National Association of Investment Companies

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

1300 Pennsylvania Avenue, NW, Suite 700
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MEMORANDUM

To: NAIC Members
From: Robert L. Greene, President & CEO
Date: June 25, 2021
Subject: NAIC Institutional Investor Virtual Roadshow hosted by the Employees' Retirement System of the State of Hawaii

On June 3, 2021, NAIC held its fifth NAIC Institutional Investor Roadshow of the year hosted by the Employees' Retirement System of the State of Hawaii ("Hawaii ERS" or "HIERS"). Twenty-nine NAIC member firms were invited to attend and participate in an interactive discussion and private meetings with senior members of the plan's investment staff. The roadshow was NAIC's initial engagement with Hawaii ERS. The roadshow participants and relevant contacts, with email addresses, are included below:

Employees' Retirement System of the State of Hawaii
Elizabeth Burton, Chief Investment Officer – elizabeth.burton@hawaii.gov
Howard Hodel, Deputy Chief Investment Officer, Risk Management – howard.hodel@hawaii.gov
Aaron Au, Investment Officer, Illiquid Markets – aaron.au@hawaii.gov
David Okamoto, Investment Officer, Credit – david.okamoto@hawaii.gov

Hamilton Lane
Natalie Fitch, Vice President – nfitch@hamiltonlane.com

Stafford Capital Partners
Andrew "Andy" Betz, Principal, Stafford Private Equity – andrewbetz@staffordcp.com

NAIC Leadership & Staff
Robert L. Greene, President & CEO – rgreene@naicpe.com
Carmen Ortiz-McGhee, Chief Operating Officer – com@naicpe.com
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David Smith, Programs & Initiatives Manager – dsmith@naicpe.com
Jasmine Elbarbary, Alliance & Marketing Manager – jelbarbary@naicpe.com
Nia White, Capital Access Advisor – ngandy@naicpe.com

The 29 NAIC member firms and their respective representatives selected to participate in the event included: **Academy Investor Network,** Sherman Williams; **Advent Capital Management,** Karen Richardson; **Argand Partners,** Kay Blackwell; **Avance Investment Management,** David Perez; **Avenue Growth Partners,** Ryan Russell; **BKCoin Capital,** Kevin Kang; **Brasa Capital,** Alexis Lewis; **Chicago River**

Capital; Dwight Skerritt; **DCIF,** Tom Soto; **DigitalDx Ventures,** Michele Colucci; **Dominus Capital,** Michael Smart; **DPI,** Joanne Yoo; **Elizabeth Park Capital Management,** Craig Cimoroni, **Fairview Capital Partners,** Michele Chow-Tai; **GPI Capital,** Philip Lo; **Graham Allen Partners,** Kevin Deeth; **Griot Partners,** D.C. Moore; **HarbourVest Partners,** Craig Fowler; **Heard Capital,** William Heard; **Jacmel Growth Partners,** Nick Jean-Baptiste; **Lumos Capital Partners,** James Tieng; **Madryn Asset Management,** Avi Amin; **Ocean Park Investments,** J. Dennis Jean-Jacques; **PAAMCO Prisma,** Von Hughes; **Palladium Equity Partners,** Dale O'Connell; **Standard Real Estate Investments,** Jerome Nichols; **VeriStar Capital Management,** Kenney Oh; **V-Square Capital Management,** Mamadou-Abou Sarr**;** and **WM Partners,** Vanessa Gabela.

Bob Greene, NAIC's President and CEO, began the meeting introducing himself, welcoming each of the participants, and thanking the Hawaii ERS team for hosting the NAIC Institutional Investor Roadshow. He reminded everyone that it was the "top of the morning" or 9 am in Honolulu and 3 pm on the east coast and shared his appreciation with the investment team for being so generous with their time. Greene also welcomed the advisors of Hawaii ERS, which included Natalie Fitch from Hamilton Lane and Andrew "Andy" Betz from Stafford Capital Partners, and thanked the NAIC staff in attendance, which included NAIC's COO, Carmen Ortiz McGhee; Program and Initiatives Manager, David Smith; and Alliance & Marketing Manager, Jasmine Elbarbary, along with the Fruition Media team for producing the event.

