

## MEMORANDUM

**To:** NAIC Members

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

**Date:** June 6, 2022

**Subject:** NAIC Institutional Investor Virtual Roadshow hosted by the Los Angeles County Employees Retirement Association

On May 26, 2022, the National Association of Investment Companies (NAIC) held its fifth Institutional Investor Roadshow of the year, which was hosted by the **Los Angeles County Employees Retirement Association (LACERA)**. LACERA is the largest county retirement system in the United States with \$75.2 billion in net assets, as of March 31, 2022. The event was NAIC's second Institutional Investor Roadshow with LACERA.

### Host Organization

**Los Angeles County Employees Retirement Association (LACERA) LACERA**

**Jonathan Grabel**, CIO – jgrabel@lacera.com

**Didier Acevedo**, Investment Officer – dacevedo@lacera.com

**Amit Aggarwal**, Investment Officer – aaggarwal@lacera.com

**Patrick Jones**, Trustee – pjones@lacera.com

**Cheryl Lu**, Investment Officer – clu@lacera.com

**Quoc Nguyen**, Investment Officer – qnguyen@lacera.com

**Krista Powell**, Investment Officer – kpowell@lacera.com

**Jim Rice**, Principal Investment Officer – jrice@lacera.com

**Cindy Rivera**, Senior Investment Analyst – crivera@lacera.com

**David Simpson**, Investment Officer – dsimpson@lacera.com

**Chad Timko**, Senior Investment Officer – ctimko@lacera.com

**Mel Tsao**, Senior Investment Analyst – mtsao@lacera.com

**Chris Wagner**, Principal Investment Officer – cwagner@lacera.com

### NAIC Leadership & Staff

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

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

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

**Marissa Mahoney**, Director of Partnerships and Alliances – mmahoney@naicpe.com

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

**Kristen Perlman**, Director of Marketing and Communications – kperlman@naicpe.com

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

The 22 NAIC member firms and their respective representatives selected to participate in the event included: Kay Blackwell, **Argand Partners**; Vijay Mehta, **Arkview Capital**; Heather Hiles and James Norman, **Black Ops Ventures**; Alexis Lewis, **Brasa Capital Management**; Chirag Hathiramani and Jessica Wen, **Casoro Group**; Edward Finn, **Chicago River Capital**; Joanne Yoo, **Development Partners International**; Michael Smart, **Dominus Capital**; Fred Cummings and Craig Cimoroni, **Elizabeth Park Capital Management**; Shoham Amin and Emma Ackermann, **Excel Group**; Philip Lo, **GPI Capital**; Donna Wilson, **Kah Capital Management**; Danielle Beyer and Kerstin Dittmar, **L2 Point Management**; James Tieng, **Lumos Capital Group**; J. Dennis Jacques and Yuki Kanaya, **Ocean Park Investments LP**; Kneeland Youngblood, **Pharos Capital Group**; Evan Melrose and Kelly Huang, **Spindletop Capital**; Courtney Mehrotra, **Stellex Capital Management**; Dehdan Miller, **True Equity Growth**; Al Foreman and Christie Kinney, **Tuatara Capital**; Joseph Haslip, **Valor Equity Partners**; and Alex Washington and Ron Liberman, **Wind Point Partners**.

Bob Greene, NAIC's President and CEO, welcomed everyone to the NAIC Institutional Investor Roadshow hosted by LACERA, which previously hosted an in-person roadshow in 2016. He specifically acknowledged Jonathan Grabel and Chris Wagner for helping to make the event possible. 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 Allocator Advisor, along with the production team from Fruition Media led by Diana McCaskill.

Greene then set the stage for the day and the NAIC overview. He said that 15 to 20 years ago, investing with diverse managers was considered "the right thing to do," and diversity leaned towards fairness and inclusion. He contrasted that with today's marketplace, "in order to get the very best returns, you have to include diverse managers." Greene said the performance argument is a strong argument and shared his hope that the NAIC managers be thought of within the context of being solid long-term performers that can be a part of the core trust where LACERA can build and grow with them. He then asked Jonathan Grabel, CIO of LACERA, to provide remarks and an update on LACERA.

