



GEM AREAS OF INTEREST 2024

Friends,

Phew! We made it through 2023. Caroline thought that 2023 would be slower on the new investment activity front. You know what they say about assumptions.

As an investment team in 2023, we:

- Traveled 127 times to visit current and prospective managers
- Attended 43 conferences
- Completed 31 research projects on high-priority investment strategies
- Jillian spent three months in Singapore to accelerate our understanding of the opportunity set in Asia post-COVID
- Added a number of new manager relationships across asset classes
- Revisited strategies that we had not actively explored in several years, like private natural resources and opportunistic credit
- Integrated the investment team, migrating from private and public specialists to a generalist model
- Recruited and hired a new analyst—welcome, Jack!
- ...and believe it or not, managed to have some fun along the way: bowling, poker nights, Broadway in Charlotte, community service events, dinners, trivia, run club, pickleball, karaoke after the holiday party (thankfully no video evidence), and movie nights featuring everything from *Dumb Money* to *Barbie*—we're a team of many interests!

We were certainly busy last year, and in 2024, we plan to hustle as hard as ever to achieve our portfolio goals and to deliver on our value proposition in service of GEM's incredible clients. While markets remain uncertain, our integrated investment team is committed [to debating the tough questions](#), and to clearly communicating our views and investment appetite to all of you. Caroline and Tim continue to act as the sourcing nexus for the investment team, and we encourage you to lean on them as your first points of contact for new ideas.

As always, you will find a high-level refresher on GEM's history and investment program below, as well as our 2024 Areas of Interest ("AOIs"). Feedback on how we can improve is always welcome, both via comments on this letter and otherwise.

THE GEM INVESTMENT TEAM

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INVESTMENTS AT GEM

GEM is a leading investment office that provides institutional investment capabilities for endowments, foundations, and other long-term investors. Every day, our team provides integrated support and partnership to our underlying clients. Our clients benefit from access to GEM's manager roster and portfolio management capabilities, allowing them to focus on what's most important: their constituents. This past year, our clients did just that. They conducted immunotherapy research; created new peptides to help protect plants in more sustainable ways; built a new in-patient behavioral health facility; developed a diagnostic for earlier detection of the parasitic disease River Blindness; and awarded millions in grants to leverage AI to solve social issues.

To help our clients achieve their goals, we invest much like our endowment peers. In our pooled endowment strategy, our target asset allocation is 25% in long-only; ~10-15% in each equity long short, buyout, venture, and real assets; 5-10% in absolute return; and 2% in credit—we keep the balance in cash and fixed income. Before committing to a manager, we need to see proof points that our return targets are a realistic outcome. In most cases, our managers will exceed our bogeys. In long-only, we target a blended 100 bps of alpha over our benchmark. In hedge funds, we're targeting 250 bps of net alpha. Across illiquid assets, we are comfortable taking higher risk in exchange for higher returns. For buyout and venture, we want to know that a sponsor has the skill and mindset to achieve over a 3x net. In real estate, our development return threshold is higher than value-add, where we expect 15%+ net IRRs. We won't consider core / core+ strategies for this reason.

In 2024, we are actively seeking opportunities in the categories below. As always, our priorities could change between now and when we sit down to write this letter in 2025! We will be transparent if they do.

LONG ONLY

We invest with ~20 managers who are bottom-up stock pickers, located across the globe. We have a bias towards fundamental investors who are experts at identifying when the market is failing to recognize the quality of a business and its future earnings power.

- **Value** – given the widening discrepancy in valuations over the last decade, we're actively looking for managers focused on finding diamonds in the rough among low-multiple stocks.
- **Emerging Markets** – we believe that the stock-picking opportunity outside of developed markets remains compelling. We are most interested in strategies focused on **India** or **Southeast Asia**.

HEDGE FUNDS

We work with 10-15 core managers and favor specialists who have a definable edge in their strategies. We are open to investing with opportunistic managers with a history of "skating to where the puck is going."

- **Equity Long/Short** – in 2024, we're looking to add managers with **low net exposure** (30% or lower). We're also interested in **emerging talent** and **new launches** across the long/short ecosystem. Consistent areas of interest for our team within long/short are **biotech** and **China**.
- **Absolute Return** – as many of you know, we continue to canvas the **multi-strat** universe, and are likely to prioritize the large complexes with long track records of success. At the other end of the spectrum, we are focused on strategies within more niche opportunity sets: **CTAs**, **quant strategies**, and **litigation finance**.

BUYOUT

We pride ourselves on our creativity and flexibility in the buyout program. We're willing to look at emerging managers, independent sponsor deals, established funds, and more. If you know a great independent sponsor, hear that a talented investor wants to leave her firm, or learn that a more established group has fabulous returns—please let us know!

