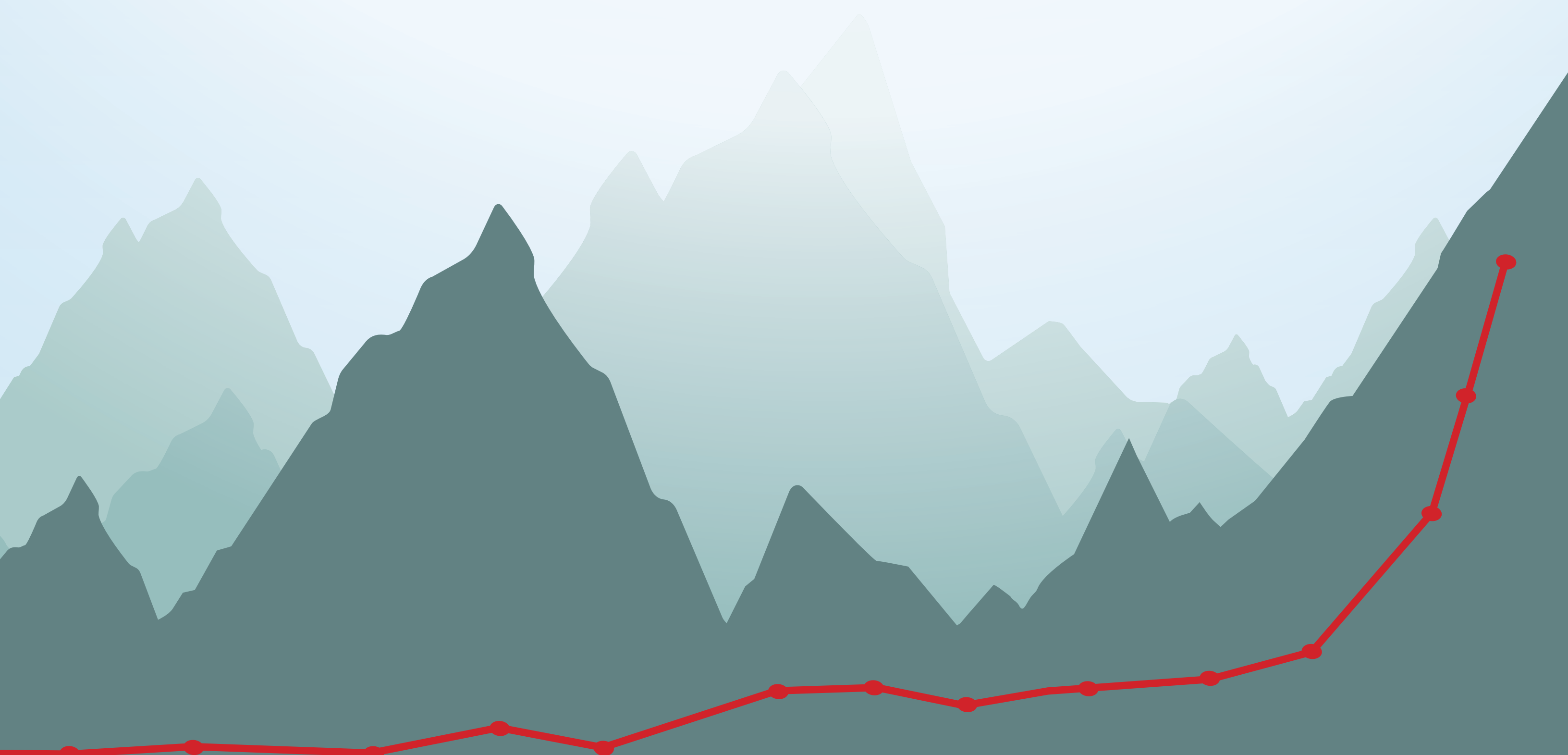
National Association of Investment Companies

Special thanks to Aon and KPMG for their contributions to this report.

EXAMINING THE RETURNS | 2019

The Financial Returns of Diverse Private Equity Firms



(T) +1 202 204 3001
(E) info@naicpe.com

www.naicpe.com

1300 Pennsylvania Ave. NW
Suite 700
Washington, DC 20005
United States

A Letter from the NAIC

Dear Friends and Colleagues,

In a complex and ever-changing world full of unforeseen challenges and circumstances, it is most impressive to observe that some things remain the same. On a biennial basis, the National Association of Investment Companies (NAIC) commissions and publishes a study of the performance of diverse-owned private equity firms. I am pleased to announce that the findings from our 2019 performance report, "*Examining the Returns*," continue to show that diverse-owned private equity firms once again outperformed established industry benchmarks.

It is perhaps no great surprise to those familiar with our previous report in 2017, "Examining the Returns," that diverse-owned private equity firms continue their outstanding performance, generating internal rates of return that exceed the median and top quartiles of the benchmark as well. However, many of these same firms continue to face challenges when it comes to attracting institutional investment capital despite stellar returns (Bella Research Group and the John S. and James L. Knight Foundation report that women and ethnically diverse investors manage only 1.3 percent of the investment industry's $69 trillion in assets under management).

As the only quantitative study on the performance of diverse-owned private equity firms, this report should be compulsory reading for all individuals that bear a fiduciary responsibility and seek to generate returns by investing in private equity. As you will read in the report, diverse-owned firms remain consistent when it comes to besting their benchmarks.

For the period 1994 through 2018, diverse private equity funds recorded a net IRR of 18.96 percent, a net MOIC of 1.54x and DPI of 0.69x.

For the continuous reporting period of 2011 to 2018, NAIC member funds reported a net IRR of 20.99 percent, a net MOIC of 1.48x and a net DPI of 0.53x.

NAIC would like to thank our member firms that participated in this study for their understanding of the significance of sharing performance data.

It is through their trust and efforts that we are able to quantify the degree to which diverse-owned firms are performing for their limited partners and strengthen the argument that fiduciary responsibilities mandate a look at this underrepresented sector of the industry.

We would also like to thank KPMG for once again serving as our data collection partner, ensuring the confidentiality, accuracy, and integrity of the data. Finally, we greatly appreciate the dedication and expertise demonstrated by the report's author, Meredith Jones, of Aon. Her diligence, hard work and attention to detail cannot be overstated. Without her, this report would not be possible.

It is my hope that this report helps raise awareness of the talent residing in diverse managers contributes to greater levels of parity for allocations, and increases the realization that greater diversity leads to greater performance.