Grabel said it was fantastic to be here and thanked the LACERA team and a participating trustee, Patrick Jones. Grabel said LACERA currently oversees a \$75 billion defined benefit plan along with a \$3 billion trust on behalf of 186,000 active and retired members in Los Angeles County. He said the team begins and ends every sentence with the plan's mission to "produce, protect, and provide the promised benefits to our members." He described the team's challenge of paying out benefits "today, tomorrow, and in the future" in the current market environment and said as a mature plan, LACERA pays out over \$3 billion in annual benefits while member and employer contributions are approximately \$2 billion per year.

Grabel then described how the portfolio is allocated across five asset classes: Growth, Credit, Real Assets & Inflation Hedges, Risk Reduction & Mitigation; and Overlays & Hedges. He described how the Growth class includes public and private equity. He said to the extent the plan cannot find a liquid vehicle, a liquid alternative, or another low-cost way of expressing a position in global equity, private equity plays an important part and is the most active part of LACERA's equity portfolio. Grabel shared how the board approved a new strategic asset allocation in 2021. He displayed the plan's asset allocation as of October 2021 and target asset allocations for the fiscal year ending June 30th. He encouraged everyone to think about where LACERA or another plan may be deemphasizing or increasing allocations to certain asset and sub-asset classes "to understand what their needs are as opposed to just thinking about your firm."

Grabel shared LACERA's strategic plan entitled "Allocator to Best-in-Class Investor" and LACERA's efforts "Towards Inclusion, Diversity and Equity (T.I.D.E.)," which he said, "is not a sub-allocation of our plan but a fundamental belief that diverse, equitable and inclusive teams perform better." He added, "It is incumbent upon us to make sure that we position our members' capital to perform the best." He referred to Greene's earlier comments that diversity "is not a nice to have." He said the LACERA team shares the belief "our fiduciary duty compels us to be attentive to diversity, equity, and inclusion (DEI), to avoid groupthink."

Grabel discussed how DEI is woven across LACERA's core policies. He commented on LACERA's Investment Policy Statement, which he said emphasizes the importance of assessing and managing diverse talent to lead to improved outcomes. He explained how DEI is further expressed in the plan's Corporate Governance Principles and Emerging Manager Policies. Grabel then discussed the five pillars of T.I.D.E: (1) Internal Practices, (2) Due Diligence, (3) Active Ownership, (4) Capital Formation, and (5) Industry Advocacy. He said that as a large plan, LACERA can amplify its voice with like-minded investors to impact existing managers and emerging managers.

Grabel then discussed LACERA's emerging manager program, acknowledging it might be relevant to some of the NAIC firms. He described how the emerging manager program is part of the strategic plan and T.I.D.E. and is leveraged to form partnerships. Grabel shared how LACERA has helped seed some firms and has established revenue sharing relationships with them. He said that has helped the plan to "cast the widest net," and access great firms that are growing early in their life cycles. Grabel shared how the emerging manager program began in 1995 and has been a combination of internal and external programs, which has been expanded over the last couple of years. He noted that private equity has been expanded recently with a new tranche and that there is a new program in hedge funds. Grabel mentioned an active search to expand illiquid credit and an RFP for a search "to really reimagine our global equity emerging manager program to give us new exposures to what we currently have in our portfolio." Grabel concluded offering to answer any questions and thanking everyone for their time.

Greene thanked Grabel for his remarks and shared how pleased he was that LACERA shares the belief "that fiduciary responsibility is wrapped in diversity." Greene continued with the NAIC Market Overview describing how NAIC is a 51-year-old organization with 165 member firms collectively managing over \$275 billion in assets. He described how NAIC is the oldest and largest network of all the groups in the space. He said NAIC's members have invested in 940 portfolio companies globally, generated \$177 billion in revenue in 2021, and employ almost 400,000 people in the state of California.

Greene covered the key take-aways from the overview:

- There is a vibrant and growing population of diverse-owned firms.
- The track record and ongoing performance is competitive, and in many cases, outperforms the broader market.
- A growing number of institutional investors are allocating increased capital to diverse-owned managers, evidenced by frequent oversubscription.

Greene noted how California has various propositions and interpretations of those propositions related to diversity and acknowledged the understanding that there may be a need to call diverse managers something else, while emphasizing NAIC's focus on diverse managers. He shared how NAIC's members all have track records they are proud of as they've contributed to the growth and success of many companies. Greene spoke about how often discussions about emerging managers lead people to think about young firms and smaller firms. He said while NAIC has many of those, it does not have new

investors and the track records and ongoing performance of members “is competitive with the broader market and does not require a lowering of underwriting standards.” He added, “diverse managers are actually enhancing and expanding performance as opposed to being a headwind on it.”

