

ACTION SUMMARY

INVESTMENT COMMITTEE

March 24, 2016

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MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

March 24, 2016

1. a. Call to Order

A meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at 8:50 a.m. in the Educational Retirement Board Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

Members Present:

Mr. H. Russell Goff, Chair
Ms. Mary Lou Cameron
Mr. Larry Magid
Dr. Beulah Woodfin [by telephone]

Members Excused:

None

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Bob Jacksha, CIO
Mr. Mark Canavan, Real Assets Portfolio Manager
Mr. Alan Meyers, Financial Analyst
Mr. Aaron Armstrong, Portfolio Manager
Ms. Margaret Riquelmy, Executive Assistant

Others Present:

Mr. Allan Martin, NEPC
Mr. Brent Burnett, RAPM
Ms. Judith Beatty, Recorder

Dr. Woodfin moved approval of the January 21 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously by voice vote.

b. Introduction of Guests

Chairman Goff welcomed staff and guests.

2. MLP MANAGER SELECTION – REAL ASSETS

[Presenters: Mark Canavan and RAPM consultant Brent Burnett.]

Mr. Canavan stated that, in late 2015, staff approached RAPM about the dramatic correction occurring within the master limited partnership (MLP) universe. Although a tremendous number of companies that have little to do with upstream movement of oil did experience a dramatic correction at the time because of persistently low oil and gas commodity prices, many others in the midstream space have a tremendous ability to withstand any kind of financial storm and retain long-term investment attributes.

Mr. Burnett stated that RAPM requested approval in January from the Investment Committee to conduct a search for an MLP manager on the back of what RAPM feels are very attractive industry dynamics in the midstream sector. RAPM thought it important to identify a manager that had a very sound capability in underwriting specific companies so they could identify those companies with a very strong balance sheet, business model and liquidity in spite of lower commodity prices. He said RAPM initially looked at roughly 35 managers that met pre-established minimum qualification for institutional asset management. After looking at further analytics, the field was narrowed down to eight managers that RAPM thought were very high quality institutional midstream-focused MLP asset managers. Following a thorough due diligence process, the field of eight was narrowed down to two finalists. Based on the results of onsite visits and further due diligence, RAPM identified Harvest Fund Advisors, LLC (“Harvest”) as the strongest candidate to manage a separate account on behalf of NMERB.

Anthony Merhige, chief operations officer and general counsel with Harvest, and Nicholas Gaspari, investment analyst with Harvest, appeared before the committee and made a presentation.

Mr. Martin noted that the NMERB total portfolio is risk averse with a lot of downside protection. Given that this is a separate account, if the NMERB felt this sector was particularly undervalued with very good long-term upside, and it asked Harvest to trade off a little of the downside protection it would normally provide and seek more upside in the portfolio, would it be able to do that. Mr. Merhige responded that they could certainly do that if so directed.

[Harvest representatives left the meeting.]

The committee discussed the pros and cons of asking Harvest to develop a customized product for NMERB, as discussed by Mr. Martin.

Mr. Jacksha said he supported this recommendation. He commented that, in terms of timing and market conditions, this is probably the best time he has seen in eight years to look at this. It may be desirable to stage the investment, depending on market conditions.

3. KILDARE II – REAL ESTATE

[Presenters: Mark Canavan and RAPM consultant Brent Burnett.]

Mr. Canavan presented staff's recommendation of a \$40 million commitment to Kildare European Partners II ("KEP II"), a distressed debt platform specifically in Europe. He stated that this investment is directly attributable to the relationship that RAPM manager Steve Gruber has had with the Lone Star platform going back to its inception more than a decade ago. He noted that Kildare CIO Ellis Short originally came from that platform and worked with John Grayken at Lone Star to help build out their very successful Asian operations.

Mr. Burnett said Mr. Gruber has always thought very highly of Mr. Short's ability to identify opportunities in markets, build the team necessary to execute on those opportunities, and fully deliver the returns that they say they will deliver to their investors.

Mr. Burnett said Europe has been much slower than the U.S. to recover from the financial crisis and recoveries have been very country-specific. Because of that, there still exists a very large opportunity set in distressed real estate that sits on the books of some of the largest banks in Europe. Estimates vary about the size of the opportunity, but some put it as high as \$2 trillion for bad loans or other distressed assets that sit within the EU. Mr. Short and his team believe that the actual opportunity set that they would target is closer to \$200 billion of quality real estate assets that have capitalization issues. He said Europe has been very slow to force the banks to divest of some of these assets until recently, so even assets that should have been sold two or three years ago are sitting on these banks' books, but they are now finally in positions where there is enough buyer activity for them to monetize these positions. Finally, despite the distress in Europe, RAPM sees improving fundamentals for real estate across most of the countries that Kildare will target.

Mr. Burnett noted that KEP I has performed very well, right in line with expectations; and Kildare is one of the preferred counterparties for the European banks to transact with.

Responding to a question from Mr. Magid regarding Kildare's creation of Curzon as a captive asset management firm, Mr. Burnett said fees are paid both to Kildare as manager and Curzon as servicer. He said Curzon's fees are set by a limited partner committee, so there is transparency.

Kildare CIO Ellis Short and COO Lou Paletta joined the proceedings and made a presentation.

[Representatives left the meeting.]

Mr. Jacksha stated that this is a manager the NMERB has invested with before. They have successfully executed what they said they were going to do in the first fund, and are going to do it again in the next fund. He recommended approval.

4. INFRASTRUCTURE PROGRAM REVIEW

Mr. Jacksha stated that a snowstorm in Denver prevented Caledon representatives from attending today's meeting.

5. OTHER INVESTMENT REPORTS AND DISCUSSIONS

Mr. Jacksha distributed a memorandum from the Santa Fe correspondent for the Associated Press, who stated that he plans to write up a short news item from the LFC's newsletter that said retirement funds were down in January. The correspondent, Mr. Morgan, had requested more detail. Mr. Jacksha said he has followed up.

Mr. Jacksha reported that February preliminary numbers are slightly negative at around 30-35 basis points.

6. NEXT MEETING: THURSDAY, APRIL 21, 2016

The April meeting was tentatively scheduled at 12:00 p.m. (to be preceded by an ARP Committee meeting at 9:00 a.m.).

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 11:15 a.m.

Accepted by:



H. Russell Goff, Chairman