

MEMORANDUM

To: NAIC Members

From: Robert L. Greene, President & CEO

Date: August 9, 2021

Subject: NAIC Institutional Investor Virtual Roadshow hosted by the Massachusetts Pension Reserves Investment Management Board

On July 15, 2021, NAIC held its sixth NAIC Institutional Investor Roadshow of the year hosted by the Massachusetts Pension Reserves Investment Management Board ("Mass PRIM" or "PRIM"), which has over \$93 billion in assets under management (AUM). Twenty-three NAIC member firms were invited to attend and participate in an interactive discussion and private virtual meetings with senior members of the plan's investment staff. The event was NAIC's second roadshow with Mass PRIM, as NAIC and its members met with PRIM in Boston in July 2016. The roadshow participants and relevant contacts, with email addresses, are included below:

Massachusetts Pension Reserves Investment Management

Michael Trotsky, Chief Investment Officer – mtrotsky@mapension.com

David Gurtz, Deputy CIO – dgurtz@mapension.com

Michael McGirr, Director of Private Equity, Senior Investment Officer – mmcgirr@mapension.com

Alyssa Fiore, Investment Officer – afiore@mapension.com

Sarah Zatoonian, Investment Analyst – szatoonian@mapension.com

Helen Huang, Senior Investment Officer – hhuang@mapension.com

Eliza Haynes, Investment Analyst – ehaynes@mapension.com

Tim Schlitzer, Senior Investment Officer, Director of Real Estate – tschlitzer@mapension.com

Christina Marcarelli, Senior Investment Officer – cmarcarelli@mapension.com

Minching Kao, Investment Analyst – mkao@mapension.com

John LaCara, Senior Investment Officer – jlacara@mapension.com

Eric Nierenberg, Chief Strategy Officer – enierenberg@mapension.com

Bill Li, Senior Investment Officer, Director of Portfolio Completion Strategies – bli@mapension.com

Joy Seth, Investment Officer – jseth@mapension.com

Liu Liu, Investment Analyst – lliu@mapension.com

Maria Clements, Private Equity – mclements@mapension.com

Victoria Servare, Summer Analyst – vservare@mapension.com

Hamilton Lane

Corina English, Principal – cenglish@hamiltonlane.com

Marietta Fieger, Principal – mfieger@hamiltonlane.com

Katie Moore, Managing Director – kmoore@hamiltonlane.com

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

The 23 NAIC member firms and their respective representatives selected to participate in the event included: **Argand Partners**, Kay Blackwell; **Avance Investment Management**, David Perez; **BharCap Partners**, Jim Rutherford; **Brasa Capital**, Alexis Lewis; **Chicago River**, Chris Melvin; **Clearlake Capital Group**, Marcelia Freeman; **Dominus Capital**, Michael Smart; **DPI**, Joanne Yoo; **Fairview Capital Partners**, Michele Chow-Tai; **GCM Grosvenor**, Jason Howard; **GPI Capital**, Philip Lo; **Graham Allen Partners**, Kevin Deeth; **Grain Management**, Kathlika Fontes; **Heard Capital**, William Heard; **Kah Capital Management**, Donna Sims Wilson; **Madryn Asset Management**, Avinash Amin; **NexPhase Capital**, Ted Yun; **Ocean Park**, J. Dennis Jean-Jacques; **Pharos Capital Group**, Adam Persiani; **Siris Capital**, Jared Nadan; **Standard Real Estate Investments**, Jerome Nichols; **Stellex Capital Management**, Courtney Mehrotra; and **Veristar**, Kenney Oh.

Bob Greene, NAIC's President and CEO, began the meeting by welcoming each of the participants to the NAIC Institutional Investor Roadshow hosted by Mass PRIM. He acknowledged it had been five years since the two organizations connected in full, and that he looked forward to learning what the PRIM staff has been focused on since that time. Greene thanked PRIM's CIO, Michael Trotsky, and his entire team for joining the event and for being so accommodating and committed, recognizing Trotsky was currently on vacation. Greene also thanked David Gurtz, PRIM's Deputy Chief Investment Officer and Director of Public Markets, for spearheading the effort and working in collaboration with David Smith, NAIC's Program and Initiatives Manager.

Greene shared with the PRIM team how NAIC and the diverse industry have grown tremendously. He described how NAIC currently has 125 members versus 55 to 60 members at the time of the prior roadshow. Greene highlighted the extraordinary performance, outstanding innovation, and talent among the NAIC members. Greene said NAIC and its members were honored to be with the PRIM team and look forward to working with them. Greene then handed it over to Michael Trotsky, CIO of PRIM, to provide introductory remarks on behalf of the plan.

