

# Emerging Manager *Monthly*

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## Leading Through Action: GCM Grosvenor Puts Money To Work

### Firm Hits \$2 Billion Goal One Year Ahead Of Schedule

GCM Grosvenor had already put its money where its mouth is since formalizing its diverse manager investment efforts in 2002, so when the firm announced an objective in 2019 to allocate an additional \$2 billion to women and minority investment managers over three years, it was not with the intent of having something to prove.

Instead, it was aimed at leading the way in showing the merits of the diverse manager community.

More than a year ahead of schedule, the firm has reached that \$2 billion target and has now invested and committed approximately \$8 billion total to diverse alternative investment managers.

This year, the firm is looking to continue to stress to the industry that actions speak louder than words, with its annual Consortium conference taking on the theme, “Leadership = Action.”

Derek Jones, managing director and co-head of GCM Grosvenor’s private equity diverse manager practice, says the conversation must continue to focus on what concrete steps can be taken to expand the opportunity set for diverse managers in the institutional marketplace.

“We think the intent is genuine, but there are steps that need to be put in place so that the genuine interest turns into action,” Jones said.

Interest in the diverse manager space saw a significant increase in the second half of 2020 as diversity, equity and inclusion came into focus across the country following the murder of George Floyd in Minneapolis.

With more institutions examining their diversity policies across their organizations, Jones said that investors must put a plan together to approach diversity in their investment portfolios that is supported at the top with buy-in from investment committee members.

“I believe without putting a plan together with specific goals, it remains opaque and in this land of ‘we’re still investigating.’ I can’t tell you how many discussions we’ve been in where we talk about the practice, our experience, our performance ... and the feedback is literally ‘come back in a year because we’re still trying to figure out how to define diversity. We’re still figuring out what

our overall diversity policies are. We want to hire a person to be in charge of diversity and inclusion.’ And there are so many reasons why implementing a plan is pushed off. So, our call to action is to do something, put that plan together and put some capital to work,” he said.

#### A Spotlight On Diversity

“Diversity now has a spotlight and there are a lot of new entrants and potential entrants that are inquiring, and we’re getting a fair amount of inbound interest as they’re trying to establish what to do. So, we’re spending a fair amount of time on education, awareness, sharing best practices and discussing what we see in the marketplace,” Jones said.

In some cases, institutions can overwhelm their efforts in diversity and inclusion by trying to address areas across their entire organization at once, according to Jones.

“There’s an element here where you just have to focus and decide whether you have the resources and you’re going to put in the commitment, or you’re going to work with a specialist and leverage their work. And so, I would say we’re here and we’re certainly willing, and we’ve been engaging and sharing,” he said.

GCM Grosvenor was able to put capital to work throughout 2020, allocating over \$1 billion to diverse managers during the year. The firm now tracks over 600 diverse managers.

“The talent, we believe is amazing, and we see activity across all asset classes. GPs understand that as the market grows, they have to demonstrate how they’re going to create value and differentiate themselves. We’re seeing a lot of sector specialists who have built their careers becoming experts in certain industries. We’re also seeing more GPs with operationally intensive strategies who have either built strong operations teams within their firms or have worked to create very active operationally focused advisory networks. And we’re seeing managers who are more conscientious about impact and ESG themes,” Jones said.

Jessica Holsey, an executive director at GCM Grosvenor, said the firm has an open-door policy and is heavily involved in various industry associations and affinity groups as well as hosting its own

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# GCM: Institutions Must Set Diversity Policies To Assure Progress

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Consortium and Small and Emerging Manager conferences annually to ensure it is casting a wide net.

"I think a lot of investors underestimate how resource intensive it can be to comprehensively map the market and successfully invest in these early managers. We have a seven-person investment team focused on sourcing, diligence and monitoring diverse managers that meets weekly," she said.

Jones said the firm is currently tracking 175 diverse managers in its near-term and intermediate pipeline who are actively raising funds.

He added that identifying new managers is a key part of the firm's approach and while many investors tended to focus on existing relationships and cycle tested managers in 2020, there was not a lack of new opportunities in the marketplace.

"Our diverse manager investments are a combination of emerging and established managers and it's almost 50/50, 50% established managers and 50% emerging managers. We're seeing great opportunities on both sides, the established managers who consistently put up great numbers, who want to raise more money, broaden their platforms, and in some cases introduce new products ... and there are newer managers that are exciting, hungry and have proven themselves as great investors, but are looking to prove themselves as great managers and firm builders," Jones said.

The impact of COVID-19 and a move to remote work has forced a shift in how allocators and managers connect and interact.

"The research is the same, but the interaction is a bit different," Jones said, explaining that the firm continues to focus on vetting managers to understand the strategy, the strengths and weaknesses of the team and track record.

He did say there has been a "silver lining" to the virtual setting.

"The virtual setting has allowed us to involve more of our team members to interact with the GP. In the pre-Covid days, it was unlikely that we would carry an entire team of seven dedicated professionals to meet with the manager. Just the logistics be-



**Derek Jones**

hind that, the cost behind that. Today, our entire team gets to feel and touch the manager. And, so, what we miss around the water cooler and being there in person, we partially offset with broader exposure and actually more times to meet. It's just easier to get on the calendar. It's easier to be interactive virtually," Jones said.

He expects some of the virtual model to remain in place as the economy opens up again.

"We're going to take the good from what Zoom has been able to offer. And so, I believe it would be a hybrid work style put in practice," Jones said.

COVID-19 may also have another long-term effect in the financial industry, particularly among women.