Best regards,

Robert L. Greene
President & CEO

Table of Contents

Introduction

Research from the National Association of Investment Companies (NAIC), the Knight Foundation / Bella Private Markets and other entities has established the consistent, long-term outperformance of diverse private equity funds. Much like the NAIC's 2017 diverse private equity fund performance analysis, and the 2012 analysis before that, the 2019 analysis of diverse private equity fund performance as represented by NAIC member funds continues to show the value of investing in diverse investment managers.**

Unfortunately, despite the expanding body of research demonstrating the benefit of allocating to diverse investment managers, the prevalence of diverse asset management firms has remained stubbornly low. Indeed, diverse asset managers (including women and ethnic minorities) control a mere 1.3 percent of the investment industry's $69 trillion in assets under management.[1]

A study by *FundFire* and the Money Management Institute found that at the executive committee level of asset management firms, 88 percent of employees are white, while 86.3 percent of their managing director teams are also white.[2]

A Deloitte study concluded that women comprise just 11 percent of investment decision-makers at venture capital firms, while black and Hispanic employees comprise just 3 and 4 percent, respectively.[3]

In the private equity space specifically, research by The Knight Foundation / Bella Research concluded in 2019 that women-owned PE firms accounted for 5.2 percent of the total private equity funds in existence, while minority-owned private equity funds comprised an additional 3.8 percent.[4] Further, these firms control only 3.4 percent (women-owned) and 3.8 percent (diverse-owned) of all private equity assets.[5]

---

[1] https://www.institutionalinvestor.com/article/b1cwvq3mc37xwk/Asset-Managers-Owned-by-Women-and-Minorities-Have-to-Work-10X-as-Hard-for-Assets

[2] http://www.mminst.org/sites/default/files/file_attach/MMI-FFpercent20Diversity_in_Asset_Mgmt_Full-Report-FINAL.pdf

[3] https://www2.deloitte.com/us/en/pages/about-deloitte/articles/press-releases/survey-reflects-lack-of-women-and-minorities-in-senior-investment-roles-at-venture-capital-firms.html

[4] "2018 Diverse Asset Management Assessment", January 2019, Professor Josh Lerner, Harvard Business School, Ann Leamon, Richard Sessa, Rahat Dewan, and Samuel Holt (Bella Private Markets)

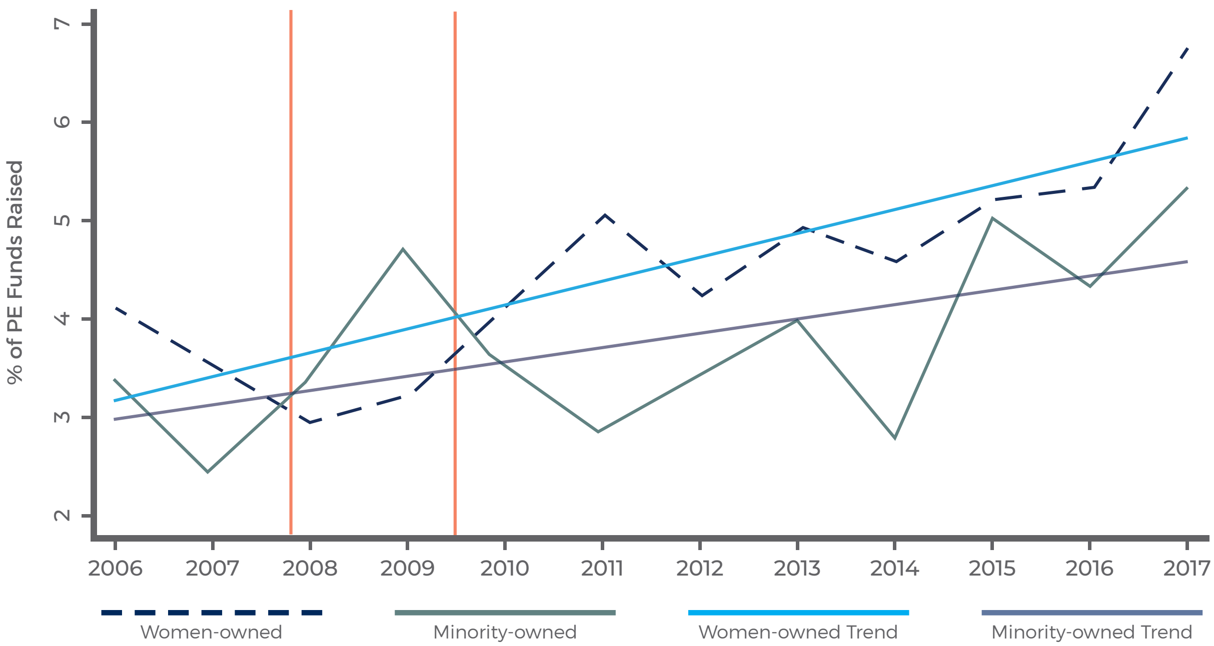
[5] Ibid.

**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. All opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes and should not be considered investment advice. **

Introduction (continued)

Despite the persistently low number of diverse asset management personnel and firms generally, and diverse private equity firms specifically, there are reasons to be hopeful going forward. For example, the Knight Foundation/Bella Private Markets found that the number of women- and minority-owned private equity funds being raised is on the rise. In fact, 2017 saw the most diverse private equity fund launches in history **(Figure 1)** and there is no reason to believe that trend will not continue as investors continue to launch and expand diverse manager investing initiatives.

Figure 1: Percentage of Diverse PE Funds Raised Vintage Year



Source: "2018 Diverse Asset Management Assessment", Bella Research/Knight Foundation, January 2019

Another reason for current and would-be diverse asset management firms to be optimistic is the recent consideration of federal legislation that would require various entities, including those registered or registering with the Securities and Exchange Commission, such as Investment Advisors, to consider women- and minority-owned asset management firms when contemplating investments. The **bill** would require the consideration of at least one diverse asset management firm during the request-for-proposal (RFP) process. While it seems unlikely that this legislation will take effect in the current political climate, the debate has highlighted the benefits of diversity in asset management, as well as the lack of progress diverse asset managers have faced.

In fact, the research around diverse fund performance continues to identify a number of potential alpha generators within the diverse investment community, many of them potentially sustainable over the long term.

Introduction (continued)

Diversity Enhances Decision Making

The 2016 Harvard Business School study "The Cost of Friendship" (Gompers, Mukharlyamov, Xuan)[6] examined 3,510 venture capitalists and their investments in 12,577 companies. The researchers then collected detailed demographic data on each venture capitalist, including employment and educational history, ethnicity and gender. After looking at co-investment patterns, they found that venture capital investors with similar backgrounds tended to invest together. More importantly, however, this "affinity investing" had a negative impact on their investment outcomes.

For example, the probability of success (as defined by a successful exit from an investment) decreased by 17 percent if the co-investors had also been co-workers at any point in time.[7] And successful exits decreased by 19 percent and 20 percent, respectively, if investors had attended the same undergraduate school or were the same ethnic minority.[8] The authors of the study concluded that these decreased investing success rates were due to the fact that "the cost of affinity is most likely attributable to poor decision-making by high-affinity syndicates after the investment is made."[9]

Differentiated Deal Flow

The private equity industry is sitting on a mountain of dry powder, or capital that has yet to be invested. Some estimates put the mid-year totals at nearly $2.5 trillion.[10] As a result, private equity deals accounted for 13 percent of all acquisitions through June, the highest level since 2013.[11] At the same time, capital is continuing to concentrate into certain sectors, with 63 percent of total 1H2019 private equity capital being allocated to information technology, healthcare and business-to-business ventures.[12] In the face of competition for and concentration of private equity deals, valuations have now crept up to roughly 11 times EBITDA.[13]

In this environment, the ability to look "off the beaten path" for investments becomes critical, because it is of course true that money into a private equity investment is always directly related to the money one gets out of a private equity investment. Many diverse fund managers have educational and work experience similar to investors in non-diverse funds. This means that while diverse private equity firms can, and do, compete for the top PE deals, they may also be privy to, or even seek out, investments that are off the radar of larger, more traditional firms. They may search out diverse founders, untapped industry niches or different geographies to allocate capital. To the extent that a fund manager has access to diverse deal flow and can strike deals with less competition, their returns, and their investors, may benefit.

