

MEMORANDUM

To: NAIC Members

From: Robert L. Greene, President & CEO

Date: May 6, 2022

Subject: NAIC Institutional Investor Virtual Roadshow hosted by California State Teachers' Retirement System (CalSTRS)

On April 19, 2022, the National Association of Investment Companies (NAIC) held its fourth Institutional Investor Roadshow of the year, which was hosted by **California State Teachers' Retirement System (CalSTRS)**. CalSTRS invited three of its fund of funds partners to participate in the general session and host one-on-one meetings: **HarbourVest Partners**, **Invesco Private Capital**, and **Muller & Monroe Asset Management**. CalSTRS is the largest educator-only pension fund in the world with assets totaling approximately \$323.6 billion as of March 31, 2022. The event was NAIC's second Institutional Investor Roadshow with CalSTRS.

Host Organization

California State Teachers' Retirement System (CalSTRS)

Christopher Ailman, CIO – CAilman@CalSTRS.com

LaShae Badelita, Investment Diversity Officer – lbadelita@calstrs.com

Scott Chan, Deputy CIO

Robert Ross, Portfolio Manager, Private Equity

Margot Wirth, Director of Private Equity – MWirth@CalSTRS.com

Participating Partners

HarbourVest Partners

Craig Fowler, Managing Partner – Cfowler@harbourvest.com

Invesco Private Capital

Alan Weinfeld, Partner – Alan.Weinfeld@invesco.com

Cindy Chong, Vice President – cindy.chong@invesco.com

Muller & Monroe Asset Management

Irwin Loud, CIO – irwin.loud@m2am.com

Andre Rice, President – andre.rice@m2am.com

NAIC Leadership & Staff

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

Twenty-nine NAIC member firms and their respective 40 representatives were selected to participate in the event: **Antara Capital**, Mary Kate O'Neill; **Ardinall**, Maria Jelescu; **Argand Partners**, Kay Blackwell; **Arkview Capital**, Pavel Chernyshov and Vijay Mehta; **Asland Capital Partners**, James Simmons; **Avestria Ventures**, Linda Greub; **BKCoin Capital**, Kevin Kang; **Black Ops Ventures**, Heather Hiles and James Norman; **Boresight Capital**, Bryson Clements; **Chicago River Capital**, Edward Finn; **Corsair Capital**, Laura Hill; **DigitalDx**, Michele Colucci; **Dux Capital**, Daniel Santamarina and Susana Espinso; **GCM Grosvenor**, Renae Griffin; **GPI Capital**, Philip Lo; **include ventures**, Tina Hahn; **Lafayette Square**, Stephen Usher and Fernando Lamas; **Lumos Capital Group**, James Tieng; **MVision Private Equity Advisers**, Mounir Guen; **Neuberger Berman**, Chris Hawkins and Sean Lewis; **NexPhase Capital**, Ted Yun and Ariana Scotti; **Ocean Park Investments**, J.Dennis Jean-Jacques and Yuki Kanaya; **Pharos Capital Group**, Kneeland Youngblood; **Relentless Venture Partners**, Boris Moyston; **Sagard**, Johnita Mizelle; **Trident**, Christian Bjelland; **True Equity Growth**, Dehdan Miller and Hugh O'Donnell; **Valor Equity Partners**, Joseph Haslip; and **Vibranium Capital Group**, J. Eric Wright, Kojo Mills, and Bill Egbe.

Bob Greene, NAIC's President and CEO, welcomed everyone to the fourth NAIC Institutional Investor Roadshow of the year, acknowledging it was the fourth time NAIC has engaged with CalSTRS over an eight-year period. He thanked Chris Ailman, CIO, and the CalSTRS team for hosting the event. He also thanked LaShae Badelita for the tremendous amount of work she put into preparing for the roadshow. Greene then introduced the NAIC team: Joseph Haslip, Chairman; Carmen Ortiz-McGhee, Chief Operating Officer; Marissa Mahoney, Director of Partnerships and Alliances; Kristin Perlman, Director of Marketing and Communications; and Nia White, Capital Access Advisor, along with the production team from Fruition Media led by Diana McCaskill.