Greene then handed it over to Elizabeth Burton, CIO of Hawaii ERS, to provide introductory remarks on behalf of the plan. Burton said that Hawaii ERS currently manages approximately $21 billion across all asset classes. She then introduced Natalie Fitch and Andrew Betz. Burton described how, given the small size of the Hawaii ERS investment staff, their team relies on outside partners to help with their work. She said Hamilton Lane assists on private markets, and for private equity venture specifically, Stafford Capital Partners provides external resources. Burton said Fitch and Betz would later describe how they source managers for those asset classes. Burton then introduced Howard Hodel, Deputy CIO of Hawaii ERS, who also serves as the plan's Chief Risk Officer and works on Diversifying Strategies. She introduced two others from her organization, Aaron Au, the Head of private equity, and David Okamoto, the Head of Credit who also works across other parts of the platform.

Burton explained how Hawaii ERS has "a very different asset allocation" and that "we don't really bucket things the way most plans do." She provided real insights into the significant changes occurring across their asset allocation, whereby Diversifying Strategies will represent roughly 30% of the plan. Burton continued that Diversifying Strategies will not be entirely hedge funds and will include anything that is not directly tied to U.S. growth risk. She described how this move is a transition for Hawaii ERS, as she said they have historically not had hedge fund allocations. Burton said the plan has added a couple of hedge funds since she joined. Burton explained her personal view that hedge funds should be seen "as a legal structure, not a four-letter word, as they've been noted in the press."

Burton shared that her team likes a variety of legal structures. She noted that Hawaii ERS does run a lot of its products across a managed account platform, where sizing for the hedge fund portfolio can range from $50 million to over $200 million. Burton summarized that Hawaii ERS has the flexibility "to do a lot of things because we don't have typical bucketing." She acknowledged the unique structure can make it confusing to know who to approach within Hawaii ERS. Burton concluded her introductory remarks, offering that NAIC members should reach out to her directly with questions about the appropriate point of contact within the investment team.

Greene then invited Natalie Fitch to provide consultant remarks on behalf of Hamilton Lane. Fitch thanked Greene and said that she really appreciated the opportunity to connect with everyone. Fitch began describing how she has been with the firm for roughly a decade, based in the San Diego office. She provided an overview of Hamilton Lane. Fitch described how Hamilton Lane is exclusively focused on the private markets. She highlighted how the firm is celebrating its thirtieth anniversary this year and has been creating specialized private markets funds and customized portfolios designed to meet its clients' goals and objectives since inception. Fitch shared that Hamilton Lane invested approximately $28 billion dollars in primary fund commitments during 2020, and over the course of time, has become one of the largest private market allocators in the world.

Fitch shared that Hamilton Lane has over $650 billion in assets under management and advises roughly 700 clients and investors worldwide, including Hawaii ERS. She described how Hamilton Lane has been working with Hawaii ERS since 2013 to help manage their core private equity program. Under their advisement, Hawaii ERS's private equity allocation has increased from roughly 7% to 13.5% of total assets. She described how they have invested approximately $600 million annually in private equity "to methodically build up to that targeted allocation." Fitch said their goal for the Hawaii ERS private equity portfolio is to build a diversified portfolio that will outperform their public benchmark by over 200 bp.

Fitch then provided a high-level overview of Hawaii ERS's private equity portfolio. She said the typical fund bite size is $50 million dollars, but that the amount could be lower or higher. Fitch described the portfolio as diversified by strategy, geography, and industry. From a strategy standpoint, Fitch said the private equity portfolio is primarily focused on buy-outs, diversified across size, with a secondary focus on growth equity and venture capital. From a geographic standpoint, roughly three-quarters of the portfolio is invested in North America with the next largest allocation to Western Europe. Fitch said that "from a performance standpoint, the private equity portfolios have performed well on a since inception basis—over a 12% net IRR and 1.6x multiple." Before concluding, Fitch reiterated her appreciation for participating, and then turned it over to Greene.

Greene thanked Fitch for her remarks and then introduced Andy Betz to provide an introduction to Stafford Capital Partners. Betz began commenting on the number of NAIC member participating firms he had met over the years. He then described Stafford Capital Partners, which he stated has approximately $8 billion of assets under management in both private markets and real assets (agriculture, timber and infrastructure). Within private markets, Stafford has both global and geographically focused mandates and manages numerous customized accounts for large institutional investors. Stafford also manages single-purpose mandates, which is how it manages capital on behalf of Hawaii ERS.

