

**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**INVESTMENT COMMITTEE**

July 20, 2017

1. a. **CALL TO ORDER**

A meeting of the New Mexico Educational Retirement Board Investment Committee was called to order on this date at 1:00 p.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 [by telephone]  
Mr. Larry Magid

**Members Excused:**

None

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Steve Neel, Deputy CIO, Alternative Investments  
Mr. Mark Canavan, Real Assets Portfolio Manager  
Mr. Aaron Armstrong, Portfolio Manager  
Mr. Ian Oldham, Investment Analyst  
Ms. Amanda Padilla, Financial Specialist  
Ms. Rita Lopez, Financial Analyst  
Mr. Rod Ventura, General Counsel

**Others Present:**

Mr. Kevin Tatlow, Top Tier  
Mr. Steve Gruber, RAPM  
Mr. Brent Burnett, RAPM  
Mr. Asif Hussain, Caledon  
Mr. Dave Rogers, Caledon  
Ms. Judith Beatty, Recorder

b. Approval of Agenda

Mr. Magid moved approval of the agenda, as published. Ms. Cameron seconded the motion, which passed unanimously by voice vote.

c. Approval of Minutes of 6/22/17

Ms. Cameron moved approval of the June 22 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously by voice vote.

d. Introduction of Guests

Chairman Goff welcomed staff and guests.

2. FIRST STATE – INFRASTRUCTURE

[Presenters: Mark Canavan and Caledon consultant Asif Hussain.]

Mr. Canavan presented staff's recommendation of a \$40 million commitment to the Global Diversified Infrastructure Fund (GDIF), managed by the infrastructure team of Colonial First State Global Asset Management ("First State").

Mr. Canavan commented that the open-ended structure of this fund is preferable to a private equity structure, as open-ended funds in real estate and core infrastructure allow an asset to be held indefinitely. He said the fee structure of these open-ended funds has also become more favorable in recent years.

Mr. Hussain added that one of the attractions to infrastructure is having something that is a long-term yielding asset that doesn't have to be sold, depending on market conditions. Open-ended funds are perpetual and have no requirements to sell assets. He said First State has held some assets for 10 to 20 years. When the existing portfolio of 10 assets is drawn down, NMERB will have exposure to all of them.

- GDIF is targeting \$1.5 billion of investor commitments with a hard cap of \$3 billion.
- The fund will primarily target utilities, transportation, and communications assets with a focus on Europe and Australia, and, over time, additional investments in the U.S.
- First State is the asset management business of the Commonwealth Bank of Australia and has over \$158 billion in assets under management globally. First State Infrastructure has over 20 years of infrastructure investment experience and currently has about \$5.8 billion of infrastructure assets under management.
- Portfolio is complementary to the existing NMERB infrastructure portfolio.
- Established experienced team with global presence and continuity.

- Successful track record.
- Co-investment on preferential terms and priority (one co-investment has already been completed).

Partners Danny Latham and Chris McArthur appeared before the committee and made a presentation.

Ms. Goodwin asked what efforts are being made to improve diversity, especially at the top levels of their organization. Mr. McArthur responded that they are looking at bringing more senior women into the team. He said there are several junior members of the team who are women, and the intention is to have them rise through the ranks. He added that working hours are also flexible in order to accommodate men and women with families.

[Representatives left the meeting.]

Mr. Jacksha commented that this investment fits into the idea of holding longer-term assets, which does have its benefits. In addition, this investment offers the NMERB some diversification by geography and asset type, the fees are preferable, and they have a lot of experience in this space.

**Ms. Cameron moved that the Investment Committee approve a commitment of \$40 million to the First State Global Diversified Infrastructure Fund for the Infrastructure portfolio. The commitment is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents and negotiation of final terms and conditions, and completion of appropriate paperwork. In addition, the Investment Committee grants staff discretion to invest an additional amount, not to exceed \$10 million, in secondary partnership interests offered by other limited partners in the fund, should they become available from time to time. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

### **3. BAIN CAPITAL FUND XII – PRIVATE EQUITY**

[Presenters: Steve Neel and Top Tier consultant Kevin Tatlow.]