Trotsky congratulated Greene on all the progress NAIC has made and conveyed his excitement to hear about it and meet more NAIC managers. He continued that diversity and inclusion has long been a focus for PRIM, where the team has made significant progress over the years investing with a lot of minority and women owned investment managers. He described PRIM's diverse manager allocations as "a big part of our portfolio and we intend to grow it significantly." Trotsky shared how PRIM recently launched the FUTURE Initiative, under David Gurtz's direction, which was designed to help PRIM achieve goals that have recently been set out by new legislation in Massachusetts regarding the use of diverse managers. Trotsky described how the investment staff believes the FUTURE initiative will position PRIM as a leader in the industry. He also shared the importance of the initiative to him on a personal level and

how he has been involved with the CFA Institute in crafting a Diversity and Inclusion Code of Conduct for large asset managers and asset owners that will be released in the fall.

Trotsky shared his belief that the diversity of the asset management industry needs to improve. He stated that a key component of the FUTURE initiative is to reduce barriers diverse managers have to manage capital by improving the sourcing and pipeline of diverse managers. He said the NAIC roadshow is “a great opportunity for us to do that” and that he was grateful for the twenty-three participating managers. Trotsky said the entire PRIM private equity team, led by Mike McGirr, was participating and that the private equity portfolio consistently ranks in the top five best performing private equity public pension portfolios in the country year after year, including multiple top rankings in the last five years. Trotsky also mentioned the participation of the real estate team, led by Tim Schlitzer, and the Portfolio Completion Strategies Team, led by Bill Li. Trotsky said there were a total of 20 PRIM employees “here to listen to your stories today and to learn about what you're doing.” He concluded by thanking NAIC for its partnership and everyone for their time.

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 one-on-one, is to provide significant content and deeper insights into the diverse manager marketplace. Greene described how NAIC is the largest network of diverse-owned private equity firms and hedge funds. He discussed the organization’s membership across a variety of categories and broad spectrum of industries within the alternative asset classes. Greene stated that NAIC’s 125 members collectively manage \$240 billion in assets. He categorized members by size, sharing that member firms include those raising their first funds and many firms with funds in excess of \$1 billion, \$5 billion, and \$10 billion. Greene shared how the median NAIC member AUM is approximately \$500 million (as of June 30, 2021) and the largest NAIC member, Vista Equity Partners, who he also noted was a PRIM GP relationship, manages \$75 billion in assets.

Greene continued discussing how NAIC members invest across every industry category and, in the aggregate, have 898 portfolio companies. Those portfolio companies generated roughly \$96 billion in annual revenue in 2020 and directly employ over 681,000 employees, including over 73,000 in the state of Massachusetts. Greene mentioned that NAIC’s membership has broadened to cover the entire alternative asset class space. He noted there are very few of the top diverse managers in any investment category NAIC represents that are not members of NAIC, and he attributed that to NAIC’s focus on the right things: “access to capital, market education, and planting the flag around performance.”

Greene emphasized 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 and launch firms like Stellex, Sycamore, One Rock Capital Partners, and Siris Capital. Greene then shared how he has been very pleased over the years that many institutional investors have really focused on the diverse manager marketplace and contributed to its vibrancy. He noted CalPERS, CalSTRS, Virginia Retirement System, and Maryland Retirement System, which are all active institutional investors in the space.

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 performance

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 also 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 compiled on the NAIC website (naicpe.com).

Greene then touched on recent NAIC member deal activity, noting that it is a very active time in the marketplace with a number of new funds raised, a significant number of new managers, and increasing deal activity each year. He commented on Grain Management's recent \$2 billion fund closing and acquisition of Tachus, along with other recent deals by GenNx360, One Rock Capital Partners, Carrick, and NexPhase Capital. Greene also 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. Greene then spent time covering the significant oversubscription within the diverse manager universe, which he said is a story rarely publicized. He summarized that 17 diverse-owned firms have raised 30 oversubscribed funds since 2015.

Greene 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. He mentioned the next NAIC LP Meet-Up will be held on October 7th. Additionally, Greene explained how NAIC delivers market education and mentioned Intelligent NAIC.

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 via the NAIC Women in Alternatives and its *In, Up, and Beyond* strategy to help women enter the alternatives industry, move up the continuum and beyond their firms as experienced alternative investment professionals.

Greene went on to describe the map of NAIC Institutional Roadshows since 2014. He commented, "We are increasingly focused on filling in some of the middle states, but at the end of the day, institutional investors want to make money, and institutional investors have increasingly recognized that the alternative asset class is a reliable way to produce alpha and diverse managers have extremely good track records and talent to do that." Greene said NAIC has met with over 101 capital allocators managing, collectively, over \$3 trillion across 23 states via the NAIC Institutional Investor Roadshows.