Betz described how Stafford manages the Hawaii Targeted Investment Program ("HITIP"). He referred to a joke Greene made earlier: that managers not willing to travel to Hawaii four times per year could leave the meeting. Betz said that HITIP's external managers are required to meet at the Hawaii ERS office four times per year "because the whole purpose of HITIP is to support the local innovation ecosystem of the state of Hawaii in a responsible way." The primary goal of HITIP is to generate a return on retirees' assets in excess of the benchmark target, while the secondary goal is to support the innovation ecosystem.

Betz described HITIP further, "the majority of the capital is invested with non-Hawaiian based venture funds, and those funds agree to take a look at investment opportunities in the state of Hawaii. GPs are not required to make investments in Hawaii if they identify more optimal, non-Hawaiian investment opportunities, and maintain investment discretion." Betz shared how the practice has increased the number of venture funds and later-stage investment funds considering Hawaii-based businesses that otherwise do not have access to private capital. The balance of the capital is invested into Hawaiian-based funds.

Betz continued that the typical HITIP bite size is $5 million, an increase from the $2.5 million tickets when the program was created. Betz shared “being able to double that in this time period has been very gratifying. We've been able to develop some really great relationships.” He shared that Stafford used to manage a corporate account that invested into disadvantaged locales, which is why he has “a bit of a history of investing in this space” and that “it's good to see some familiar faces.”

Greene then began to provide an overview of NAIC and its membership. He shared how one of the key objectives of the NAIC Roadshow, in addition to providing an opportunity for managers to meet institutional investors and their consultants, is to provide deeper insight into the diverse manager marketplace. He described how it is often easy to confuse the diverse manager marketplace with the emerging manager marketplace and those focused on ESG and impact investments. Greene clarified that NAIC’s principal focus is working with diverse managers, both ethnically diverse as well as diverse on a gender basis.

Greene described NAIC’s membership of 120 member firms, who collectively manage $225 billion in assets, with the typical NAIC firm averaging one billion dollars in assets and the largest member firm managing $73 billion in assets. Greene shared how NAIC members invest across every industry category and, in the aggregate, have 873 portfolio companies. Those portfolio companies generated roughly $96 billion in annual revenue in 2020 and directly employ over 681,000 employees.

Greene described NAIC as the largest network of diverse-owned private equity firms and hedge funds. He reflected on a presentation he made earlier in the week where he spoke on the genesis of the entire emerging manager category, which developed with “an emphasis and an intentional direction to get capital to diverse managers.” Greene spoke about how the emphasis on diversity was somewhat loss in most programs, as the emerging manager category grew over time. He said the social aspects of this country have returned the “focus to the importance of investing with diverse managers and the significant role diverse managers play in rounding out a portfolio and in generating alpha.”

Greene described NAIC’s membership across a variety of different categories within the alternative asset classes. He shared how the largest group of members, roughly 65%, are in the lower and middle market buyout space. Greene mentioned the broad representation of fund of funds—"virtually all of the fund of funds that cover the diverse manager marketplace from both a private equity and a hedge fund standpoint are actively involved.” He shared how NAIC began adding hedge funds about five years ago, and today, has 15 hedge fund members executing a variety of strategies.

Greene stated that the growth, expansion, and venture categories are also rapidly expanding as “venture is really roaring back, there are some outstanding venture firms both within our membership and outside of it, and there is an increased focus on the impact that venture capital and growth equity can have in communities of color.” Greene then covered the increasing number of real estate firms joining NAIC, and lastly, the growing number of large investment management firm members, including BlackRock, Blackstone, KKR and other household names.

Greene continued how it is very important to point out that an emerging manager is not a new investment professional, and diverse managers are not new investment professionals. He shared how most principals of NAIC firms come with over 20 years of investment experience and from firms like The

Carlyle Group, Goldman Sachs, Ripplewood and Golden Gate. He discussed how it is critical to keep your eye on the talent, because if you do not, you would not realize that “the leader of Golden Gate’s consumer retail investment platform is now leading Sycamore. The former head of Carlyle's distressed investment team is now leading Stellex. One Rock and Siris draw their experience out of Ripplewood. Part of Palladium came out of JLL Partners, and Vista Equity Partners and Clearlake came out of Goldman.”