[6] https://hbswk.hbs.edu/item/in-venture-capital-birds-of-a-feather-lose-money-together

[7] Ibid

[8] Ibid.

[9] Ibid.

[10] https://www.ft.com/content/2f777656-9854-11e9-9573-ee5cbb98ed36

[11] Ibid.

[12] https://pitchbook.com/news/articles/here-are-9-charts-that-capture-the-us-private-equity-industry-in-2q

[13] https://www.whitecase.com/publications/insight/private-equity-slows-2019-valuations-continue-rise

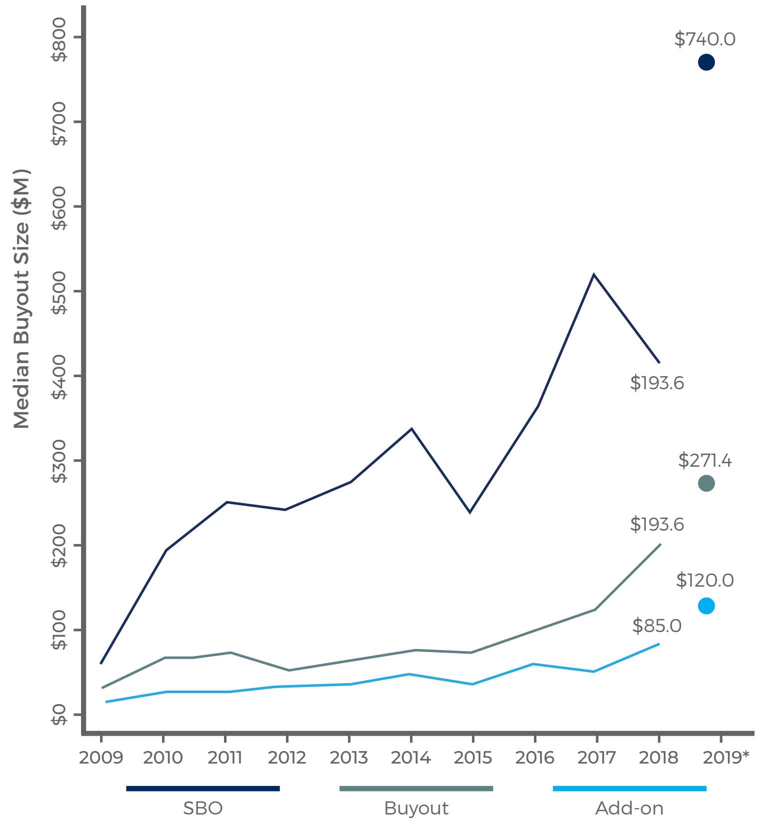
Introduction (continued)

Smaller Fund Sizes

One of the major trends of recent years is the launch of the mega-private equity fund. In 2019, Blackstone raised the largest buyout PE fund in history, at $26 billion[14], and US private equity funds of at least $5 billion in assets under management accounted for over half of all PE fundraising through the third quarter.[15] Recent data from the Knight Foundation/Bella Private Markets fund suggests that "minority-owned firms are roughly the same size as the typical PE firm whether measured by average or median assets under management…while the average (median) women-owned firm manages $766 million ($89 million) compared to $1.2 billion ($166 million) for all PE firms."[16] However, this data does not account for the 2019 surge in fund sizes, and the authors do specifically address the fact that a small number of large diverse firms drive the median figures up.

At the same time that the private equity industry is trending towards mega-funds, there is evidence to suggest that small to mid-sized PE funds may outperform. A 2019 study from alternative investment manager Pantheon examined buyouts between 2000 and 2012 and found that "small to medium buyouts outperformed large to mega buyouts by a Total Value to Paid In (TVPI) compounded annual growth rate (CAGR) of 5 percent."[17] And while large funds aren't necessarily wedded to large deals, the efficiency of larger buyouts may make them particularly attractive to the mega-fund crowd. As a result, data from private equity watcher Preqin **(Figure 2)** shows that the size of PE deals are being pushed to new heights.

Figure 2: Median Buyout Size By Type (Buyout, Secondary Buyout and Add On)



*Source: PitchBook | Geography: US (*As of June 30, 2019)*

The ever-mounting evidence of strong performance by diverse private equity funds, and the potentially sustainable drivers of said performance, should pique the interest of limited partners (LPs). By investing with diverse managers, in diverse deals and with managers across the size spectrum, LPs can look to increase their portfolio diversification[18], even within a single asset class allocation (in this case private equity).

---

[14] https://pitchbook.com/news/articles/12-big-things-a-wild-weird-wework-y-year

[15] https://pitchbook.com/news/articles/private-equity-fundraising-in-the-us-hits-all-time-high

[16] "2018 Diverse Asset Management Assessment", January 2019, Professor Josh Lerner, Harvard Business School, Ann Leamon, Richard Sessa, Rahat Dewan, and Samuel Holt (Bella Private Markets)

[17] https://www.opalesque.com/675587/Small_to_private_equity_deals_outperform_mega558.html

[18] Diversification does not ensure a profit nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.

Key Findings

Diverse PE funds (represented by NAIC member funds in the NAIC Private Equity Index) **performed better than the Burgiss Median Quartile in 78.6 percent of the vintage years studied.**

Based on Internal Rate of Return (IRR), diverse private equity funds, represented by the NAIC Member Funds, **outperformed not only the average fund in the Burgiss benchmark group, but also those in the upper quartile.**

Diverse private equity funds "outkicked their multiple on investment capital (MOIC) coverage" in the various periods measured. Roughly 54 percent of the diverse PE funds (the NAIC Private Equity Index) reporting appeared in the top quartile based on MOIC for the full period, while approximately **57 percent of the funds in the 2011-2018 period produced top quartile performance.**

NAIC member firms produced higher Distributed to Paid-In (DPI) 64.3 percent of the time since 2000, and **diverse PE funds outperformed in roughly 56.3 percent of all vintage years available.**

Research suggests diverse funds may have a sustainable edge when it comes to investing. For example, studies show that **diversity can be a source of excess return and increase the probability of "success" in investing, while diverse deal flow can also be a driver of excess alpha.**

Despite a proven record of success, the prevalence of diversity within the asset management industry remains low. A study by FundFire and the Money Management Institute found that **at the executive committee level of asset management firms, 88 percent of employees are white, while 86.3 percent of their managing director teams are also white.**[19]

There is reason to hope diversity will increase in the investment industry generally, and in private equity specifically, however. **The number of diverse private equity funds being raised is at an all-time high and federal legislation may encourage others to seek out diverse fund managers.**

[19]http://www.mminst.org/sites/default/files/file_attach/MMI-FFpercent20Diversity_in_Asset_Mgmt_Full-Report-FINAL.pdf

**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. All opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes and should not be considered investment advice. **

Methodology

To produce this report, the NAIC partnered with a number of firms to collect, aggregate, analyze and explain performance data submitted by member firms of the NAIC.