Greene described how the NAIC Institutional Investor Roadshows shifted to virtual in 2020 and how delighted he was in the way that capital allocators have embraced the virtual format. Greene then welcomed CalSTRS's participating fund of funds partners, noting that HarbourVest and Muller & Monroe are both NAIC members. He then invited Chris Ailman, CIO of CalSTRS, to provide host remarks.

Chris Ailman thanked Greene and then provided an update on CalSTRS. He shared that the CalSTRS team is working in a hybrid environment and that several staff members were participating online and remotely, while some of the team members were in the office. Ailman recalled an earlier meeting between CalSTRS and NAIC hosted at Goldman Sachs and other engagements with NAIC to push for more diversity. He said CalSTRS has been working on diversity since 2003 and that it does not mean they were done. Ailman described the CalSTRS as "wonderfully diverse." He continued, "we want to find talent wherever it is" and "constantly push the staff to look for talent in new and different places."

Ailman announced CalSTRS is working to separate diverse managers from emerging managers and track them separately. He added, "we're going to stay committed to engaging with emerging managers, new growing firms, but also making a more concerted effort to measure, track, and report out on diversity." Ailman added that CalSTRS will request that managers self-identify on diversity. He then introduced some of the participating members from the team: Scott Chan, Deputy CIO; Margot Wirth, Director of Private Equity; Rob Ross, Portfolio Manager, Private Equity; and LeShae Badelita, Investment Diversity

Officer. He said Badelita should be the point person for NAIC members to navigate CalSTRS and its asset classes. He called out that NAIC now has members investing in private credit and more hedge fund members and has expanded into real estate and other areas. Ailman shared private credit is a fairly new asset class for CalSTRS and sits between private equity, the innovation team, real estate, and fixed income and reiterated that Badelita will “point you in the right direction and guide your path.”

Ailman expressed CalSTRS’s commitment to diversity. He shared how he has joked with Greene in the past regarding NAIC not picking on the Wisconsin or other public plans and that CalSTRS is picked on because he returns the call. He said he will always return the call. Ailman continued, “it important to find investment talent and alpha” and “we need to find it anywhere and everywhere to tap into it.” He said his team has worked to find hidden talent they normally would not see. Ailman described how CalSTRS, as mature plan, has “big, long relationships and sticks with people for a fairly long time” and restated CalSTRS’s commitment to adding more diversity to its portfolio.

Greene thanked Ailman for his host remarks and for breaking the news with NAIC that CalSTRS would be acknowledging diverse managers. He added, “it is a wonderful turn of the page to recognize diverse managers, and to do that is outstanding.” Greene then said he wanted to give the partnering fund of funds an opportunity to provide remarks. Before doing so, he commented on how Craig Fowler, Managing Director of Harbourvest Partners, spearheaded NAIC’s roadshow initiative in 2012. Fowler thanked Greene for the acknowledgement and added that Laureen Costa, Portfolio Manager at JP Morgan Asset Management, and Lloyd Metz, Managing Director of ICV Capital Partners, were also instrumental in the creation of the NAIC Institutional Investor Roadshow series.

HarbourVest Partners

Craig Fowler then described HarbourVest’s partnership with CalSTRS. He shared he had been with HarbourVest for seven years and has had a nearly 20-year relationship working with CalSTRS through his predecessor firm. He stated, “without CalSTRS support and being one of the leaders providing capital for this space, our team wouldn’t be where it is today.” Fowler continued that he and his team have invested close to \$1 billion on behalf of CalSTRS and that HarbourVest is a private capital platform investing in primary funds, secondaries, co-investments, private credit, and real assets. He continued discussing how his team is dedicated to the emerging and diverse manager space and has been together for 25 years. Fowler noted HarbourVest was one of the first fund of funds in the market and would soon be celebrating its 40-year anniversary. He reminded everyone how all the brand name firms were once emerging managers. Fowler said Harbourvest brought his team on to continue to focus on the small and emerging piece and stay in tune with diverse and emerging managers. He thanked CalSTRS for its support over numerous years.