- **Independent sponsor relationships:** when evaluating independent sponsors, we like to see a proven track record from a prior firm, or from an existing portfolio of investments. We provide a clear process for deal-by-deal sponsors, aiming to provide speed and certainty to an ecosystem where both might be difficult to find. We underwrite new independent sponsors as we would a fund manager, allowing us to move quickly on deal decisions once we've approved a manager for our program. We give our independent sponsors clear attribution for their deals, and do not look to take board seats in the underlying companies, nor do we want a shout out in the deal press release (don't tell our comms team!). At GEM, [we aim to be a partner for the journey](#), and strive to back sponsors when they graduate from our program to raise a fund. In return, we seek alignment with sponsors for believing in them early—skin in the game, and an economic structure that pays for performance. With nearly 60 deals and 20 independent sponsor relationships under our belt, we're confident that we can be an additive partner to the next generation of emerging buyout talent.
- **Healthcare** ...for the ~~third~~ **fourth** year running! And, for the fourth year, we continue to believe in the power of sub-sector specialization. Healthcare is a large, confusing, and cost-riddled category—we don't expect managers to be experts in everything from biotech services to value-based care, so we'd prefer for them to pick a sweet spot.
- **Best-in-class sector or strategy specialists** regardless of fund size, and in both fund and independent sponsor formats. We do not have concentration thresholds in funds nor deals, and in many cases, we have been the sole equity provider.

VENTURE

We proudly partner with twenty outstanding venture managers. Their various strategies leave us "well-covered" across the start-up landscape, so while we are always happy to hear your best ideas in VC, please don't be offended if you frequently hear "no" from us in this category. It's not you, it's us! The bar is higher than ever to replace one of our partnerships, as we're excited to see where they'll invest next.

- **Pure-play early stage** – as with prior years, if we add any managers in venture in 2024, we'd prefer that they focus on pre-seed through Series A investing exclusively, and not have a corresponding later-stage product. They also need to clearly define what they add to the venture ecosystem, and why founders will want to work with them.
- **Europe** – we plan to spend more time on the ground in Europe this year, with the hopes of getting a first-hand look at the early stage talent in this market. It's a tough job, but somebody's got to do it!

REAL ASSETS

We invest the majority of our real assets dollars (~2/3) in real estate, and would like to find new, creative ways to work with emerging managers in private real estate markets this year. Though private natural resources will not be much of a focus after a busy 2023, we're still actively surveying the public opportunity set.

- **Real Estate**
 - o **GEM as Co-GP** – across our investment program, we love working with emerging, talented managers. While we've done some of this work in real estate historically, we're looking to increase our engagement with this cohort. We're exploring the opportunity to provide capital to sponsors to fund a portion of the GP commitment that their JV partners require. Our capital can help a newer sponsor scale faster by providing leverage to their own dollars, or benefit a sponsor with an illiquid net worth. We are not aiming to take a percentage of the sponsor's business, rather to share in the GP economics of the investment.
 - o **Land lease** – we like this area, but it's been challenging to put money to work in markets where the return profile makes sense for us (i.e., value-add). We'd love your help finding a potential partner where return targets and capital deployment align with our goals.
- **Natural Resources**
 - o In liquid strategies, we're looking for active managers **investing across the commodity complex**, particularly those focused on **energy and mining**. We're targeting outperformance over BCOM.
 - o We added several managers on the private side of our portfolio last year, and we're thrilled to partner with them. For that reason, we are unlikely to add illiquidity to this portfolio in 2024.

CREDIT

A small part of our investment program, we are likely to explore credit through liquid structures and / or multi-strat managers in 2024.

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OTHER THOUGHTS

- **When in doubt, send it out (to us)** – we'd rather give you a quick "no" or "not right now" than miss a great investment opportunity.
- **The more friends, the merrier!** – we love talking to smart LPs about manager ideas and how they construct their portfolios. If you know someone who is particularly strong in the areas above, we'd be grateful for the connection. The same goes for industry specialists, recruiters in the manager ecosystem, a note about a conference we shouldn't miss, and so on.
- **Impact, mission-aligned, and racial & social equity investing globally** – across all asset classes, we're committed to maximizing the impact of our clients' assets without sacrificing return. For those interested in learning more about our impact efforts, or our commitment to racial and social equity and justice in the institutional investment ecosystem, please follow up with us directly.

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As a reminder, our target investment sizes (note that in private investments, the ranges are contingent on the manager's investment pace!) are \$25-75 million for a starting position in long only and hedge funds; \$15-50 million per growth equity or buyout fund; \$5-30 million per venture fund; \$15-50 million in real estate funds; and \$5-20 million per private co-investment. As with prior years, we still invest the majority of our capital in funds. And, we tend to commit co-investment capital with existing fund managers or independent sponsors whom we've approved into our program. The exception is a "DD co-investment," which is when we're looking to start a relationship with a soon-to-be-approved manager.

Please feel free to reach out to us with questions (and ideas!).