

**ACTION SUMMARY**

**INVESTMENT COMMITTEE**

**October 20, 2016**

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<u>APPROVAL OF MINUTES</u>		
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**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**INVESTMENT COMMITTEE**

**October 20, 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. Aaron Armstrong, Portfolio Manager  
Ms. Marla Vigil, Investment Financial Analyst

**Others Present:**

Mr. Kevin Tatlow, Top Tier  
Mr. Allan Martin, NEPC  
Mr. Asif Hussain, Caledon (by telephone)  
Ms. Judith Beatty, Recorder

**b. Approval of Agenda**

**Ms. Cameron moved approval of the agenda, as published. Mr. Goff seconded the motion, which passed unanimously by voice vote. [Mr. Magid was not present for the vote.]**

**c. Approval of Minutes of 8/25/2016**

**Ms. Cameron moved approval of the August 25 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

**d. Approval of Minutes of 9/22/2016**

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

**e. Introduction of Guests**

Chairman Goff welcomed staff and consultants.

**2. NMERB/BLACKROCK CO-INVESTMENT FUND III – PRIVATE EQUITY**

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

Chairman Goff noted that, in accordance with discussion at the last meeting, fund managers who have made presentations in the recent past to the Investment Committee would not be required to make another appearance unless specially requested. At his request, BlackRock representatives are available by telephone in the event there are questions today.

Mr. Neel added that this would have been the fourth time since 2009 that BlackRock would have appeared before the committee.

Mr. Neel said BlackRock is the NMERB's co-investment partner. The NMERB began its co-investment program in 2009; at that point, it was a bit of a novelty and there were not a lot of peers that were co-investing. Since then, co-investments have caught fire. In 2009, Mr. Jacksha recognized the fact that the NMERB could get private equity exposure at reduced economics with the same return profile.

Mr. Neel and Mr. Tatlow presented staff's recommendation of a \$100 million commitment to NMERB/BlackRock Co-Investment Fund III. BlackRock Private Equity Partners was founded in 1999 and has been managing private equity separate accounts, including co-investment accounts, since 2000, and is staffed to source and execute co-investments with leading General Partners. Today, BlackRock manages separate accounts and funds investing in private equity and co-investments on a global basis; and since inception, the team has made commitments of over \$14.8 billion in partnership investments and direct co-investments alongside 50+ GPs.

Mr. Neel said the NMERB has had three tranches of capital committed to BlackRock. The first (2009) is tracking at a 17 percent net IRR since inception. The second (2013) is tracking at roughly 15 percent and the third (2014) at 15 percent.

Mr. Jacksha asked what percentage of deals have been from the NMERB's deal flow and how much has been from BlackRock. Mr. Neel responded that, while initially 90+ percent of the deal flow was sourced from BlackRock, it has shifted to roughly 70/30 in Fund II.

Mr. Tatlow noted some concern over recent departures from BlackRock. In 2016, five employees at the director level and above departed the firm, three of them to pursue other opportunities. He said it is important to recognize that this is a lot different from going into a fund where documents are signed and the commitment is for ten years. This is a separate account; the NMERB is the only one in it and has

very strong investor protections. If there were a lot more turnover, the NMERB “can stop the bus.” He added that BlackRock is very stable and very strong, however, and that is expected to continue.

**Ms. Cameron moved that the Investment Committee approve a commitment of \$100 million to NMERB/BlackRock Co-Investment 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. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

### **3. CROW HOLDINGS RETAIL II – REAL ESTATE**

Mr. Jacksha noted that, at the September meeting, the Investment Committee approved a \$25 million to Crow Holdings Retail Fund II with the understanding that it might not be able to invest the entire amount because the fund was oversubscribed. Ultimately, the entire \$25 million was approved by Crow; and now, one of the other partners is not able to close on their commitment for \$5 million. He said staff is requesting approval to commit an additional \$5 million to this fund, which is capped at \$400 million.

**Mr. Magid moved that the Investment Committee approve a commitment of an additional \$5 million to Crow Holdings Retail Fund II. This is in addition to the previous commitment of \$25 million approved in September. 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. Ms. Cameron seconded the motion, which passed unanimously by voice vote.**

[The agenda was reprioritized.]

### **5. OTHER REPORTS AND DISCUSSION**

Mr. Jacksha reported on staffing changes and promotions in the Investment Department, including the promotion of Marla Vigil, who has replaced Alan Myers as Investment Financial Analyst.

Mr. Neel distributed and reviewed a slide deck that he is using to inform people about the host of things that the NMERB offers to funds. He said the goal is “to be the limited partner of choice.” He commented that it has been well received.

Mr. Jacksha commented that there is a group of three or four public funds (including Idaho and Nevada) that are mostly indexed and are counting on legislative action to increase contributions and help pick up any slack. An article published recently about Nevada’s pension fund notes that its entire portfolio is indexed. He added that there are more funds that do the diversified approach rather than the “two asset approach.”

Mr. Martin said the Idaho plan is 90 percent funded, and the combined employer/employee contribution is about 18 percent. He said they can afford the volatility. He stated that the Investment Committee has seen NEPC’s projections of what a 60/40 portfolio will do over the next five to seven years, and while the fees are certainly lower, this would not make the assumed rate.

Ms. Goodwin pointed out that Mr. Jacksha has been very tactical about this, making decisions on an asset class by asset class basis, a strategy that has proven well.

Mr. Jacksha said the article didn't point out that there is a trend going more toward passive investments in certain asset classes because it is so hard to beat the large cap equity market, for instance.

#### **4. Q2 2016 INFRASTRUCTURE REPORT**

[Caledon Capital consultant Asif Hussain was present by telephone.]

Mr. Jacksha presented highlights from the report:

- Current market value of the portfolio is \$252 million, with unfunded commitments of \$163 million.
- Portfolio inception date: July 2008. Total investments, 8; total number of direct investments, 6.
- Net IRR since inception: 5.2 percent, which includes Caledon Andromeda Investments (2013) at 35.4 percent.
- Total net return (time-weighted) is 8.5 percent for the quarter and 13.4 percent for 1-year.
- The portfolio has beaten the benchmark for the quarter and 1-year, 2-year and 3-year returns.

Mr. Hussain noted that Caledon will soon be closing on its seventh and eighth transactions in the co-investment fund. This will leave enough capital for one more transaction.

#### **6. NEXT MEETING: THURSDAY, NOVEMBER 17, 2016**

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

#### **ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 2:00 p.m.

Accepted by:

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H. Russell Goff, Chairman