Mr. Neel and Mr. Tatlow reviewed staff's recommendation of a \$50 million commitment in Bain Capital Fund XIII.

-- Bain Capital is targeting \$7 billion for Bain Capital Fund XII to continue the firm's strategy of control investments in companies with sustainable competitive advantages where Bain can execute on strategic initiatives to drive transformational change.

-- Fund XII will target 15-20 equity investments from \$200 million to \$500 million in North American companies with some international exposure in transactions alongside Bain's Asian and European funds.

-- Bain's value added approach involves working with management teams to drive value creation through strategic and operational change. Bain professionals will work day-to-day at portfolio companies, assuming senior operational positions on an interim basis in order to support the teams' efforts to build strong businesses.

-- Bain has built a large investment team, which includes 215 investment team members, including 56 operations professionals globally. Senior members of the team have an average tenure of over 14 years at the firm, and about 80 percent of the investment team members have consulting or operational backgrounds.

-- The Bain partnership will be committing over \$800 million to the fund. This is more than 10 percent of the targeted fund size and strongly aligns their interests with investors.

-- While this is a large fund, the target of \$7 billion is only slightly larger than the prior fund, which targeted \$6 billion and raised \$7.3 billion.

Mr. Tatlow reviewed the pros and cons. He noted that, over the last five years, the North American private equity team (consisting of 88 professionals) has seen a significant level of change. Almost a dozen people at the managing director level have left Bain, but 10 or 11 have been promoted with a senior person added, so their ranks have actually grown. In addition, Bain has increased their focus on accountability at the internal level and has organized their investment committee into sector teams. He commented that a lot of the turnover at Bain had to do with the introduction of these factors.

Mr. Jacksha commented that this is a successor fund, and the previous one has done quite well. Despite the fact that Bain made some significant changes within their organization, the consulting lineage of their operational expertise has remained intact.

**Mr. Magid moved that the Investment Committee approve a commitment of \$50 million to Bain Capital Fund XII, L.P. for the private equity portfolio. The commitment is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents and negotiation of final terms and conditions, and completion of appropriate paperwork. In addition, the Investment Committee grants staff discretion to invest an additional amount, not to exceed \$10 million, in secondary partnership interests offered by other limited partners in the fund, should they become available from time to time. Ms. Cameron seconded the motion, which passed unanimously by voice vote.**

#### **4. PIMCO AAAA CONTRACT – GTAA**

[Presenter: Steve Neel.]

Mr. Jacksha said PIMCO completed its first four-year term on June 11, 2017, so staff has slightly missed the deadline for reviewing open-ended contracts every four years. Staff is reviewing a process for keeping these up to date and will be bringing forward at least two more contracts (within the four-year review timeframe) next month.

Mr. Neel stated that a lot of assets are being moved around in this part of the portfolio. Under the GTAA banner, staff has carved out 5 percent to dedicate to diversifying assets. He commented that this part of the portfolio would very likely be a source of funding for other portions of the diversifying assets allocation. As the PIMCO All Asset All Authority (AAAA) Fund is highly liquid, it can be expected that some of the PIMCO position will be drawn down over time. A significant portion of the PIMCO AAAA Fund is in emerging market assets and the NMERB already has a significant amount of exposure on the other side of the portfolio, making for some redundancy.

Mr. Neel said PIMCO seeks long-term capital appreciation (CPI plus 6.5 percent) with modest volatility, which it has achieved only in the near term because of its exposure to emerging markets.

**Mr. Magid moved that the Investment Committee authorize the continuation of the PIMCO All Asset All Authority contract for an additional four years, subject to and contingent upon New Mexico State Law and Educational Retirement Board policies. Ms. Cameron seconded the motion, which passed unanimously by voice vote.**

[Five-minute break.]