Greene then described NAIC’s membership covering the entire alternative asset class. He shared the largest category of membership is within the buyout space with over 70 managers. Greene described the fund of fund membership, which includes nine firms investing in different areas, mostly in domestic private equity, with some focusing on private equity in Africa and others making investments in hedge funds, such as Rock Creek and parts of GCM Grosvenor. He discussed the addition of hedge funds roughly seven years ago, which has grown to almost 20 member firms. Greene described how growth and expansion and venture capital have been deliberate focus areas for growth within NAIC, which currently has 50 member firms across those asset classes. He commented that growth and expansion and venture capital investments contribute to solving the wealth gap within communities of color and for women-led businesses. He also discussed the growth in real estate and private credit members firms.

Greene then covered the emerging manager story, noting NAIC members are all experienced investors and “many of our firms apprenticed and cut their teeth at much larger firms.” He described the direct connection NAIC member firms have to The Carlyle Group, Golden Gate Capital, SAIC, Ripplewood, and JLL. He said, “we’re super proud of the LPs that have identified and followed managers from their more venerable, better known but less diverse firms to their own firms.”

Greene then discussed the research documenting the outperformance of diverse managers. He shared how NAIC has been producing the *Examining the Returns* report over the last 18 years. He said the most recent October 2021 edition has demonstrated how diverse managers are performing extremely well against the most widely accepted benchmarks in our space. He also mentioned the studies 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 covers the strong performance of women-owned alternatives firms and the series of studies commissioned by the Knight Foundation on diverse manager performance. Greene highlighted how the studies have found diverse managers perform as well as their majority counterparts across various industry and asset classes and demonstrate there is a robust set of diverse managers “who have performed well enough and outperformed in a number of categories.” He added, “it is reasonable to believe that with effective manager selection, you could construct a diverse manager program and have as its goal outperformance.”

Greene then spoke about recent NAIC member deal activity, noting there are extraordinary deals being done. He said there are new funds being raised and that NAIC is seeing growth like never before in terms of the proliferation and the establishment of new, diverse manager firms. He said it is a wonderful time to come into the marketplace, as evidenced by the success managers are having. Greene then referred to testimonials from Johara Farhadi, CIO of Illinois State Board of Investments; Michael Trotsky, CIO of Massachusetts Pension Reserves Investment Management, and Jarvis Hollingsworth, the Chairman of Texas Teachers and said, “they can all talk about their varying and different experiences with diverse managers, the high degree of professionalism they had, the outstanding performance that they have achieved, and the ability to build long term and lasting partnerships.”

Greene then covered the significant level of oversubscription across recent diverse-led fund offerings, which he said shows how much capital is flowing into the marketplace. He described how oversubscription is one of the best signs of the success, because “when you unpack oversubscription

you realize that it is not only a combination of outstanding performance on a deal-by-deal and a fund-by-fund basis but also the recognition of new LPs around the success of different managers.” Greene shared 32 diverse-owned firms have raised 59 oversubscribed funds over the last eight years.

Greene then spoke about 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 annual LP Meetup, the F.A.S.T. (fundraising advisory support tracker) introductory process, and the *Managers in the Market (MINT)* quarterly distribution. Greene explained how NAIC delivers market education via Intelligent NAIC, an analytical data set NAIC produces, performance research, and two types of video series, a *Perspectives*, a short-form platform, and *NAIC Insights* a longer form series.

Greene continued with the third area of focus for NAIC to address 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 described NextGen (the Next Generation of Private Equity Firms) in more detail. He said it includes 16 modules of content that are presented by leading service providers in the marketplace, including Goldman Sachs, EY, and Kirkland & Ellis and a variety of others. He said the symposium is now held over a nine-week period from early February to mid-April and has trained over 310 aspiring general partners from roughly 270 firms and helped them accelerate the success they can have in the marketplace.

Greene continued with NAIC’s goal to dramatically increase the number of women succeeding in alternatives via its Women in Alternatives initiative, which is 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 their firms as experienced alternative investment professionals. Greene shared how the NAIC Paradigm Changers internship program has helped young women enter the alternatives industry. He said there is also a mentorship program for women currently in the business, and that the beyond component is taking women already at senior levels within the private equity industry and helping them identify the resources from talent, service provider, and seed capital standpoints.

