPI than the general industry 64.3% percent of the time since 2000. The punchline he reiterated was that diverse managers have outperformed. Greene pointed out how the NAIC website ([naicpe.com](http://naicpe.com)), features the aforementioned research studies and headline news regarding NAIC members and exemplifies the robustness of the diverse manager marketplace. He added, "It is a great time to be in the marketplace today, because it is nowhere near capacity."

Greene continued presenting how one could attribute diverse manager outperformance to the 29 oversubscribed funds led by diverse managers since 2015 via several member examples. He described how in 2015, Siris set out to raise \$1 billion, and the fund was oversubscribed by 80% and closed at \$1.8 billion. Also, that year, Valor Equity Partners set out to raise \$350 million for Fund III and raised \$491 million. In 2018, Clearlake went out for a \$2.5 billion Fund V and raised \$3.6 billion. Last year, Vistria set out to raise \$800 million last year for its Fund II target and raised \$1.1 billion. Greene summarized how many institutional investors have made commitments to these oversubscribed diverse-led funds, because they recognize the "tremendous opportunity and great deal flow."

Greene went on to talk about NAIC's programs and initiatives. He shared his appreciation for NAIC members and partners, who contribute significant resources in support of the organization's mission. Greene described how NAIC's programs, initiatives and resources may be classified across three categories: (1) increasing access to capital for members and the broader diverse manager universe, (2) delivering market education, and (3) addressing industry challenges. Examples Greene provided of NAIC's efforts to increase the access diverse managers have to manage capital included this roadshow, the *Managers in the Market* quarterly distribution, and the NAIC LP Meet-Ups, which he described as similar to a large roadshow with multiple capital allocators. For its October 2020 LP Meet-up, NAIC registered 50 capital allocators and over 50 NAIC member firms and curated over 250 meetings. Greene also mentioned the F.A.S.T. (Fundraising Advisory Support Tracker) used to introduce new NAIC members to capital allocators whose investment criteria they meet. He also touched on the Federal Pension initiative, which has been focused on providing diverse managers with fair and equal access to manage the assets of federal pension plans and endowments.

Next, Greene explained how NAIC delivers market education. He described the ENGAGE program as an "amazing symposium for trustees and investment staff," with market research and testimonials from institutional investors with top-performing investments in diverse-led funds. He shared that ENGAGE will resume later this year. Greene also mentioned Intelligent NAIC, the data aggregation resource used to showcase NAIC member firm demographics and analytics in aggregate form.

Greene continued with the third tenet of focus for NAIC, addressing industry challenges. He mentioned NAIC had just recently concluded its most recent NexGen (Establishing the Next Generation of Private Equity Firms Symposia), which he described as a series of six two-hour modules designed to provide resources for diverse investment professionals seeking to launch their own alternatives management firms. Greene commented on the valuable nature of the content provided to aspiring general partners, stating "At the start of the program, forty percent (40%) of the participants said they believed they knew everything they needed to know to launch their own firms, and at its conclusion, one hundred percent (100%) surveyed stated they did not know everything they required." Several partnering organizations contribute to NexGen and its success, including program partners GCM

Grosvenor and DAMI (the Diverse Asset Managers Initiative) and speakers from Stellex, Mintz Levin, Kirkland & Ellis, Park Hill, EY, along with many other past participants.

The other industry challenge Greene said NAIC was extremely focused on is the advancement of women in alternatives. The NAIC Women in Alternatives mission he said was led by NAIC's COO, Carmen Ortiz-McGhee, who has collaborated with senior women across the diverse manager and general investment industry to execute a three-pronged strategy— *In, Up, and Beyond* —NAIC's strategy to help women enter the alternatives industry, move up the continuum and beyond their firms as experienced alternative investment professionals. Greene added that NAIC has recently launched the NAIC Paradigm Changer Internship program, in partnership with the American Investment Council and Toigo, which features curriculum from Vista Equity Partners and will introduce young undergraduate and graduate women from a wide range of academic background to careers in alternatives.