#### **5. RAPM CONTRACT ASSIGNMENT TO HAMILTON LANE – CONSULTING**

[Presenter: Mark Canavan.]

Mr. Canavan discussed Hamilton Lane's acquisition of RAPM, which he said he supported. He said the two firms make for a good combination and will complement each other.

Mr. Canavan said NMERB until now has had the creativity of a small team, which is Steve Gruber and Brent Burnett (and periodically Howard Kaplan) along with NMERB staff, all working on a consensus basis. With the acquisition, it will go from that structure to five Hamilton Lane private equity people on the investment committee who may be inclined to veto an investment because they are not wholly familiar with it. Mr. Canavan said he and Mr. Jacksha met this week with the chairman of Hamilton Lane to discuss potential concerns around that. Mr. Canavan said everyone seems willing to work on a compromise around this issue.

Mr. Canavan discussed the details of the new structure with committee members.

[RAPM representatives Steve Gruber and Brent Burnett joined the discussion.]

Mr. Gruber stated that, since RAPM was established in 2011, it has not lost a single client. That success is attributable to a collaborative approach and deep analytics on the managers and ideas they bring to the NMERB, which leads to high conviction manager and fund recommendations. All of the clients that started with them in 2007 (as ORG) are also still with RAPM.

Mr. Gruber said Hamilton Lane has been in business 25 years. Their specialty is private market alternatives advisement, and they have about 350 clients and \$340 billion of assets they advise on. They have over 12 global offices and 300 employees. He commented that, with a focus on private equity, they have a small real assets team operating in Philadelphia.

Mr. Gruber said joining with Hamilton Lane allows RAPM to take a "leap forward" in ways they feel are beneficial to their clients and to RAPM's ability to continue to attract talented people to the team. He said RAPM currently devotes a great deal of energy to HR, business development and fund administration. They will be able to send these functions up to Hamilton Lane and focus on collaborating with NMERB on manager selection, portfolio construction, and idea generation.

Responding to Mr. Jacksha on any implications about Hamilton Lane being publicly owned, Mr. Burnett said the part that is publicly traded is a minority share in their business, and it is very tightly held

by the senior partners. There is still a very significant long-term alignment with the principals, adding that he and Mr. Gruber will not be involved in any of the executive level management roles with Hamilton Lane.

[Mr. Gruber and Mr. Burnett exited the meeting.]

Mr. Jacksha said staff supports this move, and it seems to make sense for both parties and staff feels reasonably good about RAPM's ability to continue to provide the same level of service to NMERB.

**Mr. Magid moved that the Investment Committee authorize providing consent for the change in control of RAPM, and authorize the assignment of the existing RAPM contracts to Hamilton Lane subject to, and contingent upon, negotiation of final terms and conditions, New Mexico State Law, and Educational Retirement Board policies and completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously by voice vote.**

## **6. CBRE/CALEDON CAPITAL MANAGEMENT – CONSULTING**

[Presenter: Mark Canavan.]

Mr. Canavan presented staff's recommendation that the NMERB provide Caledon Capital Management the required consents for the merger of Caledon with CBRE Limited.

Mr. Canavan stated that, since the NMERB first approved Caledon as infrastructure consultant on July 20, 2011, the relationship has grown to include asset specific sourcing, underwriting, execution, and performance monitoring for two private label co-investment platforms created by NMERB. Each of these programs has been meeting or exceeding expectations; as such, NMERB reaffirmed its relationship with Caledon in October 2015 by renewing Caledon's Infrastructure Fund Consulting Services contract.

Mr. Canavan stated that, although NMERB was one of the first U.S. public pension plan to invest in infrastructure and one of the first to implement co-investment strategies, the U.S. public plan market has been slow to enter infrastructure (which Canadians have been doing for 20-25 years) and even slower adopting direct, and/or co-investment programs. As such, Caledon has found it challenging to build its client base in the U.S.