Greene summarized the NAIC update:

- 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.

Mike McGirr then took the floor. He shared his excitement about the agenda for the session and provided an overview of PRIM's private equity portfolio and strategy. McGirr described how PRIM was a very early investor in private equity dating back to the mid-1980's. Private equity currently represents about 14% of the PRIM portfolio, or approximately \$12.4 billion. McGirr shared how private equity is a vital return driver for the plan and its highest performing asset class over most time periods. McGirr referenced Trotzky's earlier comments that PRIM's private equity portfolio was recently ranked the fourth highest by the American Investment Council among 178 U.S. public pension plans, based on the 10-year net performance number. He continued that PRIM is also the only pension plan that has consistently ranked in the top five, including number one rankings in 2013, 2015, 2018, and 2019.

McGirr said he believes a few factors have helped drive the success of PRIM's private equity program: "one is PRIM's size and two is our longevity in the asset class, which really allows us to invest with some of the best investment managers and gives us access to attractive investment opportunities as well." McGirr described his team's focus on finding the next generation of talented private equity investment managers. He shared their beliefs that manager selection should be forward-looking, and diversity is a source of competitive advantage. McGirr said the team is also focused on identifying managers they think can generate alpha for their pensioners and are well-positioned to continue to do that in the future. He added his team prefers to get to know managers over a long period of time. McGirr shared that the entire private equity team was participating in the meeting, and introduced Alyssa Fiore, Helen Huang, Sarah Zatoonian, Eliza Haynes and Maria Clements. Hamilton Lane has been PRIM's investment consultant since 2007, and McGirr said members of the Hamilton Lane team would also join the one-on-one meetings.

Greene then invited questions from NAIC members. The first question was from Kathlika Fontes of Grain Management who asked, given the maturity of the program, areas the team is specifically targeting in terms of its strategic allocations to fill any gaps. McGirr addressed where the private equity team sees the most attractive areas of the market — in the small and middle market areas of buyouts and in growth-oriented investments. He said they tend to focus most of their time and attention in developed private equity markets, primarily North America and Western Europe.

Jim Rutherford from BharCap Partners asked Michael McGirr to speak about PRIM's co-investment program. McGirr said the team executes co-investments internally. He elaborated that the co-investment program has been designed to be manager-friendly and said they seek to position and align themselves with their best general partners, so that if they can evaluate a co-investment opportunity, they can make decisions quickly. McGirr said the "co-investment program tucks underneath our fund underwriting program, so if an opportunity fits what we have identified in advance—a manager in their strategy where we've identified skill—then we will execute a co-investment." He said they will pass on opportunities they believe are outside of the fairway for what a manager has done in the past to learn more about that investment manager over time. McGirr summarized that co-investing has been "a nice complement to our fund underwriting program."

Michelle Chow-Tai of Fairview Capital asked Michael McGirr about PRIM's view and usage of fund of funds. McGirr responded that PRIM began with fund of fund managers in the earlier days of building out the private equity portfolio. However, over the last 15 years, the team has not focused much on fund of funds, as the preference has been for more direct LP interests and funds in adjacent areas. McGirr said that while funds of funds have not been a core focus, he does think it is an area to explore.

The next question was from Alexis Lewis of Brasa Capital who asked about real estate priorities and any specific holes the team is looking to fill. Tim Schlitzer offered to summarize the priorities for the real estate portfolio, which he said is approaching roughly \$10 billion in assets. He said the team generally tries to utilize scale to invest through separate accounts, but that they are flexible from a structural standpoint. Schlitzer said the portfolio has a fairly core profile with high-quality, stabilized investments with low leverage (averaging 25%). He said they seek “the four food groups in terms of our property type exposure.” Schlitzer also shared the portfolio is surprisingly light to both New York City and San Francisco. He continued that the team has been exploring more specialized property types and has been increasing investments in life sciences, medical offices, data centers, etc. Schlitzer concluded, “it’s a very flexible program.”

Jerome Nichols from Standard Real Estate Investments stayed on the topic of real estate and asked how that team engages with emerging or first-time fund managers and about preferences outside of the core space. Schlitzer responded that the real estate team does periodically meet with first-time managers, but that the focus is on a longer-term program where PRIM will periodically issue an RFP to commit large sums of capital to be deployed over a multi-year period. When engaging with emerging and/or non-core managers, the team focuses on what a manager’s or strategy’s edge might be in terms of how value is created. Schlitzer said the team will ask questions, such as “Does a manager have a particularly strong relationship within an industry? Do the principals at the firm clearly have experience in a particular property type, and are they able to really communicate to us how they create value?” He said under 5% of the real estate portfolio exposure is in development, and that they lean more toward renovation or value-add.