Greene spoke about the map of the U.S. depicting the states where NAIC has held Institutional Investor Roadshows since 2014. Greene said NAIC has met with 158 capital allocators managing, collectively, over \$13 trillion dollars across 26 states. He commented on greater receptivity on the east and west coast with warm receptivity in the Midwest and Texas and “lots of opportunity in states between Illinois and California and above Texas and below Canada.” Greene continued, “the good news is there’s probably never been a better time for a diverse manager to raise a fund with lots of new allocations coming in” and offered the bad news—diverse managers are not growing at the same pace as the overall market. He suggested a couple of things that need to be solved to address that: first, many new managers need to enter the marketplace and second, those new managers need to be embraced by LPs, who not only allocate what they’ve allocated in the past but also increase allocations, potentially by displacing longstanding managers that are not performing as well.

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 opened the floor to questions. Alex Washington of Wind Point Partners asked whether the LACERA team had completed internal analysis around the performance of diverse managers and whether it has been confirmatory. Grabel said the bedrock principle in LACERA's investment policy statement is that diverse teams outperform, and that it is hard to disprove that. He stated the performance can come from mitigating risks, enhancing returns, and avoiding situations by virtue of having different voices around a table. Grabel described the "mixed experience" in the emerging manager programs that focus more on smaller firms. He said the plan has had a good experience in private equity and real estate with the emerging manager program and more challenges in the traditional asset categories. He suggested it might be reflective of talent going into higher fee vehicles such as private equity. Grabel added, "we're collecting more data than ever," noting that an annual T.I.D.E. report goes to its board and is posted on the plan's website.

Evan Melrose of Spindletop Capital asked Grabel to speak more about LACERA's experience seeding and anchoring managers and the process for evaluating those opportunities. Grabel said LACERA uses separate accounts for bespoke opportunities the board approves in advance. He spoke about the hedge fund program, which he said is different from most programs and is part of the plan's risk mitigation allocation. He said seeding firms is something that has been new for LACERA and is executed via a board-approved relationship with Stable Asset Management, the plan's hedge fund separate account advisor. Grabel said seeding firms is part of their mandate where roughly 15% of the hedge fund allocation can be in emerging managers with flexibility to secure future rights and revenue-share relationships. He added seeding may become part of the global equity and illiquid credit allocations.

Greene then asked each of the LACERA team members to introduce themselves. Chris Wagner went first describing he oversees the private equity portfolio. David Simpson then introduced himself, sharing he is on the private equity team and has been with LACERA for about ten years. Patrick Jones, a LACERA trustee, then spoke. He said he was a relatively new appointee and had been serving as a trustee for a year and a half. Jones reiterated how DEI is woven into the policy at LACERA, more than he has seen in his corporate career and some of his work in public policy. He added, "it's a constant area of measurement, focus, and attention." He continued that Grabel is "very authentic about what it is we're doing" and that it is "well worth your investment of time to get to know our principal investment staff that's here."

Quoc Nguyen then introduced himself, sharing he is on the team that mainly oversees the hedge funds and illiquid credit asset categories. Amit Aggarwal shared he is an Investment Officer in the real estate division and has been at LACERA for 15 years. Krista Powell said she joined in December and oversees hedge funds and illiquid credit. Mel Tsao mentioned he has been with LACERA for nine years and works on real assets, specifically real estate. Didier Acevedo said he works on the private equity team covering U.S. venture and growth equity. Cheryl Lu shared she is on the private equity team and has been at LACERA for five years. Chad Timko discussed he works on the credit and hedge funds portfolio. Jim Rice said he oversees the real assets program, which includes real estate, infrastructure, and natural resources. Cindy Rivera shared she is on the real estate team and originally joined LACERA about seven years ago as an intern and a couple of years later full-time.

Greene then thanked Grabel and the LACERA team for their broad participation. He said it was obvious by Grabel's remarks and the commitment of the team's time, how seriously LACERA takes diversity and "giving these outstanding managers an opportunity to prove what they can do." Greene said that he expected that to be reinforced by the one-on-one meetings. Kristen Emery of Fruition Media provided instructions to access the meetings. Greene then reminded each of the members to be on time for the private meetings and concluded the roadshow thanking Jonathan Grabel and the LACERA team on behalf of the NAIC members and the board of directors.