Invesco Private Capital

Alan Weinfeld spoke on behalf of Invesco. He shared he was a Partner at Invesco Private Capital and introduced his colleague, Cindy Chong, a Vice President. Weinfeld thanked CalSTRS and shared how Invesco has also been working with the plan for a little under 20 years, committing over \$900 million across 116 funds with 65% of commitments having diverse or women-led teams. Weinfeld described Invesco’s increasing focus on seeding emerging and diverse managers, specifically in venture capital, which he said allows CalSTRS to have more impact. He described the “multiplier effect of a \$5 million or \$10 million commitment at inception” and added, “this is what gets us excited about new GPs that will over time back more diverse companies.”

Weinfeld described how his team of ten professionals manages a little under \$2.5 billion and is primarily based in California with representation in Austin, Denver, and New York City. He described how the core of the program is emerging managers raising funds one through three. Weinfeld shared that Invesco has an early-stage fund of fund and a dedicated crypto strategy organized as a venture capital mandate. He continued that his team continuously tries to find ways to leverage the larger Invesco platform with \$1.6 trillion under management. Weinfeld said the larger platform provides avenues for diligence support and can be additive to their role as private market investors.

Muller & Monroe Asset Management

Irwin Loud, CIO, spoke on behalf of Muller & Monroe Asset Management, which he said is also known as (M²). He said the firm is elated to continue a relationship with CalSTRS that was established in 2014. He said Muller & Monroe typically invests in funds that are \$200 million to \$500 million but that some funds have been smaller and reached \$1 billion. Loud described that Muller & Monroe only invests in private equity funds and has a preference for sector-focused funds. He said the firm no longer invests in venture capital, mezzanine, or SBIC funds. Loud continued that emerging and diverse managers are a “significant part of our DNA.” He said it was a pleasure to see many managers in the audience the team has met, and that the firm has an open-door policy. Loud said Muller & Monroe manages allocations from several of the larger public pensions, and that CalSTRS is its largest client. Loud stated managers can submit information on their funds to the firm’s website to be in the cue. He concluded sharing it was his pleasure to participate in the roadshow.

Greene then began the NAIC Market Overview to provide an update to the CalSTRS team. He shared how NAIC celebrated its 50-year anniversary last year and now has 155 members managing over \$260 billion in assets in the aggregate. He described how NAIC member firms are owned by ethnic minorities—African-American, Latino, Asian, and Native American—and include women-owned firms. He said, “talent flows through all markets, and the underutilization of diverse managers provides a tremendous opportunity.” Greene spoke about how NAIC member firms invest across a broad spectrum of industries, including software, consumer products, non-durables, IT, apparel, transportation, healthcare, and retail, and can be found in any segment where investments are made. He said NAIC members together manage 940 portfolio companies, which generated \$177 billion in revenue in 2021, noting those companies employ nearly 400,000 people in the state of California alone.

Greene then described NAIC’s membership by asset classes, referring to Ailman’s earlier comment that NAIC had expanded its membership categories. He said buyout funds remain the largest membership category. He spoke about the growth in hedge funds, which is approaching 20 member firms. Greene touched on how growth and expansion and venture capital have been the two fastest growing categories of membership with 20 firms in each after becoming much smaller in more recent years. Next, he spoke about the growing list of investment management firms, many of whom are now household names, and the expansion of real estate to 11 members firms. Greene said that NAIC now represents the entire alternative investment class.

