

ACTION SUMMARY

INVESTMENT COMMITTEE

September 22, 2016

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MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

September 22, 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 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
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. Alan Myers, Investment Financial Analyst

Others Present:

Mr. Kevin Tatlow, Top Tier
Mr. Dan LeBeau, NEPC
Mr. Steve Gruber, RAPM
Mr. Brent Burnett, RAPM [on phone]
Ms. Judith Beatty, Recorder

b. Approval of Agenda

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

c. Introduction of Guests

Chairman Goff welcomed staff and NEPC consultant Dan LeBeau, who would be leaving NEPC and moving back to Rhode Island to be with his family.

2. RIVERSIDE STRATEGIC CAPITAL FUND I, L.P. – PRIVATE EQUITY

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

Mr. Neel presented staff's recommendation of a \$50 million commitment to Riverside Strategic Capital Fund I (RSCF I). He said the team is composed of former members of the VSS Structured Capital Team, an NMERB investment. The team split from VSS in 2015 and joined Riverside in 2015. He said NMERB staff sat on the advisory board of VSS and knows the team very well.

-- The Riverside Company is targeting \$350 million for RSCF I. The fund will extend the firm's strategy of investing in lower middle market companies by providing companies with non-control junior capital to facilitate acquisitions, organic growth initiatives, recapitalizations and other shareholder initiatives.

-- The fund will seek to build a diversified portfolio in the education and training, information and business services, healthcare and media and marketing services industries.

-- Target companies will have enterprise values from \$25 million to \$250 million and will seek to employ \$20 million to \$40 million per investment.

-- The fund will primarily invest in companies headquartered in North America but will make selective investments in Europe.

-- The General Partner will commit 3 percent of the fund, which is a higher percentage than many other private equity funds.

Mr. Tatlow said RSCF I is the first structured capital fund offered by Riverside, and so the team does not have a track record while at Riverside. The only available representative track record is from the predecessor firm VSS, where the team participated in the strategy. As there is not a large peer group in structured equity strategies, Top Tier benchmarked them against the buyout equity universe. When ranking them against that universe, both funds (VSS Mezzanine Partners and VSS Structured Capital II/NMERB account) came out in the top quartile.

Riverside representatives Hal Greenberg, George Cole and Molly O'Neill appeared before the committee and made a presentation.

[Representatives exited the meeting.]

Mr. Jacksha said he likes the fact that this is a team that the Investment Committee knows very well from VSS. This is a continuing strategy, so there are no concerns about them moving to a new firm, and in fact, it probably has advantages. He said this is also a risk-mitigated strategy for private equity.

Mr. Neel agreed, adding that the marriage of the team with the Riverside platform is very powerful.

Ms. Cameron moved that the Investment Committee approve a commitment of \$50 million to Riverside Strategic Capital Fund I. 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. BLUESCAPE ENERGY RECAPITALIZATION AND RESTRUCTURING FUND III – NR

[Presenters: Mark Canavan and RAPM consultants Steve Gruber and Brent Burnett, who was on the telephone.]

Mr. Canavan presented staff's recommendation of a \$30 million commitment to Bluescape Energy Recapitalization and Restructuring Fund III, which is targeting \$500 million. The team will be led by John Wilder as Executive Chairman and Ron Hulme as CEO. Mr. Canavan noted that Mr. Wilder has been voted as one of the top CEOs in the U.S., mainly because of his turnaround of TXU Corporation. During Wilder's tenure, TXU ranked in the top 1 percent for shareholder returns every year that he was in charge of the company.

-- Bluescape's strategy focuses on restructurings in the energy space, but will also do power generation in solar and wind and other things outside of the oil and gas sector.

-- Bluescape's strategy is unique; while many other private equity firms are looking for asset sales from distressed companies as a way to capitalize on the beaten down energy sector, high quality assets will be difficult to access and asset-level competition will be intense. In contrast, Bluescape's restructuring strategy works with investee companies to provide a longer-term solution to their unbalanced capital structures while simultaneously improving both asset level and corporate solutions to preserve and grow enterprise values. This strategy should find support from corporate boards of distressed companies and serve as a source of deal flow for Bluescape.