The financial returns of a representative sample of diverse private equity firms, within the continental United States, were compiled for this report. These returns are intended to serve as a directional proxy for a broader sample of diverse asset management firms. The performance data was collected from audited financial statements from the years included in the study (1994-2018).

To ensure objectivity and transparency, NAIC engaged KPMG LLC ("KPMG"), a global network of professional firms providing Audit, Tax and Advisory services, to manage the collection and compilation of the performance data. NAIC member firms sent their completed performance data directly to KPMG, which removed individual firm attribution and aggregated the data. KPMG then provided the Working Group with obfuscated performance data templates. Throughout this process, identifying information for Diverse PE Funds has been restricted to KPMG.

After receiving obfuscated data from KPMG, analysts at GCM Grosvenor compiled performance benchmark analysis (the "NAIC Private Equity Index") across a number of metrics and a variety of time periods. Performance metrics included Internal Rate of Return ("IRR"), Multiple on Invested Capital ("MOIC"), and Distributed to Paid-in capital ("DPI").

GCM Grosvenor also compiled all benchmark data. Benchmark data was obtained from The Burgiss Group ("Burgiss"), an independent subscription-based data provider, which calculates and publishes quarterly performance information from cash flows and valuations collected from of a sample of private equity firms worldwide. The performance is compared to that of its peers by asset type, geography and vintage year as of the applicable valuation date. GCM Grosvenor's Asset Class and Geography definitions may differ from those used by Burgiss. GCM Grosvenor has used its best efforts to match each Asset Class and Geography with the appropriate Burgiss strategy but material differences may exist. Benchmarks for certain investment types may not be available. Additional information is available upon request.

Burgiss' definition of each of its benchmark categories follow:

- **The Quartile Rankings provided are based on The Burgiss Group's definition of quartiles, as follows:**
- **First Quartile: Returns are equal to or greater than the Upper Quartile Threshold (i.e., limit at which 25 percent of all returns are greater)**
- **Second Quartile: Returns are equal to or greater than the Median but lower than the Upper Quartile Threshold**
- **Third Quartile: Returns are greater than the Lower Quartile Threshold but lower than the Median**
- **Fourth Quartile: Returns are lower than the Lower Quartile Threshold (i.e., limit at which 75 percent of all returns are greater)**

Methodology (continued)

Burgiss Report Criteria

End Date	Pooled / Individual Currency	Vintage Year By
3/31/2019	USD / USD	First cash flow

Funds benchmarked as per the below methodology to benchmarking provider

Asset Class

NAIC	Burgiss
Buyout	EQUITY - Buyout
Venture	EQUITY - Venture Capital
Growth Equity	EQUITY - Expansion Capital
Special Situations	DEBT - (All)

Location

NAIC	Burgiss
North America	North America
Europe	Europe

Burgiss benchmark subtotal downloaded as on 11/04/2019

Aggregate Summary

Vintage Year(s)	Asset Class	Geographic Focus
1994, 1999, 2000, 2001, 2005, 2006, 2007, 2009, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018	Equity(All), Debt(All)	North America

Summary by Vintage

Vintage Year(s)	Asset Class	Geographic Focus
1994, 1999, 2000, 2001, 2005, 2006, 2007, 2009, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018	Equity(All), Debt(All)	North America

Summary by Vintage & Asset Class

Vintage Year(s)	Asset Class	Geographic Focus
1994, 1999, 2000, 2001, 2005, 2006, 2007, 2009, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018	Equity(All), Debt(All)	North America

Methodology (continued)

After this data was compiled, it was provided to the head of emerging and diverse manager research at Aon for further analysis and the final generation of this white paper.

Finally, the NAIC engaged a working group of funds of private equity funds, as well as general and private equity-focused investment consultants ("Working Group") to assist with data analysis. Quantitative and qualitative variables for firms, funds and portfolio companies identified by the Working Group were incorporated into the analysis. The Working Group consisted of the following entities: Fairview Capital Partners, GCM Grosvenor, HarborVest Partners LLC, J.P. Morgan Asset Management, Muller and Monroe Asset Management and Neuberger Berman.

Funds were analyzed as a single cohort, a 2011-2018 cohort and were also broken out into vintage years.

In addition:

- **All performance data is shown net of fees to Limited Partners, unless otherwise noted.**
- **All IRRs greater than one year are annualized.**
- **Vintage years are defined as First Cash Flow, Quartile Methodology, Rank Selected Sample.**
- **IRRs in excess of 1,000 percent are excluded from the average and standard deviation calculations.**
- **There were no NAIC member funds that reported performance for vintage years 1995-1999, 2002-2004, 2008 or 2010.**

Demographic Information for NAIC Members and Participating Firms[20]

The NAIC is **comprised of 78 member firms**, ranging from venture capital firms to buyout firms to funds of private equity funds to hedge funds.

NAIC member firms **manage over $150 billion in AUM and have a median AUM of $1.3 billion.**

The AUM captured by Diverse PE Funds for this study was **$73.4 billion.**

The breakdown of NAIC private equity member funds by type is shown below in **Figure 3.**

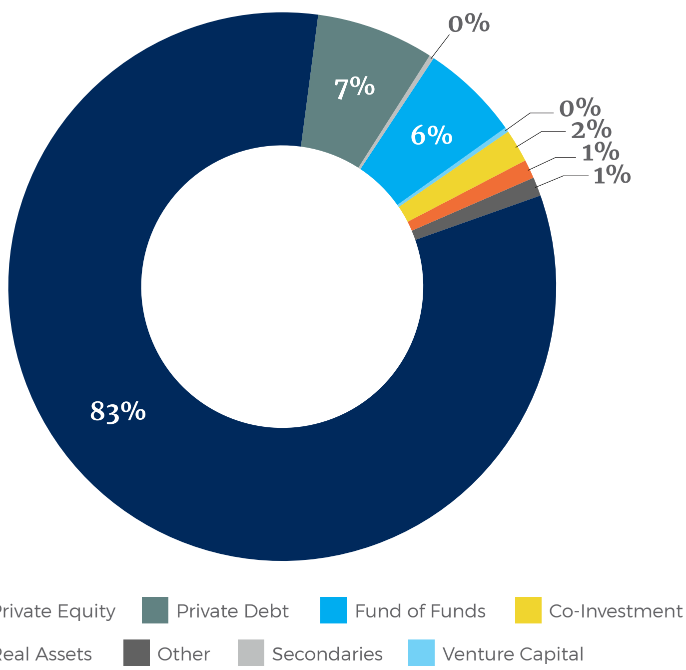
The largest member firm **manages $53 billion in AUM, while the smallest member firm manages just $40 million,** excluding funds in formation.

Funds captured for this study ranged in size from $154 million to $11.7 billion in AUM. The **average fund size in this study was roughly $863 million.**

Since 2014, NAIC member firms have raised **37 oversubscribed PE funds.**

Funds range from **Fund I to Fund VII**, while a few firms offer separate private equity accounts rather than fund structures.

Figure 3: Breakdown of Equity Funds By Type



Source: NAIC

[20]All demographic data on NAIC member firms in this section was provided by the National Association of Inv¬estment Companies and is accurate as of December 2018.

