

## MEMORANDUM

**To:** NAIC Members

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

**Date:** September 14, 2021

**Subject:** NAIC Institutional Investor Virtual Roadshow hosted by Mercer

On September 9, 2021, NAIC held its ninth Institutional Investor Roadshow of the year. The event was the third roadshow with **Mercer** which hosted roadshows with NAIC members in September 2020 and March 2021. Mercer invited 16 clients and active alternatives investors to join its team for the event, surpassing its prior record levels of allocators and combined assets under management and advisement: **Advocate Aurora Health, Arizona Community Foundation, Bon Secours Mercy Health, CalPERS, Cox Enterprises, Jantz Management LLC, M Health Fairview, Mather, Mennonite Education Agency, Mercer, Premier Health, Providence Health, Science Museum of Minnesota, The McKnight Foundation, The Pittsburgh Foundation, The Salvation Army and Yale New Haven Health System.** The event was NAIC's initial engagement with eight of the allocators—Cox Enterprises, Jantz Management LLC, M Health Fairview, Mather, Mennonite Education Agency, Premier Health, Science Museum of Minnesota, and The McKnight Foundation. The roadshow participants and relevant contacts, with email addresses, are included below:

### Institutional Investors

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Thirty-three representatives from NAIC member firms were selected to participate in the roadshow: **AIN Ventures**, Sherman Williams; **Argand Partners**, Kay Blackwell; **Ariel Investments**, Malik Murray; **Arkview Capital**, Vijay Mehta; **Ascendo Capital Partners**, John Hall; **Auldbress Partners**, Maude Delice; **Avance Investment Management**, David Perez; **BKCoin Capital**, Kevin Kang; **Brasa Capital**, Alexis Lewis; **Cadre**, Ryan Williams; **Corsair Capital**, Laura Hill; **DCIF**, Tom Soto; **DigitalDx Ventures**, Michele Colucci; **Dominus Capital**, Michael Smart; **Dynamk Capital**, Daniella Kranjac; **Elizabeth Park Capital Management**, Craig Cimoroni; **Excel Group**, Shoham Amin; **GPI Capital**, Philip Lo; **Graham Allen Partners**, Kevin Deeth; **Griot Partners**, D.C. Moore; **HarbourVest**, Craig Fowler; **Kah Capital Management**, Donna Sims Wilson; **Langdon Park Capital**, Malcolm Johnson; **Leeds Illuminate**, Susan Cates; **Lumos Capital Group**, James Tieng; **Muller & Monroe**, Andre Rice; **Otundi Ventures**, Elena Iannaccone; **Pharos Capital Group**, Adam Persiani; **Sagard Holdings**, Johnita Mizelle; **Standard Real Estate Investments**, Jerome Nichols; **Stellex Capital Management**, Courtney Mehrotra; **Three Line Capital**, Vincent Thompson; and **Trident Capital**, Eric Taylor

Bob Greene, NAIC's President and CEO, began the meeting thanking the Brad Young, Mercer's Global Co-CIO and Partner, and the entire Mercer team for the hosting the event. Greene said the NAIC Institutional Investor Roadshow was the largest of the three with Mercer and one of the largest to date with 17 capital allocators and 33 NAIC member firms. He said that the roadshows have several objectives, primarily to provide an education on the diverse manager marketplace and for NAIC and its members to learn and better understand the allocators' strategies and how to best engage with each of them. Greene then introduced the NAIC team, including Carmen Ortiz-McGhee, Chief Operating Officer; David Smith, Programs & Initiatives Manager; and two members of NAIC's 2021-2022 MBA Fellows, Shirley Lu and Pauline Madriz.

Greene then turned to Brad Young to provide welcome remarks. Young said each roadshow "seems to get bigger." He added that many of the participants, including members of the Mercer team, were

joining an NAIC roadshow for the first time. Young said Mercer had made numerous recent hires and that there were over 20 members of the Private Markets team, including hedge fund coverage, joining the session. He said Mercer had \$160 billion under advisement in Private Markets, which is dominated by private equity but includes hedge, real estate, private debt, and infrastructure and exceeds over \$180 billion of assets when the \$22 billion of commingled and separate accounts are included. Young continued that Mercer's clients range from endowments and foundations to large pensions. He thanked NAIC for its continued support and Amy Ridge, Principal, for her coordination.

Young shared that Ridge and Greene recently recorded a podcast, which is available on Apple. He concluded that he has enjoyed working with David Smith to organize the multiple NAIC Institutional Investor Roadshows hosted by Mercer. Greene commented on the podcast Ridge recently moderated titled, *From Curiosity to Conviction*, which he described as a session that covered "the parameters of the journey anyone has to take when they do new things." Greene commented on how he and Young have known each other for a long time and the strides he has seen Mercer take on its journey to leverage diversity. He congratulated the firm on its efforts to date.

Greene then began a market overview of the diverse manager marketplace and update on NAIC. Given the large number of participants, he said he would be brief to provide context for the one-on-one meetings. For those that were new to NAIC, Greene shared that NAIC is a 50-year-old trade association and the largest network of diverse managers of alternatives assets with 130 member firms managing over \$250 billion in assets in the aggregate. He continued that member firms led by diverse managers range from those raising the first fund to solid mid-tier firms with \$2-4 billion in assets to those with more than \$5 billion in assets. He noted the number of NAIC firms becoming household names, such as Palladium, Clearlake, Valor and Vista. He encouraged the audience "to think about the diverse space as the traditional space," given NAIC members are all pursuing profits and only a few execute impact strategies.