Greene then covered the trajectory of emerging managers, noting the importance of recognizing that emerging managers are not new investors. He said, “if you love The Carlyle Group, Ripplewood, and Golden Gate Capital, you will probably love our member firms.” Greene continued discussing the how performance is central to what NAIC is all about. He discussed the 2021 NAIC performance study, *Examining the Returns*, where NAIC member firms produced higher net IRRs than the Burgiss median quartile in 76.5 percent of the vintage years studied between 1998 – 2020. He noted how proud his is

about the 25-year-old study and how it has come together through the efforts of many of the fund of fund members who contribute to the study and compare it with industry benchmarks.

Greene also covered the three research reports Harvard Business School professor Josh Lerner has produced, which document the outperformance of diverse managers from the private equity, hedge fund, and real estate categories and cover the strong performance of women-owned alternatives firms. Greene highlighted how Lerner reviewed the entire asset management industry and found “diverse managers exist in virtually every category and are performing as well as their peers, and in some cases, diverse managers are outperforming the marketplace.”

Greene then spoke about the volume of recent NAIC member deals, commenting on how deal activity has been high for traditional member firms with over 10 years as members of NAIC as well as new member firms. He said deal NAIC member deal flow is updated daily on the NAIC website and that there are typically three to five deal announcements each week, adding it is “encouraging to see how the industry has grown and also the increasing sophistication, size, and scope of the deals.”

Greene then referred to testimonials from Johara Farhadieh, CIO of the Illinois State Board of Investments (ISBI); Michael Trotsky, CIO of Massachusetts Pension Reserves Investment Management (MassPRIM), and Jarvis Hollingsworth, the Chairman of the Teacher Retirement System of Texas (TRS). He said we could not cover all the testimonials from capital allocators who believe in the diverse manager space. Greene said he is pleased that plans like ISBI and TRS continue to increase investments with diverse managers and others like MassPRIM have done work in the space and are more recently increasing their activities. He described how NAIC works through the Institutional Investor Roadshows to encourage capital allocators to increase commitments to diverse managers consistent with the overall market, noting that “while the capital to diverse managers has grown, it has not kept pace with the capital flow in the marketplace.”

Greene then covered the significant level of oversubscription across recent diverse-led fund offerings. He described how each tile on the chart within the presentation represents that a diverse manager went into the marketplace to raise a certain amount of funds and raised amounts in excess of its target. Greene shared 32 diverse-owned firms have raised 59 oversubscribed funds since 2015 and that the funds have been raised in buyouts, venture capital, and in real estate by firms like Brasa Capital Management. He said he was hopeful that diverse firms will see the same level of success in 2022.

Greene mentioned that NAIC has been in dialogue with CalSTRS over the years about its activities, and then provided an update on its primary areas of focus: (1) increasing access to capital, (2) delivering market education, and (3) addressing key industry challenges. Greene emphasized that NAIC is “perennially focused on increasing access to capital.” Examples Greene provided of NAIC’s efforts included the NAIC Institutional Investor Roadshows, the LP Meetup, F.A.S.T. (Fundraising Advisory Support Tracker), and the *Managers in the Market (MINT)* quarterly distribution. He also described the Global LP Exchange NAIC executed in partnership with MVision, which introduced NAIC members to international capital allocators.

Greene explained how NAIC delivers market education via programs that are largely about research, data, and the delivery of information. He referred to the performance study he covered earlier and the video series NAIC produces, including *Perspectives*, short-form segments, and *Insights*, a longer format for in-depth discussions.

Greene continued with the third area of focus for NAIC—addressing industry challenges. He shared how NAIC is extremely focused on two areas: (1) helping experienced investors launch their firms and (2) the advancement of women in alternatives. Greene shared how NAIC launched NextGen (the Next Generation of Private Equity Firms) three years ago and described the nine-week symposium where NAIC has trained hundreds of diverse managers to prepare for creating their own firms. He described how the symposium includes modules led by Kirkland & Ellis, Korn Ferry, and many other industry leading partners.