Joanne Yoo of DPI asked whether PRIM views impact investing as a strategic priority and whether it is committing to impact-oriented funds. David Gurtz responded that each asset class is certainly evaluating different strategies within their asset classes, but currently, there is no dedicated asset allocation to impact investing right now. Gurtz said PRIM is evaluating ESG from a research perspective and described a partnership the plan formed with MIT one year ago to better understand and establish definitions of what ESG means specifically for publicly traded companies to measure the ESG standards across different companies.

Nia White, NAIC’s Capital Allocator Advisor, then asked how PRIM thinks about commitment sizes, given the plan’s size, concentration, and strong past performance. McGirr said while they have a couple of concentrated positions, the private equity portfolio is well-diversified with over one hundred manager relationships. He continued, “we get tremendous scale advantages associated with partnering with some of the most talented investment managers in the world. I think that’s where co-investment can play a meaningful role in our portfolio, aligning ourselves with these talented investment managers to provide quick access to capital to some of our most successful firms.” McGirr said he expects 15% of commitments will be in direct investments this year and that proportion to increase over time. PRIM’s typical co-investment commitments have been between \$10 million and \$60 million. Regarding fund commitments, over the last eight years, commitments have ranged from \$35 million to \$350 million.

Schlitzer volunteered to comment on real estate commitments. He said, given the \$9.5 billion portfolio size, an investment needs to be \$75 million to \$100 million to really make sense. He added, “It is extremely difficult to find really, really good long-term partners. When you find one, you should do whatever you can to partner with them, and that can also mean deploying a much smaller amount with a manager or in a particular strategy or opportunity to grow over time.”

Marcelia Freeman of Clearlake Capital asked Michael McGirr, first, about hybrid strategies in the middle of the capital stack and whether they are a fit for the private equity or private credit portfolios, and secondly, where the team is seeing an evolution of strategies within the private equity portfolio. McGirr said they are certainly seeing more firms like Clearlake with hybrid strategies and said that private equity is 100% focused on equity strategies to deliver high rates of return. He asked David Gurtz to comment on Other Credit Opportunities (OCO). Gurtz said OCO focuses on credit investments that do not fit neatly in traditional credit. PRIM also created the Portfolio Completion Strategies portfolio, which is predominantly includes hedge funds but also captures anything that does not fit into the other asset classes.

Donna Sims Wilson of Kah Capital Management asked whether single-family distressed real estate debt would be a fit for real estate or another area, such as private credit or opportunistic fixed income. David Gurtz responded that debt related to real estate would go into the OCO bucket. He said he looked forward to hearing more, as they have other investments in that space.

Dwight Skerritt from Chicago River asked where the PRIM team is finding the most value in hedge funds and what it looks for in hedge strategies. Bill Li, Senior Investment Officer and Director of Portfolio Completion Strategies, responded. He referred to the definition of Portfolio Completion Strategies Gurtz provided, which allows PRIM to access exposure not conveniently covered by the traditional asset classes. He said the team tries to collaborate across asset classes to find the best strategies “to bring everybody to the same table and to the same room and to discuss things through so that we’re not lacking a good strategy and a good manager falls through the cracks.” He said the Portfolio Completion Strategies team follows a bottoms-up approach, either via the ideas communicated by specific asset class colleagues, meeting managers who visit Boston, or scanning databases. Li added “any strategy exposure that can deliver, a decent risk-adjusted return should have a place at PRIM.”

Greene asked the final question of the investment team requesting a comment on the recent Massachusetts legislation related to manager diversity and expected impact on PRIM. Gurtz responded that diversity has been a key focus of PRIM over the last four to five years, and assets under management by diverse managers have increased from roughly \$1 billion to over \$5 billion today. Gurtz described how the legislation established a goal to invest 20% of assets and vendor spending with firms led by diverse individuals, women, and persons with disabilities. He continued that the FUTURE initiative was established earlier this year to achieve those goals and push the program forward. Gurtz said the team is looking to increase its sourcing and pipeline of diverse managers and partnering with NAIC is an example of that effort. He also shared PRIM is launching an emerging manager program within each asset class and hopes to see real progress on the diversity front in the coming years.

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, the PRIM team, and Hamilton Lane representatives. Greene concluded the meeting, thanking Michael Trotzky, the entire PRIM team, and each of the participating consultants.