-- The GP is committing \$125 million, or roughly 25 percent of the target fund size.

Mr. Burnett said this is a unique strategy and a very strong team. He said everyone is well aware of the distress in the energy sector, but particularly in the small cap equity space, which is where the team's strength is. He commented, "This is friendly turnaround capital where the team can leverage their relationships in this space and really help these companies that have good assets but poor balance sheets, restructure, and get back to a point of viability."

Bluescape representatives John Wilder, Ron Hulme and Jonathan Siegler appeared before the committee and made a presentation. Also present was Marcus Lollie, placement agent with Credit Suisse.

Mr. Wilder noted that the NMERB has a seat on their Limited Partner Advisory Committee. He remarked on the thoroughness of staff and the broader team in vetting them.

[Representatives exited the meeting.]

Mr. Jacksha commented that Bluescape has a differentiated strategy from a lot of the people in energy, which he likes; they are not just buying the assets, but are going in and working with the companies and investing in them. He said the team has a great deal of experience.

Mr. Canavan said he and Mr. Burnett spent a great deal of time working on this particular investment and strategy before they became comfortable with it.

Mr. Magid moved that the Investment Committee approve a commitment of \$30 million to Bluescape Energy Recapitalization and Restructuring Fund III. 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.

[Break.]

4. CROW HOLDINGS RETAIL FUND II – REAL ESTATE

[Presenters: Mark Canavan and RAPM consultant Steve Gruber.]

Mr. Canavan presented staff's recommendation of a \$25 million investment in Crow Holdings Retail Fund II. He noted that the NMERB is invested in two different Crow funds, which are multiproduct funds that invest across the asset class, including multifamily properties, retail centers, and commercial office buildings. He said this fund is strictly in retail properties below \$17.5 million, which means they will not be competing against the funds the NMERB is already invested in, and will include 60 to 80 investments.

Mr. Canavan stated that Crow has a new president and CEO, Michael Levy, who will be phased in over the next two years and will be a good fit for the organization. In addition, Dan Feeney, who runs retail investment operations for Crow Holdings, intends to transition into retirement over the next few months. His "Product Leader" responsibilities will be picked up by Tiffani Heidebrecht with support from the 65-person overall investment team located at the firm's Dallas headquarters. Ms. Heidebrecht will also be on the investment committee at Crow Holdings at the senior level of the organization.

Mr. Canavan noted that Chairman Harlan Crow has a policy to hire an equal number of men and women at the entry level and then move them up through the organization. At the current time, the workforce is 46 percent female and 54 percent male.

Crow representatives Bob McClain, Dan Feeney, Tiffani Heidebrecht and Anna Graves appeared before the committee and made a presentation.

Responding to Ms. Goodwin, Ms. Heidebrecht and Ms. Graves discussed Crow's family friendly policies, which include flexibility with employee schedules and other benefits.

Mr. Feeney said he would remain on the investment committee through the investment period for Retail Fund II, and would also invest in that fund.

[Representatives exited the meeting.]

Mr. Jacksha commented that this fund is consistent with the NMERB's theme of staying away from big core real estate, which is currently overpriced. The NMERB also has a history with Crow Holdings, and staff and the consultants are well acquainted with their team.

Mr. Canavan noted that Crow has just become oversubscribed, and NMERB staff has asked them to increase their cap to accommodate this \$25 million investment. This will require a 51 percent vote of their current limited partners; otherwise, the investment would be lowered to \$18 million.

Ms. Cameron moved that the Investment Committee approve a commitment of \$25 million to Crow Holdings Retail Fund II. 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.

5. OTHER REPORTS AND DISCUSSION

Mr. Jacksha distributed a report on recent buys and sells.

6. NEXT MEETING: THURSDAY, OCTOBER 20, 2016

The meeting was scheduled at 1:00 p.m.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 3:40 p.m.

Accepted by:



H. Russell Goff, Chairman