

**ACTION SUMMARY**

**INVESTMENT COMMITTEE**

**November 17, 2016**

<b><u>Item</u></b>	<b><u>Action</u></b>	<b><u>Page #</u></b>
APPROVAL OF AGENDA	Approved	3
<b><u>APPROVAL OF MINUTES</u></b> October 20, 2016	Approved	3
TOP TIER VC PLATFORM – PRIVATE EQUITY	\$100 million	3
KILDARE EUROPEAN PARTNERS II – OPPORTUNISTIC CREDIT	\$100 million	4
Q2 PROXY VOTING REPORT	Accepted	5
Q3 TOTAL PORTFOLIO PERFORMANCE RPT	Informational	5
Q2 REAL ESTATE & NATURAL RESOURCES RPT	Informational	5
Q3 COMMISSION REPORTS	Informational	6
OTHER REPORTS AND DISCUSSION	Informational	6

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

**November 17, 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 [by telephone]

**Members Excused:**

None

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Steve Neel, Deputy CIO, Alternative Investments  
Ms. Kay Chippeaux, Deputy CIO, Public Markets and Credit  
Mr. Aaron Armstrong, Portfolio Manager  
Mr. Alan Myers, Investment Financial Analyst  
Ms. Dianne Rossbach, CFO

**Others Present:**

Mr. Kevin Tatlow, Top Tier  
Mr. Allan Martin, NEPC  
Ms. Alexandra Adam, NEPC  
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. Approval of Minutes of 10/20/2016

Ms. Cameron moved approval of the October 20 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously by voice vote.

d. Introduction of Guests

Chairman Goff welcomed staff and consultants.

2. TOP TIER VC PLATFORM – PRIVATE EQUITY

[Presenter: Steve Neel]

Mr. Neel presented staff's recommendation of a \$100 million commitment to NMERB/Top Tier Capital Partners Separate Account (the "Fund").

As background, Mr. Neel said that, about a year ago, the Investment Committee debated the RFP for private equity consultant. At that time, the two finalists were Caledon and Top Tier. As the committee will recall, the thesis behind going with Top Tier was to help the NMERB in the areas of high quality venture and high quality growth. Today, staff wants to continue that thesis on the venture side. He referred to a table on page 5 of staff's report detailing NMERB's venture strategy performance, noting that the portfolio has been meaningfully underweight; up until 2013, only \$30 million was committed to the venture strategy. This was deliberate, as venture strategies take six or seven years to mature and execute on, while buyout takes two and a half years and other strategies take even less time. These other strategies were frontloaded at the beginning of the program, while the venture allocation was gradually ramped up from 2013 forward.

Mr. Neel commented that venture is a difficult strategy to execute on for public pension plans because of Freedom of Information Act provisions (Inspection of Public Records Act in New Mexico) and many top tier venture funds hesitate to accept public money for that reason. In addition, the venture strategy is not as scalable as some other strategies; for instance, some buyout funds are several billion dollars in size, while the top tier venture firms are closer to \$300-\$500 million. Capacity, and access to capacity, is therefore a major issue.

Mr. Neel said Top Tier has successfully executed on the venture strategy for more than 15 years. This is a critical point, and staff is asking the committee to approve a \$100 million separate account with a four-year investment period (roughly \$25 million per year), with staff having authority to approve all transactions. Deal flow will be mostly generated through the Top Tier platform, with about 75 percent being in primary VC commitments and about 25 percent in secondaries. He noted that Top Tier has been executing on secondaries for the last five years or so. He said the goal is to develop a diversified portfolio. Mr. Neel added that, because Top Tier manages a fund of funds, they get "first bite of the apple," with NMERB receiving residual flow.

Top Tier representatives Kevin Tatlow, David York and Jessica Archibald appeared before the committee and made a presentation.

[Representatives left the meeting.]

Mr. Jacksha commented that the NMERB has been late in venture because it is difficult to access, and this is a good, creative way to add more high quality venture exposure to the portfolio. In addition, the size of funds that Top Tier will be going into are too small and would thus create a lot of administrative work for the NMERB, so combining them in one vehicle makes a lot of sense.

**Ms. Cameron moved that the Investment Committee approve a commitment of \$100 million to NMERB/Top Tier Venture Capital platform. 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. KILDARE EUROPEAN PARTNERS II – OPPORTUNISTIC CREDIT**

[Presenters: Kay Chippeaux and NEPC consultant Alexandra Adam.]

Ms. Chippeaux presented staff's recommendation of a \$100 commitment to Kildare European Partners II (KEP II). She noted that Mark Canavan brought this same manager, with the same fund, to the Investment Committee in March 2016 for a \$40 million commitment in the real estate portfolio. Because this is a prior manager and has appeared before the committee with this fund, staff elected to not have them come and present; however, they are on standby if there are questions.

