

ACTION SUMMARY

INVESTMENT COMMITTEE

February 25, 2016

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c. Approval of Minutes: January 21, 2016

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

3. Introduction of Guests

Chairman Goff welcomed staff.

2. TENEX CAPITAL PARTNERS FUND II – PRIVATE EQUITY

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

Mr. Neel and Mr. Tatlow presented their report, recommending a \$50 million investment in Tenex Capital Partners Fund II.

-- Tenex is targeting \$600 million for its second institutional fund to make buyout investments in operational turnaround situations. The fund will invest primarily in North America and focus on investments in underperforming companies where the team believes they can substantially improve the company through operational improvement.

-- The fund raise has experienced strong demand in the market with a first close of over \$500 million. The fund is oversubscribed, which may be due to the performance of Fund I combined with the current market environment.

-- NMERB invested in a prior Tenex fund (Fund I) and also co-invested in JET Industries one of the portfolio companies, and is the only LP in their fund with co-investment deal flow. NMERB sits on the Tenex advisory board.

-- Fund I is a 2011 vintage fund that is currently performing in the top quartile, tracking at a 1.41x total value to paid in capital and a 16.1 percent net IRR. There are two realized investments at 3x and 4x gross multiples and a small equity investment with a 10x multiple.

-- The investment team has been expanded to 14 members.

-- The long bull market for M&A is likely to lead to abundant corporate carve-out opportunities.

Stephens Johnson, head of investor relations and marketing at Tenex, introduced himself to the committee and made a presentation.

[Mr. Johnson left the meeting.]

Mr. Neel commented that this is a prototype commitment of a relationship staff would like to replicate by creating value through three legs: secondary investments, co-investments, and primary

Dr. Woodfin asked Mr. Canavan to comment on Mr. Grayken's investment of \$250 million of his own capital in this fund. Given the overall size of the fund, she thought it seemed like "the tail wagging the dog."

Mr. Canavan responded that Mr. Grayken has been contributing roughly \$250-\$300 million of his own capital in the last few Lone Star funds. While it could be seen as the tail wagging the dog, Mr. Grayken wants to provide alignment and to make sure his money is performing very well.

Mr. Gruber stated that his colleague, Scott Davies, did all of the due diligence on this fund.

Dr. Woodfin moved that the Investment Committee approve a commitment of \$40 million to Lone Star Real Estate Fund V. 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. HALDERMAN FARMS CONTRACT EXTENSION – REAL ASSETS

[Presenters: Mark Canavan and RAPM consultants Steve Gruber and Howard Kaplan.]

Mr. Canavan stated that the acquisition period for the NMERB Farmland Separate Account managed by Halderman Real Asset Management (HRAM) expires this month. Both RAPM and NMERB staff are recommending that NMERB keep HRAM actively pursuing additional acquisitions by extending the acquisition period an additional two years, and that NMERB also extend the term of the investment management agreement by two years to synchronize the term of the fund with the two-year extension of the acquisition period.

Mr. Canavan stated that HRAM has acquired three properties on behalf of NMERB after beginning management of the NMERB's \$50 million commitment in February 2013.

Mr. Jacksha noted that NMERB policy has no restrictions on the number or length of extensions it can grant in this asset class, unlike restrictions that are placed on public equity managers, for example.

Dr. Woodfin moved that the Investment Committee approve an extension of the acquisition period of the Halderman Real Asset Management Contract and the Halderman Asset Management Agreement to February 11, 2018. The commitment is subject to New Mexico State Law, Educational Retirement Board policies and negotiation of final terms and conditions, and completion of appropriate paperwork. Mr. Magid seconded the motion, which passed unanimously by voice vote.

[Break.]

its tradable credit group or through direct lending, and knows the companies through the Ares platform.

Mr. Magid noted that Ares went public in 2014 and its stock price has dropped significantly.

Mr. Rosenthal responded that Ares went public for three reasons: It was an efficient way to raise capital to invest in their own funds; to create a retention tool for employees by giving them stock as part of their compensation, which also helps with succession planning; and it gives Ares an enormous amount of credibility.

[Mr. Rosenthal and Ms. Hooper left the meeting.]

Dr. Woodfin noted that ACOF Fund V could reach \$8 billion, which would mean the NMERB's \$40 million would be about half a percent of that. She asked if the NMERB's investment was on the small side, comparatively speaking.

Mr. Tatlow responded that the NMERB is a little below the median when compared to the other investments in this fund.

Mr. Neel added that the NMERB has invested \$100+ million across the Ares platform.

Mr. Neel commented that this is very emblematic of relationships and commitments that the NMERB likes going forward. While the NMERB's investment is relatively small, the working relationship it has established with them through co-investments, and dialogue on secondary and primary commitments, is very important. He added that, given the prognosis for the markets going forward, the Ares strategy is very compelling.

Dr. Woodfin moved that the Investment Committee approve a commitment of \$40 million to Ares Corporate Opportunities Fund V. 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.

6. Q4 2015 PROXY VOTING REPORT

Dr. Woodfin moved to accept the Q4 2015 Proxy Voting Report. Mr. Magid seconded the motion, which passed unanimously by voice vote.

7. Q4 2015 COMMISSION REPORT

[Informational.]