Mr. Canavan said several firms seeking to penetrate the infrastructure market have approached Caledon. CBRE Limited, the party investing in Caledon, is a subsidiary of CBRE Global, which in turn is a subsidiary of parent CBRE, one of the world's largest real estate investors. Unlike Caledon, they have significant market penetration into both U.S. and non-U.S. markets, but lack needed expertise in infrastructure and private equity. He commented that this partnership would instantly provide CBRE with this ability. In addition, CBRE has brand recognition and marketing power that will greatly accelerate Caledon's growth outside of Canadian markets.

Mr. Canavan said NMERB staff has spent significant time with Caledon determining the extent to which its relationship might change. Caledon's founder and staff have assured the NMERB that it is committed to continuing to provide the same high level of client service and collaboration. He said staff has also met with CBRE chairman Ritson Ferguson to assess CBRE's long-term goals for the partnership.

[Caledon representatives Dave Rogers and Asif Hussain joined the proceedings.]

Responding to questions from Chairman Goff, Mr. Rogers said he will continue to run Caledon with the management team, as before. CBRE has the right to add an observer to the Investment Committee but that person would have no vote, and no investment decisions would be made by CBRE. Mark Canavan has the veto right at the early stage on any co-investments.

Mr. Rogers said he has long envisioned the idea of a global club of investors, and now Caledon will have clients in Canada, U.S., Europe and Asia, and together they can access exciting deal flow for their clients. He said Caledon was approached by a lot of people along the way who wanted to buy 100 percent of the company, but he did not want to change the culture of the company and the working environment. His hope is that it will remain that way with this partnership.

Mr. Jacksha asked if Caledon anticipates adding people in other locations and adding staff. Mr. Rogers responded that there is a lot of deal flow in Europe, and CBRE has offered them the option of putting someone on Asif Hussain's team in London to help access deal flow for the NMERB and other clients. He said this is definitely a possibility. He said it would also make sense to have someone in Hong Kong and in the states, either in Los Angeles, New York or Philadelphia.

[Messrs. Rogers and Hussain left the meeting.]

Mr. Canavan recommended approval of this transaction, which would provide more benefit to NMERB in terms of substantial deal flow out of Asia and provide more scale with respect to fees.

**Mr. Magid moved that the Investment Committee provide consent to a change in control of Caledon shares as the result of an investment of CBRE in Caledon, to be renamed CBRE-Caledon, subject to and contingent upon negotiation of final terms and conditions, New Mexico State Law, Educational Retirement Board policies, and completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously by voice vote.**

#### **7. Q2 2017 PROXY VOTING REPORT**

Mr. Jacksha said he had nothing exceptional to report.

**Ms. Cameron moved acceptance of the Proxy Voting Report. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

#### **8. Q4 2016 PRIVATE EQUITY UPDATE**

[Presenters: Steve Neel and Top Tier consultant Kevin Tatlow.]

Mr. Neel and Mr. Tatlow presented this report, with the following highlights:

-- The NMERB experienced a positive fourth quarter return of 3.53 percent and a one-year return of 14.2 percent.

-- The Private Equity Portfolio has achieved a since-exception return of 12.8 percent and investment multiple of 1.39 percent.

-- At year-end, the portfolio had 2.75 billion in net commitments to 70 private equity funds managed by 43 different managers.

-- NEPC's March performance report reflects that, in the \$1 billion and larger pension fund universe, the NMERB private equity portfolio ranks 8th, 12th and 5th in the one-, three-, and five-year timeframes.

-- Over the last year, the program has generated more than \$250 million in distributions from the general partners and capital calls were \$210-\$220 million.

**9. Q2 2017 COMMISSION REPORT**

[Informational.]

**10. OTHER REPORTS AND DISCUSSION**

None.

**11. NEXT MEETING: THURSDAY, AUGUST 24, 2017**

The next meeting was scheduled for 1:00 p.m.

**ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 4:10 p.m.

Accepted by:

  
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H. Russell Goff, Chairman