Ms. Chippeaux stated that Kildare is a relatively new investment management company that began in 2013, although the investment professionals are very experienced and have worked together for many years, mostly at Lone Star. Kildare looks for investments in distressed commercial real estate in Europe, and generally looks for investments where they can add value through their asset management, for instance, through leasehold improvements, renegotiating leases for higher rent, renegotiating for longer periods of time, improving the quality of the tenants involved, and increasing the number of tenants. She said staff really likes their asset management plan; it is basically a business plan for each property or investment that they make. While it's being managed by Curzon Advisors, their asset management company, they frequently compare actual results to the business plan to actively monitor how well actual results are tracking to their plan. They have proven that they can do this through Fund I, as well as through their performance at Lone Star. Even though they are a new manager, they have shown a good ability to source assets.

Ms. Adam stated that Fund I is about 75 percent invested. They have completed 12 transactions, 11 of which were privately negotiated by their team on the ground. Four investments have been fully realized and have returned about 51 percent to the LPs. The gross projected IRR is 21 percent with an 18 percent net projected IRR, with a gross 1.5x and a 1.4x net multiple. She commented that NEPC feels this fits very nicely within the real estate bucket and the credit opportunities bucket. The credit bucket is heavier towards the U.S. assets, so this will build out the European exposure, which is currently 30 percent. The portfolio is also heavier in structured credit and corporate liquid credit, so this will increase the opportunistic nature of that allocation. There is still strong opportunity within the European market; with the increased regulation from the European Central Bank and Basel III implementation (which has been extended to 2019), banks are still selling off non-performing loans. She noted that there is about \$1 trillion in non-performing loans left on banks' balance sheets across Europe.

Mr. Jacksha said this is a manager staff likes, and this is a way to continue to get some European exposure in the opportunistic credit portfolio.

**Ms. Cameron moved that the Investment Committee approve a commitment of \$100 million to Kildare European Partners II for the opportunistic credit 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, under the right of first refusal of the limited partnership agreement for this fund. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

**4. Q3 PROXY VOTING REPORT**

Mr. Jacksha reviewed this report.

**Ms. Cameron moved to accept the Q3 Proxy Voting Report. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

**5. Q3 TOTAL PORTFOLIO PERFORMANCE REPORT**

[Presenter: Allan Martin, NEPC.]

Mr. Jacksha said this report would also be presented at the December board meeting.

Mr. Martin presented this report, with the following highlights:

- Over the past five years, the fund returned 9.2% per annum, outperforming the policy index by 60 basis points in addition to outperforming the fund's actuarial rate of return of 7.75% and ranking in the 41st percentile of the InvestorForce Public Funds > \$1 Billion universe.
- Over the last three years, the fund returned 7.0% per annum, outperforming the policy index by 90 basis points and ranking in the 3rd percentile of its peer group.
- For the year ending September 30, 2016, the fund experienced a net investment gain of \$1.12 billion, which includes a net investment gain of \$425 million during the third quarter.
- The fund now stands at \$11.685 billion at September 30, which is at an all-time high.

**6. Q2 REAL ESTATE AND NATURAL RESOURCES REPORT**

[Presenter: Bob Jacksha.]

Mr. Jacksha presented this report, with the following highlights:

- As of June 30, 2016, the NAV of the real estate portfolio was \$844 million, and NAV for the natural resources portfolio was \$274 million. There was \$398 million of committed but uncalled allocations to private real estate managers and \$288 million of committed but uncalled allocations to Natural Resources managers.

- About 63 percent of the NMERB's capital has been drawn. Of what it has paid in, it has gotten 45 percent back in distributions.
- It was a good quarter all around, with public real estate up 6.8%, private real estate up 4%, and natural resources up over 5%.
- Total private portfolio market value is now at \$765 million.

**7. Q3 COMMISSION REPORTS**

[Informational.]

**8. OTHER REPORTS AND DISCUSSION**

Following up on the discussion at the October board meeting about a difference between the performance reporting as it relates to the NMERB's assets and its financial reporting, Mr. Jacksha reported that he, Ms. Goodwin, Allan Martin, Rick Scroggins, Dianne Rossbach and Alan Myers met and had a discussion about it. He commented that most funds have this mismatch as well. The NMERB reports on its performance, and then, as required by GASB and the auditors, it gathers more information and reports on the financials. He said the gap has widened this year because of alternatives, and that will continue to grow. Staff will continue to report the financial and performance reporting numbers separately, since this seems like the most reasonable solution.

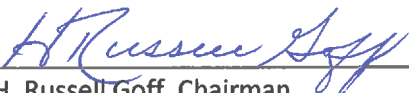
**9. NEXT MEETING: THURSDAY, DECEMBER 8, 2016**

The meeting was scheduled at 2:00 p.m.

**ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 2:50 p.m.

Accepted by:

  
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H. Russell Goff, Chairman