Greene continued with NAIC's goal to address the dearth of women succeeding in the alternatives space via its Women in Alternatives initiative led by Carmen Ortiz-McGhee. He described how the initiative—*In, Up, and Beyond*—aims to help women enter the alternatives industry, advance during their careers, and move beyond to launch their own firms. Greene shared how the NAIC Paradigm Changers internship program has provided exposure to the industry for undergraduate and MBA students and has been supported by member firms like IMB Partners and Palladium Equity Partners and an industry partner, TPG. He also spoke about NAIC's efforts to help women move "Up" in the industry through a cohort currently assigned to mentors, and the "Beyond" component, noting "people tend to hire people like them, and we hope women will do the same" to expand the number of women thriving in the alternatives industry.

Greene then commented on the map of the U.S. depicting the states where NAIC has held Institutional Investor Roadshows since 2014. Greene said NAIC has met with 153 capital allocators managing, collectively, over \$13 trillion dollars across 26 states, both physically and virtually. He said many NAIC members have shared the roadshows have been one of the biggest components of their fundraising process. Greene said he continues to be very bullish on the roadshows and what they can produce. Greene also spoke about how NAIC now works with consultants regularly to conduct roadshows. He said NAIC is now beginning to schedule roadshows for the 2023 calendar year.

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.
- Many sophisticated institutional investors are expanding their allocations toward high-performing emerging and diverse managers.

Greene then invited questions. Margot Wirth of CalSTRS asked Greene where he sees the most success, and the biggest challenges. Greene shared his two biggest frustrations. First, he said it still takes too long for diverse managers to raise funds, roughly over two years on average, versus their majority peers that take one to one and half years to raise each fund. He said he would like to see the time to raise funds decline for diverse managers. Second, Greene said allocators have not rethought their allocations to diverse managers and are growing from a low historical base to make incremental increases instead of reevaluating the diverse manager opportunity.

Dennis Jean-Jacques of Ocean Park Investments asked about CalSTRS's diverse and emerging tracks and metrics and what will be monitored to determine "what will be a good year and what will be viewed a bad year." Ailman said in the first week of May, the CalSTRS board will adopt a definition of diversity and determine its goals. He spoke about the board being "aspirational," noting that the board has a

competitive nature and will explore what has happened in other pension plans, such as Illinois, Texas, and New York. He said the board will measure AUM and performance, as he is a big believer in “what gets measured gets managed.” Ailman said the legislature now requires emerging manager definitions by asset classes. He said the definitions for emerging managers will vary by asset classes—real estate will be measured by a different AUM from others, and hedge funds will follow a different definition. Ailman stated that diversity will have a consistent definition across all the asset classes following the ownership of privately held companies. He added that CalSTRS will also push larger, public firms to have diversity programs. Ailman concluded the board will be “harsh” in bad years and the board will aim to have more success, even in good years.

Greene discussed how he and Ortiz-McGhee spend time with a lot of newer managers. He said, “they want to stand in the line, while the likelihood of getting capital is exceptionally low” and asked for advice on how they should proceed. Ailman said, “if you are going to go fishing, why try to hook the whale.” He said smaller, newer managers are better suited to family offices and endowments that are “small, nimble, and eager to back smaller managers.” He added that the funds of funds are also helpful, pointing out how Invesco has identified firms across the country, which is difficult for CalPERS to do. Ailman also said the requirements the plan puts on managers “are very onerous.”

Scott Chan, Deputy CIO, spoke about the challenges of first-time funds. He said most first-time funds don’t spend enough time focusing on building a business and described how CalSTRS has a lot of recommendations and demands for its managers. Chan spoke about his experiences across the table raising money prior to joining CalSTRS. He cautioned managers, “you don’t want to accept the wrong type of capital” and added over the long term, managers need to be diligent about the capital they accept. He concluded LP turnover can impair the track record and make it more difficult to get to the institutional stage. Chris Maeoka of Fruition Media then provided instructions to access the one-on-one meetings following the general session. Greene thanked the CalSTRS team and each of the fund of fund partners and concluded the roadshow.