**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. All opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes and should not be considered investment advice. **

Demographic Information for NAIC Members and Participating Firms (continued)

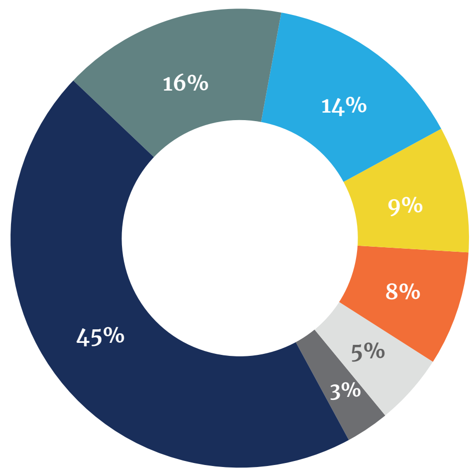
The NAIC member firms that participated in this study gather capital from a diverse investor base. However, nearly half comes from public pension funds **(Figure 4)**. This may likely be due to an increase in the number of emerging and diverse programs over the last five to seven years. Funds of funds and "other" investors, including insurance companies, foundations and government agencies, are the next two largest investor groups. Research from the Knight Foundation/Bella Private Markets **(Figure 5)** confirms that pensions (public and private) are the most likely funders for diverse private equity funds.[21]

NAIC member firms employ a total of **281 full-time investment staff, 63 investment partners, and 275 operations, compliance, investor relations, finance and administrative personnel.**

The average NAIC member firm employs roughly **5 investment partners.**

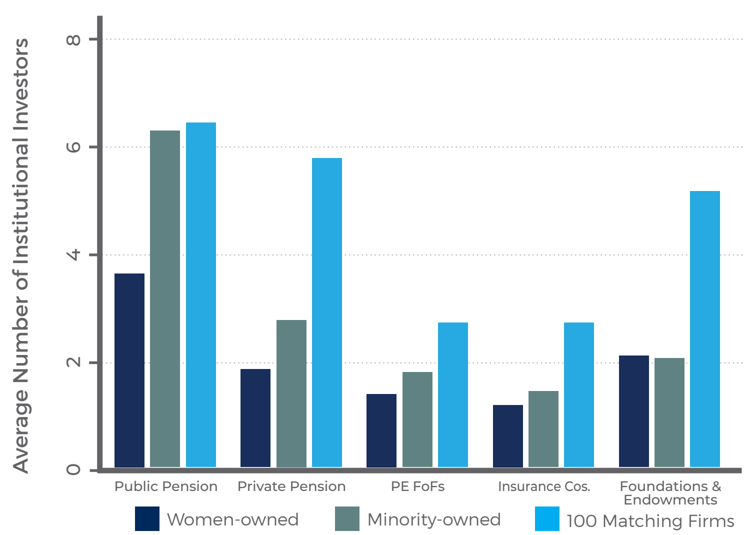
On average, **56% of the investment professionals** at NAIC member firms are women or minorities.

Figure 4: Who Funds Diverse Private Equity Firms, Take One



Source: NAIC Data

Figure 5: Who Funds Diverse Private Equity Firms, Take Two



Source: The Knight Foundation/Bella Private Markets 2019

[21] "2018 Diverse Asset Management Assessment", January 2019, Professor Josh Lerner, Harvard Business School, Ann Leamon, Richard Sessa, Rahat Dewan, and Samuel Holt (Bella Private Markets)

Performance & Analysis

For the period 1994 through 2018[22], diverse PE funds, represented by the NAIC Private Equity Index, recorded a net IRR of 18.96 percent, a net MOIC of 1.54x and DPI of 0.69x. For the continuous reporting period of 2011 to 2018, the NAIC Private Equity Index reported a net IRR of 20.99 percent, a net MOIC of 1.48x and a net DPI of 0.53x.

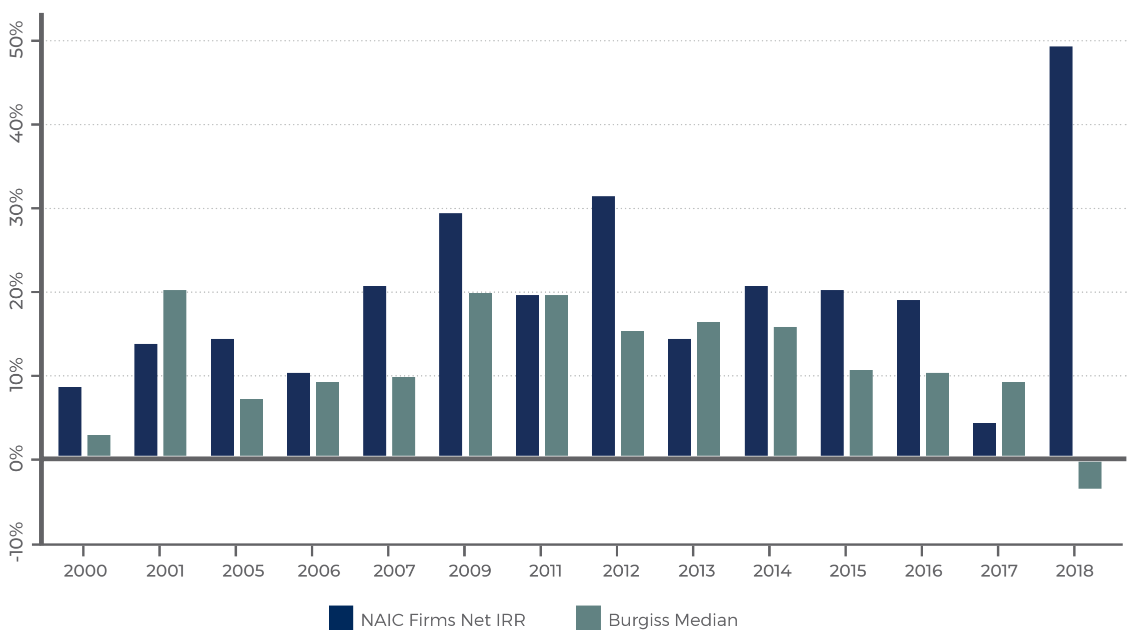
To help put those performance figures into perspective, we compared IRR, MOIC and DPI of the NAIC Private Equity Index to benchmarks calculated from The Burgiss Group data by Vintage Year, the full period 1994 through 2018 and the continuous reporting period 2011 through 2018, which encompasses roughly the elapsed time since the first NAIC diverse private equity performance report and its subsequent 2017 update.

One of the pervasive myths about emerging and diverse managers is that they should outperform in every period. This is frankly an unrealistic expectation for any manager, diverse or otherwise, which can be counterproductive to effective manager selection. However, the NAIC member funds in our sample did provide fairly consistent outperformance by vintage years and over the various aggregate time periods measured.

For example, when looking at IRR by vintage year in **Figure 6**, one can determine that diverse PE funds represented by the NAIC Private Equity Index performed better than the Burgiss Median Quartile in 78.6 percent of the vintage years studied.

Figure 6: IRR of NAIC Private Equity Index Versus Burgiss Median Quartile by Vintage Year

NAIC PRIVATE EQUITY INDEX NET IRR VERSUS BENCHMARK



[22]NB – There were no NAIC member funds that reported performance for vintage years 1995-1999, 2002-2004, 2008 or 2010.