NAIC, Greene shared, has been very pleased over the years that many institutional investors have really focused on the diverse manager marketplace, tracked the talent, and gotten to know the managers. He noted Virginia Retirement System, Neuberger Berman, Grosvenor GCM, Verizon, New York Common, New York State Teachers, New York City Employees Retirement System, and Texas teachers, which are all active institutional investors in this space and proud of the outperformance diverse managers have generated across their portfolios.

Greene commented on the critically important research on the diverse manager marketplace. He mentioned that NAIC, in collaboration with Aon and KPMG, produces the only bottoms-up review of the performance of diverse managers in a biennial *Examining the Returns* study. He said the 2021 performance study would be available later this year, and the studies have empirically proven that diverse managers not only perform well, but that they can perform at the benchmarks, and in many cases, are exceeding the benchmarks.

Greene said numerous NAIC members are top-quartile or top-decile in their respective investment categories. He mentioned the research Harvard Business School professor Josh Lerner has produced, which documents the outperformance of diverse managers from the private equity, hedge fund, and real estate categories and covers the strong performance of women-owned alternatives firms. He encouraged each of the roadshow participants to review the research studies that have been curated on the NAIC website (naicpe.com).

Greene then touched on recent NAIC member deal activity, noting that it has picked up significantly with members transacting on nearly a daily basis. He commented on Grain Management’s recent acquisition of Tachus and Carrick’s investment in DailyPay, which raised five hundred million dollars and is focused on providing daily compensation to gig workers. He added that NAIC deal activity increased throughout 2020. Greene then referenced testimonials from Johara Farhadieh, CIO of Illinois State Board of Investments; Alex Doñe, CIO of New York City Retirement System, and Jarvis Hollingsworth, the Chairman of Texas Teachers. He described how their experiences from three large public pension plans have been the same—"they each have been very intentional about including diverse managers, not for social reasons, not even for diversity and inclusion, but because the diverse managers have been a source of alpha for them.”

Greene said he believed each of them would them would tell you “there's never been a better time to invest in this marketplace because of the actual number of managers, the size of the funds they're raising, the compatibility with the long-term liability, and the performance that you're trying to achieve.” He then covered the significant oversubscription within the diverse manager universe, which he said is a story of “outstanding performance and recognition on the part of other institutional investors that these are outstanding funds to be in.” He summarized that 17 diverse-owned firms have raised 29 oversubscribed funds since 2015.

Greene then described NAIC's three core areas of focus: (1) increasing access to capital, (2) delivering market education, and (2) addressing key industry challenges. Examples Greene provided of NAIC's efforts to increase the access diverse managers have to manage capital included the NAIC Institutional Investor Roadshows, the *Managers in the Market* quarterly distribution, and the NAIC LP Meet-Ups. Next, Greene explained how NAIC delivers market education and 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 how NAIC is extremely focused on the advancement of women in alternatives. The NAIC Women in Alternatives mission, he said, is 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* —to help women enter the alternatives industry, move up the continuum and beyond their firms as experienced alternative investment professionals.

Greene described the map of NAIC Institutional Roadshows since 2014, where the state of Hawaii will now be included. He shared, "I am not proud of what we've been able to do in the middle part of the country," noting there are a lot of places that are not particularly interested in diverse managers. He added he believes they are missing out "on extremely talented managers and a lot of innovation." Greene said NAIC has met with over 100 capital allocators managing, collectively, over three trillion dollars over the course of the last seven years across 18 states via the NAIC Institutional Investor Roadshows.

Greene summarized the NAIC presentation:

- NAIC member firms offer a wide range of private equity and hedge fund strategies;
- the marketplace is recognizing that emerging managers are experienced investors;
- several emerging and diverse managers, including NAIC members, are outperforming their larger, better known peers;
- some of the top-performing and most oversubscribed funds are those of diverse managers; and
- many sophisticated institutional investors are expanding their allocations toward high-performing emerging and diverse managers.