Greene shared his personal hope to expand the NAIC Paradigm Changer Internship year over year to significantly grow the number of women in this market. He then turned to the U.S. map, which visually represented the NAIC Institutional Investor Roadshow stops, held onsite and virtually since 2014. He described how NAIC members have engaged with capital allocators "far north and far south", highlighting many institutional investors in Texas have been some "the more prolific allocators in the space" and his desire to expand engagement with institutional investors in states where NAIC has not yet had an opportunity to do so. Greene then thanked everyone for their attention and turned to Matt Veilleux to speak about Wellesley's manager-selection process.

Veilleux thanked Greene and began to provide more insights regarding the investment criteria for the Wellesley endowment. He said the plan is not a large portfolio and has "few slots" for new managers. Veilleux described how he and his colleagues are "looking for outstanding managers with unique attributes we can identify—first and foremost, the strength of the team." He continued to share his team's desire to partner with general partners that are hungry and cohesive, understanding what supports that, such as economic alignment. Next, Veilleux said the team focuses on the strength of the track record and confirmation that "the GP is the same group from the prior fund." He continued, "On an organizational level, we spend time understanding the evolution of the firm, where the managers are in their life cycle, fund size, and how a fund compares to the prior fund."

Veilleux shared that whether the fund offering is a new or smaller fund would also have implications for the strategy. Another team consideration is the infrastructure of the firm and whether it is robust and stable. Veilleux commented on the strategy of any given manager: "It has to make sense to us. Managers need to demonstrate consistency." He also shared the endowment's preference for managers to pursue a single strategy over being pulled into ancillary or other projects. He said there is also a significant focus on the manager's competitive advantage, which requires an understanding of whether the team members "collectively have an edge and their value-add is poised to be durable across market cycles and applied in a way that is repeatable."

The Wellesley investment team currently prefers managers with a North American geographic footprint, private equity strategies focused on control investments in the lower to middle market, EBITDA ranging from positive to \$35 million, and enterprise valuations up to \$300 million. The team prefers manager track records with relevance to the current strategy and fund offerings of at least \$200 million with modest fund growth over time. The team additionally seeks operational improvement and sector and

geographic specialists. Veilleux concluded his remarks sharing the team is not looking to commit to strategies focused on the technology, oil, gas, or defense industries.

Greene then invited questions from NAIC members. Alexis Lewis of Brasa Capital Management asked about past engagement with diverse and emerging managers and whether they are a focus area for the team. Veilleux responded that diverse and emerging managers are “definitely a focus,” which they have ramped up and want to continue to expand with the help of NAIC. He said they are “hoping to build upon this level of engagement and are oriented towards diverse and emerging managers with competitive returns.” Greene added that the Wellesley team reached out to NAIC to learn more about its members and pursue an opportunity to meet with them.

Alex Washington from Wind Point Partners asked whether the endowment is actively co-investing with managers. Rose Carpenter responded that while the opportunity is attractive, “our small team is focused on primary investments.” Vanessa Gabela of WM Partners asked whether the investment pacing has changed since the onset of the pandemic and move to virtual meetings with external managers. Carpenter began detailing how the venture and growth allocations have outperformed. She said the team continues to be active in those asset classes but has “cut back a bit to support buyouts.” Carpenter volunteered she has “been pleasantly surprised by how the team adapted and has recently invested with a public manager they have never met in person.” She noted one of the benefits of Zoom has been broader exposure to the investment teams, but that she “looks forward to the day when we can meet face to face.”

Greene then transitioned to instructions for the private meetings to follow a ten-minute scheduled break. David Smith discussed the process for participating in the individual sessions between NAIC members and the Wellesley investment team. Greene concluded the meeting, thanking the Wellesley team again for hosting the roadshow and wishing everyone luck with the one-on-one meetings.