**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. All opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes and should not be considered investment advice. **

Performance & Analysis (continued)

Furthermore, for the full period studied, the NAIC Private Equity Index outperformed not only the average fund in the Burgiss benchmark group, but also those in the upper quartile **(Figure 7)**. In addition, since NAIC's first look at diverse private equity performance ("Recognizing the Results") was published in 2012, NAIC member firms have continued to outperform the benchmark, generating IRRs that also eclipsed the median and top quartiles of the benchmark as well **(Figure 8)**.

Figure 7: IRR of NAIC Private Equity Index Versus Burgiss Benchmark Full Period

NAIC PRIVATE EQUITY INDEX NET IRR VERSUS BENCHMARK

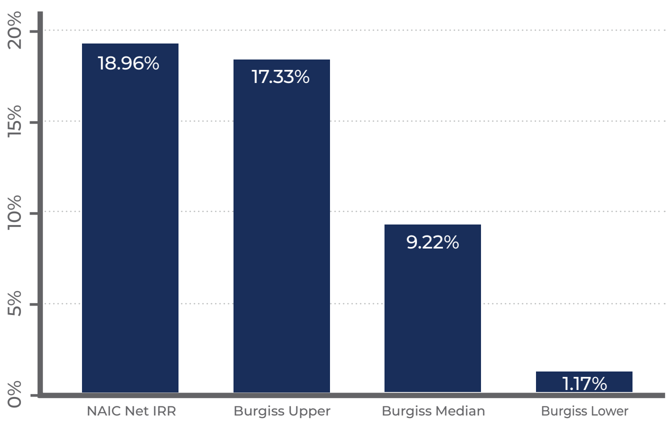
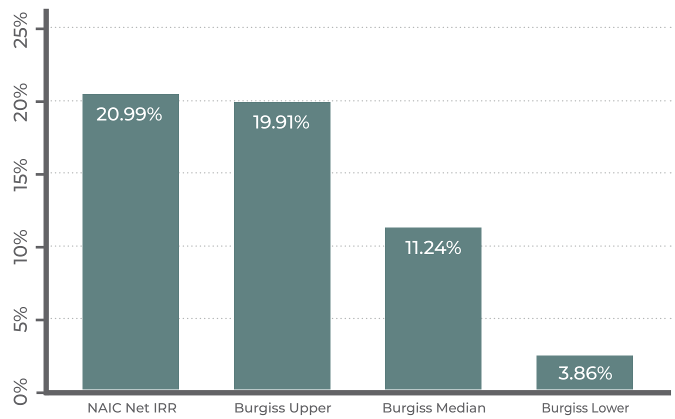


Figure 8: IRR of NAIC Private Equity Index Versus Burgiss Benchmark 2011-2018

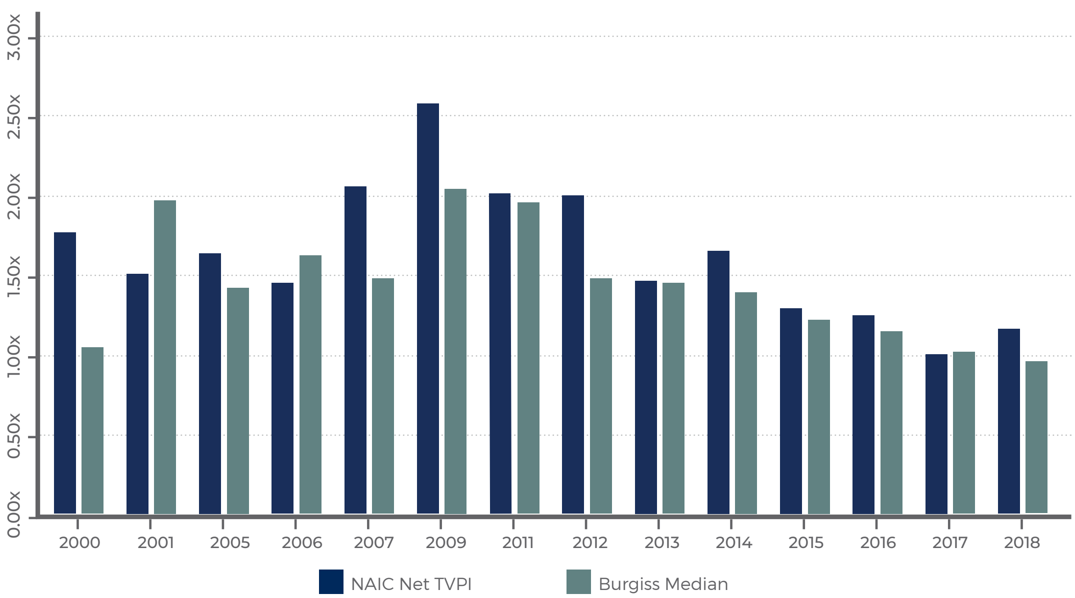
NAIC PRIVATE EQUITY INDEX NET IRR VERSUS BENCHMARK: 2011-2018



Likewise, the diverse PE funds represented by the NAIC Private Equity Index also outperformed the median Burgiss private equity fund in 78.6 percent of years measured **(Figure 9)**.

Figure 9: Net Multiple on Invested Capital by Vintage Year

NAIC PRIVATE EQUITY INDEX NET MOIC VERSUS BENCHMARK



**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. All opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes and should not be considered investment advice. **

Performance & Analysis (continued)

In **Figure 10**, one notes that diverse PE Funds slightly underperformed the upper quartile of the Burgiss benchmark for the full period measured (1.54x versus 1.69x), as well as for the continuous performance period 2011 to 2018 **(Figure 11)**.

Figure 10: Net Multiple on Invested Capital Full Period

NAIC PRIVATE EQUITY INDEX NET MOIC VERSUS BENCHMARK

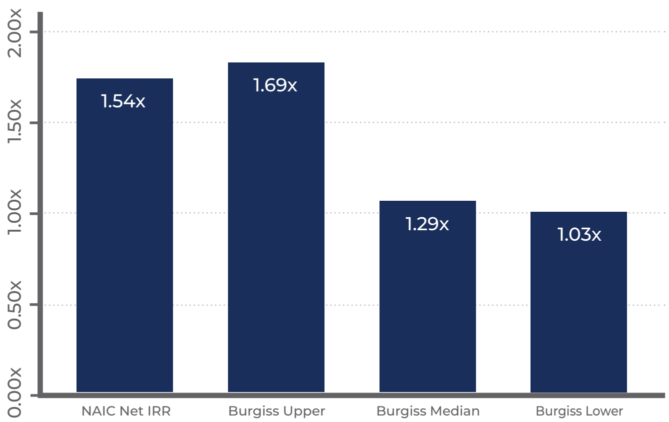
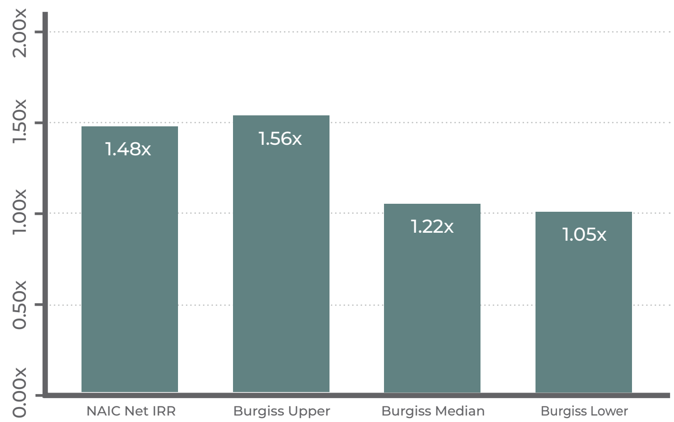