Elizabeth Burton then described Hawaii ERS's sourcing process. She said she would begin with Diversifying Strategies, so Natalie Fitch and Andy Betz could discuss the sourcing specifically for private equity and venture, respectively. Burton described how there are three separate categories of Diversifying Strategies: Illiquid Diversifying, Liquid Defensive, and Liquid Diversifying. For the liquid categories, the team seeks relative value arbitrage events. She said they are not expecting daily liquidity but rather some kind of alpha source that can be very liquid, which can look like a private equity vehicle or a stake. The defensive category can be any investment with a convex profile such as Treasuries or long bonds. They also invest in trend followers and offerings with uncorrelated growth risk. In the liquid buckets, they will take some beta. They do not have a hard cap on beta. The most important criterion is a repeatable, sustainable investment edge.

Burton elaborated on her team's preference for managers able to articulate their edge with very strong alignment, especially on the more tradable securities. The Hawaii ERS team, she said, also has a strong preference for separate account management platforms. Burton described how Diversifying Strategies investments must be efficient. She said her team will often use higher leverage than the standard offering. Burton said there is no minimum fund size but that restrictions on size for a specific manager may exist. She described how her prior employer, Maryland Retirement, had an emerging manager program, and said Hawaii ERS does not have an emerging manager program but is focused on emerging and diverse managers.

Burton then led into the private equity allocation process. She said that outside of Hamilton Lane, the team sources opportunities where they have an interest that that doesn't necessarily fit Hamilton Lane's scope for the plan. She mentioned a climate fund the investment team is evaluating but said they have not yet approved a commitment.

Natalie Fitch then discussed how Hamilton Lane sources on behalf of Hawaii ERS. From a high-level standpoint, Fitch said Hamilton Lane tries to utilize its large platform and then, proactively sources investments. Fitch shared that the firm has approximately 440 employees, who are networking and trying to be out in the market to meet managers. She said the NAIC roadshow was "a great event in order to be able to meet with a lot of managers, some of the names I recognize and have met before." She said Hamilton Lane also leverages its large client base to help with introductions. She said regardless of the size, strategy, or prior relationship, the firm has the same sourcing process.

Fitch stated that the Hamilton Lane sourcing process begins with a screening to analyze the team. They review key components around track record, strategy, and team and then advance a manager to the next step, an in-person or virtual meeting. She described how the initial manager meeting is typically one-hour long and takes place in their office and covers other areas such as governance. The manager is then reviewed in investment committee for approval for full due diligence. Once approved, the team is issued Hamilton Lane's questionnaire. She mentioned there is also an ESG questionnaire and an operating due diligence questionnaire required for every investment. Reference checks are also a very important part of their process to understand the qualitative aspects of the team. She described the due diligence as a very thorough quantitative and qualitative analysis, which includes cash flow analysis, track record recreations, and metrics, in addition to manager meetings throughout.

Andy Betz then provided additional insight into the sourcing process at Stafford. He described how the firm has open-door policy, where managers are often referred by others or are considered because they meet the objective for a particular program. For Hawaii ERS, venture managers need to demonstrate a genuine connection to Hawaii and focus on Hawaiian-based investment opportunities. He reiterated what Burton mentioned about their desire for managers to demonstrate "repeatable edge" and a preference for specialized expertise. The Stafford team will review a manager's pitch and historical track record. For HITIP, the Stafford team also tries to understand the connection to Hawaii, specifically "what is it about your group or your connection to Hawaii that's going to make you give the extra look at the Hawaiian companies we're trying to get through the mandate."

Greene then invited questions from NAIC members. Von Hughes of PAAMCO Prisma asked about sourcing for hedge funds. Burton volunteered to respond and said she has been working in hedge funds since 2004 and generates most of the relationships in that space. The Hawaii ERS team also works with Aksia, investment partners, and asset managers to identify hedge fund managers and attends industry conferences. Burton offered to speak offline with respect to specific questions regarding their areas of interest in hedge strategies.

Michelle Chow-Tai of Fairview Capital asked how Hawaii ERS defines emerging managers. Burton compared her current experience with her time at Maryland Retirement, which has set criteria and defined definitions for emerging managers. She said Hawaii ERS does not define emerging managers and does not have a mandate for diverse managers. Burton added managers may identify themselves as diverse mangers, and Hawaii ERS does not have any fund or manager size requirements or restrictions.

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 among NAIC members and the Hawaii ERS team. Greene concluded the meeting, thanking Elizabeth Burton, the Hawaii ERS team, and each of the participating consultants for their time and providing real insights into the Hawaii ERS portfolio and investment strategy.