Holsey, who had her first child in February 2020, said that COVID-19's forced shift to work from home and flexible scheduling has helped her transition back to the workplace easier and has heard the same from many other women in finance.

"I think the industry had already started to implement policies that are supportive of attracting and retaining more working mothers in investment-focused roles. GCM Grosvenor has been great about implementing good family leave policies and other types of support at the workplace for working families. I am hopeful that as the whole world has had to experience what work from home is really like and see that it doesn't have to screech everything to a halt, that we realize that there can be benefits to offering more flexible schedules and environments. I'm hoping that it will increase the retention of talented working parents who want to be involved with their families and also hold investment roles," she said.

## **Diverse Managers & Impact Investing**

GCM Grosvenor has worked with allocators to understand their focus on diverse managers as well as their focus on ESG and impact investments and the various ways the issues are intertwined, according to Holsey.

"I think that there are many ways to look at diverse managers within the context of ESG or Impact. In the simplest terms, investing in diverse managers has generated returns and we also think it is a good way to address the wealth gap in this country. We believe asset management as an industry is a great place to build wealth and by backing these talented managers, we are giving diverse professionals a chance to participate in an industry where

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18<sup>th</sup> Annual

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# GCM: Remote Work Brings Opportunities For Research, Interaction

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historically less than 3% of assets are managed by firms that are owned by women and people of color,” she said.

Holsey said that beyond increasing the opportunity set for investment managers owned by women and people of color to launch firms and grow their asset base, GCM Grosvenor is noticing many managers are thoughtful about how they’re integrating diversity, equity and inclusion initiatives at their own firms and focusing on diversity at the portfolio company level.

“They’re thinking about adding diversity to their portfolio company boards and doing things like putting structures in place where their portfolio company management teams are actually getting paid and incentivized by how successful they are at implementing DEI initiatives such as employee retention, training and recruitment at the company level. So, there are a lot of different ways that investing in these managers can be impactful. It supports broader participation by diverse professionals in the asset management industry, but also can have a broader impact on the entire economy, as managers are investing in portfolio companies across various industries and enacting change there as well,” Holsey said.

Jones noted there has also been increased attention on diverse managers investing with diverse entrepreneurs, although that has been predominantly in the venture and growth equity space.

“We’re always talking to potential new clients about their investment objectives and have recently noticed that more have had an interest in venture and growth type strategies,” he said, adding GCM Grosvenor has been investing more in venture and growth managers over the past year. “I’m seeing a lot of really great talent, especially women and people of color, in those asset classes.”

## **The Opportunity Set**

It is important for people to shift their mindset from believing that investing in diverse managers is not a return-driven strategy, according to Holsey.

“There are plenty of great managers in the industry that have proven that they can generate great returns. And by focusing on meeting with these managers and actually putting dollars to work, there’s the potential to actually enhance your returns,” she said.

“We’ve been doing this for 14 years and have seen some exceptional managers,” Jones added. “Often, when we are engaging with prospects, there is this presumption that this is a purely mission oriented strategy and that there’s going to be some compromise to returns ... we take performance off the table by sharing our experience, which is sizable at over \$5 billion dollars invested with diverse private equity managers. We are tenured with almost 15 years of an audited track record, and the activity is significant with over 150 individual transactions.”

Jones said GCM Grosvenor and the managers themselves have become more creative in how they engage.

“We are at times engaging with a manager on a co-investment specifically before the fund, and that activity has increased. We are doing programmatic joint ventures. We’re looking to seed a few managers. We think managers are coming to us ready for a creative partnership, which could include revenue shares, as a way to have a holistic relationship. And so that’s on the table. And

if we can be impactful and early, they’re more than willing to structure preferred economics,” he said.

GCM Grosvenor is seeing a trend toward more venture capital and growth equity funds as well as sector specialists.

“One of the trends that is kind of pushing that shift towards more VC and growth on a whole macro level is just a shift towards [a] more digital and tech enabled economy.

And I’ll say that pre-pandemic, a lot of managers had already started to work with their companies on doing things like enhancing their e-commerce capabilities, upgrading their I.T. and digital infrastructure and really putting systems in place that support a more virtual work environment and digital economy,” Holsey said, noting that those issues also have created opportunities in the lower middle market that can oftentimes involve family-run businesses.

“I think in the long run, these trends that we’re talking about that are kind of accelerated by the pandemic could actually increase the amount of diverse talent that we’re seeing in the PE and VC ecosystem,” she added.

Jones added that it is imperative for allocators to understand the market they are getting into to help reduce mistakes early.

“You really have to have a comprehensive view of the talent in the marketplace, because this is still a wide-funnel, narrow-selection business, as is private equity in general. We typically end up allocating to 6% of what we see overall in our private equity business, which we believe is consistent with the industry. You’ve really got to do the work. You’ve got to get out there. There’s a wide range of talent and you can find great managers and great strategies with proven track records,” he said.

Jones said that investors interested in the diverse manager space should get into the market through attending conferences, interacting with organizations and gathering information that helps them determine the resources necessary to identify investment opportunities.

“I think implementing targets around diverse manager investing needs to be a top-down supported initiative, but you also have to have buy-in from the investment teams,” Jones said. “Being intentional about setting up meetings with diverse managers and then committing to track diverse manager activity in terms of number of meetings, number of commitments and dollars committed, can be an important first step for investors looking to enter the space.

“I think it’s helpful for investors to set allocation goals around what should be committed over the course of the year, but performance should be first and foremost,” he continued. “The performance metrics have to be there. No shortcuts. There just has to be real intentionality in broadening your funnel, setting up goals and tracking how you measure your progress against those goals.”



**Jessica Holsey**