Figure 11: Net Multiple on Invested Capital 2011-2018

NAIC PRIVATE EQUITY INDEX NET MOIC VERSUS BENCHMARK: 2011-2018



Roughly 54 percent of the NAIC funds reporting appeared in the top quartile based on MOIC for the full period, while approximately 57 percent of the funds in the continuous period produced top quartile performance. These numbers are consistent with those calculated by Bella Research for the Knight Foundation which also showed overrepresentation of diverse private equity firms in the top quartile of PE performers. Bella Research's report showed that diverse private equity firms were overrepresented in the top quartile in 2017 (34 percent), while women-owned firms were also overrepresented (at 29 percent) for the period.[23]

Finally, we looked at Distributed to Paid In (DPI) ratios for individual vintage years, as well as for the full period 1994-2018 and the most recent period (2011 to 2018). As one might expect with later vintage funds, DPI for recent periods are low. As funds mature and more exits are realized, one would expect DPI for both diverse PE funds and the funds that comprise the Burgiss median to increase.

[23] "2018 Diverse Asset Management Assessment", January 2019, Professor Josh Lerner, Harvard Business School, Ann Leamon, Richard Sessa, Rahat Dewan, and Samuel Holt (Bella Private Markets)

Performance & Analysis (continued)

With that caveat, NAIC member firms produced higher DPIs 64.29 percent of the time since 2000, and diverse PE funds outperformed in roughly 56.30 percent of all vintage years available **(Figure 12)**, and while NAIC member funds underperformed the top quartile for the full period, they are virtually tied for the consecutive period 2011 to 2018.

Figure 12: Distributed to Paid In Ratio by Year

NAIC PRIVATE EQUITY INDEX NET DPI VERSUS BENCHMARK

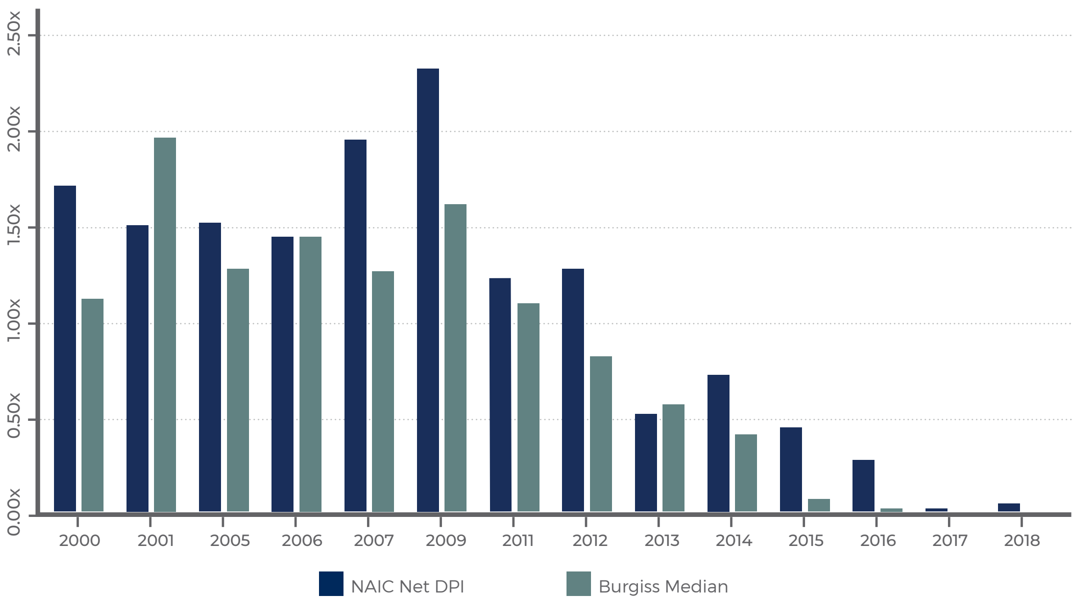


Figure 13: Distributed to Paid In Ratio Full Period

NAIC PRIVATE EQUITY INDEX NET DPI VERSUS BENCHMARK

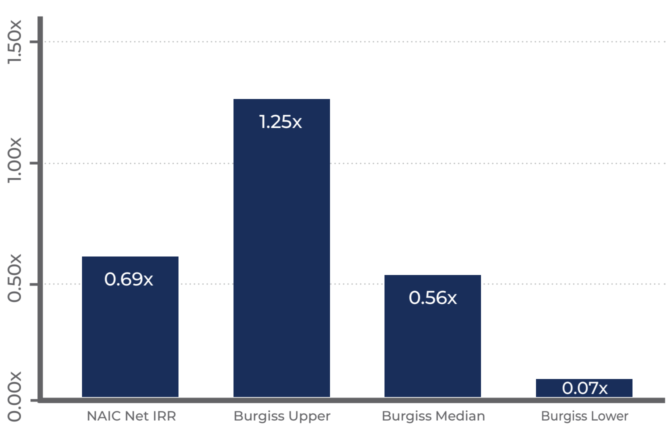
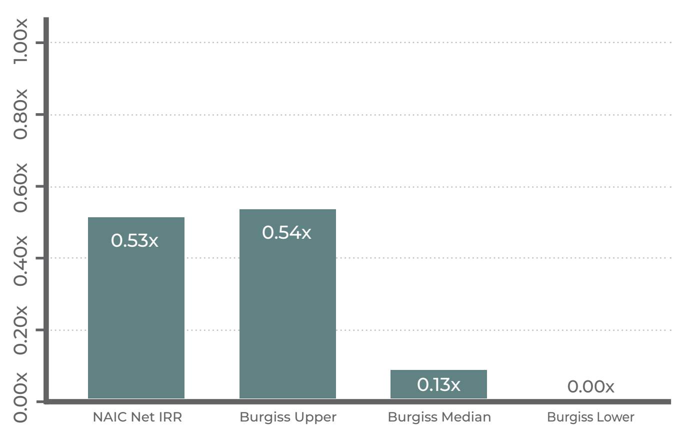


Figure 14: Distributed to Paid In Ratio, 2011-2018

NAIC PRIVATE EQUITY INDEX NET DPI VERSUS BENCHMARK: 2011-2018



Implications for Investors

Based on this research, diverse private equity managers have once again proven to be a fertile hunting ground for alpha generation. In addition, because returns are produced through diverse deal flow and thinking, it may be possible for investors in women- and diverse-led private equity funds to further diversify their investments, even within their private equity allocations.