Greene provided statistics on the NAIC Member portfolios which include 940 investment companies in the aggregate across a range of industries—software, communications, transportation, retail, health care, commercial products, business services, restaurants, hotels, food, leisure, apparel, and accessories. He shared that NAIC members have strong performance in each asset class and employ 715,000 people globally. Greene said that you are "missing out, if you have not ever invested with diverse managers." He added, "if you have not invested with diverse managers within the last five years, you are missing out on returns and a vibrant industry." Greene continued with the top performance of diverse managers, stating that "to invest with diverse managers does not come at a cost." He shared his view that, broadly speaking, "the industry has been lacking intentionality" and "to do well in the diverse manager space, one has to be intentional with a leaning-forward conviction to want to invest."

Greene described diverse managers are not all emerging and that none of the NAIC member firms are led by new investment professionals. He shared how most principals of NAIC firms come with decades of investment experience from firms such as The Carlyle Group, KKR, TPG, and Goldman Sachs. He discussed how many diverse managers spin out of firms with well-known names to launch firms and raise funds. Greene described how have taken bets on themselves and become established with solid track records. He shared how many more institutional investors are recognizing the benefit of investing with them because they have positioned themselves to be more aligned with clients.

Greene then described NAIC's 130 diverse manager member firms investing across the entire alternative asset class, including private equity, venture capital, growth equity, hedge funds, real estate, as well as credit. He commented that buyouts tend to be the dominant strategy and accounts for 60% of

members. Greene added that a majority of fund of fund firms in the space are members and that hedge funds are growing rapidly towards 15% of membership. He shared that NAIC has been on a journey to expand the proportion of growth equity and venture capital members, as it acknowledges the higher potential to impact diverse communities and companies via those types of strategies. Greene then mentioned the number of well-known investment management firms, including BlackRock, Blackstone, KKR, and William Blair, which partner with NAIC to get better at a growth opportunity for the future and in response to client demand for diversity. He also mentioned the growing number of NAIC members investing in real estate, which he said face similar challenges accessing capital as managers in other alternative asset classes.

Greene discussed how the list of limited partners in outperforming diverse-led funds has been growing, though it has been primarily “a coastal play” from Texas up through the west coast, a lot of activity along the eastern seaboard, the participation of central states like Illinois, and some southern states, such as Florida. He added that he was proud to see increased levels of participation. Greene then covered the research documenting the outperformance of the diverse manager marketplace. 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. Greene said the KPMG study documented how the diverse manager median performance exceeded that of the overall industry over a twenty-year period. 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 across the alternatives asset classes.

Greene then discussed the high level of financial and business press NAIC members generate, evidenced by the member news feed featured on the NAIC website ([naicpe.com](https://naicpe.com)). He then highlighted capital allocator testimonials from two CIOs and one Chairman of three very large institutional investors who are actively investing with diverse managers. He reviewed statements 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 summarized how they have all been “stalwart supporters” and realizing the benefits of increasing allocations to diverse managers across their portfolios.

Greene said the “greatest evidence of the returns of the diverse manager marketplace is the wisdom of their fundraising.” He said 17 NAIC member firms have raised 31 oversubscribed funds since 2015. Greene said the high levels of oversubscription were attributable to the outperformance of the managers. He covered recent oversubscribed funds, noting how this is “increasingly happening for a broader set of managers.” Greene said the most exciting part of the story is that many of the younger NAIC member firms have not reached scale and capacity, so “you have an opportunity to ride with them through that growth curve.”

Greene then covered NAIC’s three primary areas of focus: (1) increasing access to capital, (2) delivering market education, and (3) 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 Meetups. He highlighted that the next LP Meet-up would be held on October 7<sup>th</sup> and invited the participating allocators to participate to “speed network with as many GPs you want to sit with.” Greene then 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 also said the 2021 NAIC performance study would be released in the next 30 days.

Greene described NAIC's third focus area to address industry challenges. He began with the nine-month NAIC MBA Fellowship program. He then covered Establishing the Next Generation of Private Equity Firms Symposia (NexGen), a 12-module course to help experienced investors launch their own firms. Greene then emphasized how NAIC is extremely focused on the advancement of women in alternatives. The NAIC Women in Alternatives mission, he described, is led by Ortiz-McGhee, who has collaborated with senior women across the 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 mentioned the NAIC Paradigm Changers internship program, which NAIC piloted and completed this summer and included young women at the undergraduate and graduate levels from a wide range of academic and professional backgrounds.

Greene then commented on the U.S. map, which visually depicts the locations of the NAIC Institutional Roadshows since 2014, joking “have gas, will travel” regarding NAIC's willingness to go anywhere and talk to anyone to help them understand the diverse manager marketplace. He said that NAIC and its members have met with 114 capital allocators managing, collectively, over three trillion dollars over the course of the last eight years across 23 states. Greene said NAIC looks forward to expanding its engagement across the U.S. and globally 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.

Greene concluded thanking everyone for their attention. David Smith then provided instructions for the private, one-on-one meeting sessions. Greene closed out the session thanking the Mercer team for assembling a great group and hosting the event.

#### **About Mercer:**

Mercer is a global provider of consulting, outsourcing, and investment services, which dates back to 1937. The firm has \$380 billion in assets under management (as of March 31, 2021) and over \$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. (Sources: Mercer and preqin)