**Session: Alternative Investments: The Path Forward**

Speakers:

* Brett Graffy – Marquette, private markets, and sits on IC
* Coltin Lavin – NEPC, Investment Director, private debt research
* Steve Swanson – Chicago Park Employees Annuity and Benefit Fund, Executive Director

Rebalancing from target asset allocation standpoint

* NEPC – constantly updating pacing plan, esp. given current environment. Limit commitment sizing in order to have liquidity to time opportunistic investments
* Marquette – Preaching patience overall but expect busy Q4
* Chicago Park – adding RMS for HF, and venturing into private debt. Right now overweight infrastructure but plan to stay

Institutional asset allocation from a risk, return, and liquidity spectrum

* NEPC – increasing importance, proliferation of public assets within the private markets fund, i.e. hidden public market exposure. Setting dedicated allocation to Private Debt for all clients, but different client base at different stages / target allocation. Always reviewing tactically, rather than changing strategic allocation.
* Marquette – 50% of clients are Taft Hartleys, which have different risk spectrum than the other half – FOs and E&Fs. On average, Private Equity and Private Debt make up 20-30% of the portfolio on the high end, and 10-15% on the lower end
* Chicago Park – must meet benefit payments and need to sell assets yearly even from private portfolios. Willing to sacrifice return in order to meet payments

How do you approach clients who are just legging in vs more established plans?

* NEPC – large dispersion in client base means every portfolio is customized with each client’s return and risk thresholds. Evaluate existing portfolio or create from scratch. Generally speaking, a core satellite approach
* Chicago Park – will be moving into private debt imminently, definitely core approach and staying higher in cap stack, need to get money back.

New vehicle structures

* Marquette – adopting more liquid, quarterly funds or 2-3 year evergreen funds past few years. Now 70-80% in Private Credit is either in semi liquid or evergreen venichels, makes sense for trustees and clients who only meet four times a year. Less ramp up and ramp down, more efficient.
* Chicago Park – looking at PC evergreen, need liquidity
* NEPC – evergreen structures continue to take more market share, often marketed as liquidity solution. However by the time you get your assets back after ramp down, unclear if it’s faster than close end. BDCs seem to be more prevalent. Taft Harleys s are becoming interested in Private Debt but need the right vehicles.

What they need from managers

* NEPC – diligence process hasn’t changed due to market changes, still review historical deals deal structures. Tying returns to cheaper fees will help. Transparency – fill in DDQs in the format provided really helps.
* Chicago Park – seeking low correlation to public equities and fixed, and to the timing of the correlation
* Marquette – middle market direct lending continues to be attractive, fees are the biggest differentiator. Specialty alt credit, esp. Healthcare / bio life sciences. Recent interest in venture given limited opportunity set in public markets. Early stage ventures are typically more creative in this market environment. Still need managers to be patient and prudent, and not rush into deployment. The larger more developed platform generally doesn’t feel that pressure.

With rising rates, how are you thinking private credit as an asset class, is there still momentum?

* NEPC – back to strategic asset allocation. Most have dedicated long-term allocation and not going to waver due to market environment. Then depends on client needs, may be more attractive with rising rates as public debt market tanks. Possbile work out situations can be attractive, too.
* Marquette – think private debt will continue to grab market share next 18-24 month.

Has recent market volatility affected the way you work with managers?

* Marquette – do the opposite of what clients want to do during times of turmoil, everyone wants to pull from fixed income but should probably should increase allocation.
* Chicago Park – for public pension funds, higher rates can be a good thing
* NEPC – will change managers if there is material change or turnover, but will re-up if managers are performing. Add new manager if client looking to add new exposure. Balance between investment / manager diversification and administrative burden.

Underwriting process

* Marquette – four step process: 1) Process and philosophy; 2)? performance analysis, is this an institutional quality strategy; 3) detailed RFI; 4) three-four hour onsite with legal and operations Whole process can take four to six weeks or one to two years
* NEPC – 1) series of short meetings, review managers against backdrop of opportunity set; 2) review historical deals, 57-question DDQ; 3) full memo that goes to IC

How panicked are you and how may it slow down new manager selection?

* Chicago Park – received funding and could pay benefits in 2022, may start worrying again in 2023
* Marquette – general feedback has been: “wish we had done more private credit”
* NEPC – advising clients to stay to stay the course and continue to allocate if possible