For most investors, increasing exposure to diverse private equity managers, and indeed all diverse investment fund managers, may be as simple as instituting a "Rooney Rule." The Rooney Rule, named after the former owner of the Pittsburgh Steelers Dan Rooney, came about after a study showed that, despite winning a higher percentage of games, black coaches were less likely to be hired and more likely to be fired than white head coaches.[24] The rule requires that ethnic minorities be interviewed for head coaching jobs. It did not require that these jobs be "given" to minority candidates, however.

Likewise, despite being disproportionately represented in the top quartile of private equity fund performance, the assets in diverse private equity funds tell us that women- and diverse-owned PE firms are still less likely to be "hired" than non-diverse firms. By instituting an investing "Rooney Rule," an investor can commit to including at least one diverse firm in its Request For Proposal and/or other manager interview process, thereby increasing exposure to firms that may benefit the investor over the long term.

There is no risk to fiduciary care since the investor makes no promise to hire an investment manager based solely on their diverse status. And for those that want to move the needle even further, an investor might consider joining entities in 26 states to form a more formal "emerging manager" program. But whatever approach an investor might take to increasing exposure to diverse asset managers, it seems even more clear that carefully selected diverse asset managers could be beneficial to the bottom line.

[24] https://www.si.com/nfl/2018/12/31/rooney-rule-explained-nfl-diversity-policy

Acknowledgements

The National Association of Investment Companies was formed in 1971 and serves as the largest industry association of diverse-owned and emerging manager private equity firms and hedge funds. NAIC's membership represents diverse private equity firms and hedge funds investing in emerging domestic and global mid-market opportunities and collectively manage over $150 billion in assets.

Throughout our rich history, NAIC member firms have invested in high-growth companies in the middle market across industries that include business services, healthcare, infrastructure, natural resources, software, industrial manufacturing, consumer services and technology. NAIC members help build stronger, nimbler companies by fostering growth through investments that produce superior returns for investors in addition to creating economic impact and job creation.

By virtue of their demographic composition and investment focus, NAIC member firms constitute a representative sample set of this important segment of private equity. ***Recognizing the Results***, a report by KPMG that measured private equity performance from 2012-2015, showed that NAIC members (all of which are diverse- or woman-owned firms) produced superior returns over a sustained period when compared with the general private equity industry.

NAIC would like to thank those who contributed to compiling the data within this report for their invaluable assistance:

Fund of Funds Committee

DEREK JONES
Managing Director

GCM Grosvenor
767 Fifth Avenue,
New York, NY 10153
djones@gcmlp.com

IRWIN C. LOUD III
Managing Director / Chief Investment Officer

Muller & Monroe Asset Management, LLC
180 N Stetson Ave #1320
Chicago, IL 60601
Irwin.Loud@m2am.com

CRAIG FOWLER
Managing Director

HarbourVest Partners, LLC
One Financial Center
Boston, MA 02111
cfowler@harbourvest.com

KOLA OLOFINBOBA
Managing Partner

Fairview Capital Partners
75 Isham Road, Suite 200
West Hartford, CT 06107
kolofinboba@fairviewcapital.com

CHARLES WILLIS
Portfolio Manager

JP Morgan Asset Management
270 Park Avenue
New York, NY 10017
charles.willis@jpmorgan.com

PAT MILLER ZOLLAR
Managing Director

Neuberger Berman
1290 Avenue of the Americas
New York, NY 10104
Patricia.Zollar@nb.com

Acknowledgements (continued)

KPMG Staff

ANTHONY POLSELLI Partner, Audit apolselli@kpmg.com	**PATRICK KINZLER** Manager, Audit pkinzler@kpmg.com

Aon

MEREDITH A. JONES Partner, Aon Hewitt Investment Consulting meredith.jones@aonhewitt.com

NAIC Staff

ROBERT L. GREENE President & CEO	**CARMEN ORTIZ-MCGHEE** Executive Vice President
DAVID SMITH Programs & Initiatives Manager	**DAWN SIMMONS** Office Manager

See additional disclosures regarding Aon Hewitt Investment Consulting on page 22.

Appendix: 2019 NAIC Member Firms

Advent Capital Management
548 Capital
Apex Capital
Ardinall Investment Management
Ariel Investments
Astra Capital Management
Auldbrass Partners
B.I.G. Capital
BKCoin
Blueprint Capital Advisors
Bracket Capital
Cabrera Capital Markets
Carrick Capital
Chicago River Capital
Clearlake Capital Group
CMX Capital
College Hill Capital Partners
Colonial Consulting
Decatur Road Capital Development Partners
International
DLA Piper
DXA Investments
Earnest Partners LLC
Elizabeth Park Capital Management
EquiTrust Life Insurance Co.
Exaltare Capital Partners
Fairview Capital Partners
Farol Asset Management
GCM Grosvenor
GenNx360 Capital Partners
Global City Development
Grain Management
Griot Holdings Limited
GSV AcceleraTE
HarbourVest Partners
Harlem Capital
Heard Capital
Hollis Park Partners
ICV Partners
Integrity Growth Partners
Invesco
J.P. Morgan Asset Management
Kirkland & Ellis
Laurel Oak Capital Partners
Lumos Capital Group
Madryn Asset Management
Matarin Capital
Mendoza Ventures
Mill Point Capital
Mintz Levin
Montreux Growth Partners
MoonSail Capital
Muller & Monroe Asset Management
Mvision
Neuberger Berman
NexPhase Capital
Nile Capital Group
Ocean Park Investments
One Rock Capital Partners
PAAMCO
Palladium Equity Partners
Persea Capital
Pharos Capital Group
Phoenix IP Ventures
Providence Friends Capital
RLJ Equity Partners
ROCA Partners
Rose Hill Park Alternative Asset Managers
Siris Capital Group
Standard General
Stellex Capital Management
Strait Capital
Sycamore Partners
The Vistria Group
Valor Equity Partners
Verus Investment Partners
Vicente Capital Partners
Vista Equity Partners

Legal Disclosures and Disclaimers

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc. ("AHIC"). The information contained herein is given as of the date hereof and does not purport to give information as of any other date. The delivery at any time shall not, under any circumstances, create any implication that there has been a change in the information set forth herein since the date hereof or any obligation to update or provide amendments hereto.

This document is not intended to provide, and shall not be relied upon for, accounting, legal or tax advice or investment recommendations. Any accounting, legal, or taxation position described in this presentation is a general statement and shall only be used as a guide. It does not constitute accounting, legal, and tax advice and is based on AHIC's understanding of current laws and interpretation.

This document is intended for general information purposes only and should not be construed as advice or opinions on any specific facts or circumstances. The comments in this summary are based upon AHIC's preliminary analysis of publicly available information. The content of this document is made available on an "as is" basis, without warranty of any kind. AHIC disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. AHIC. reserves all rights to the content of this document. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of AHIC.

Aon Hewitt Investment Consulting, Inc. is a federally registered investment advisor with the U.S. Securities and Exchange Commission. AHIC is also registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor, and is a member of the National Futures Association. The AHIC ADV Form Part 2A disclosure statement is available upon written request to:

Aon Hewitt Investment Consulting, Inc.
200 E. Randolph Street
Suite 700
Chicago, IL 60601
ATTN: AHIC Compliance Officer

**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. All opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes and should not be considered investment advice. **