

ACTION SUMMARY  
INVESTMENT COMMITTEE

June 11, 2015



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

**June 11, 2015**

**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  
Dr. Beulah Woodfin

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Steve Neel, Deputy CIO  
Mr. Mark Canavan, Real Assets Portfolio Manager  
Ms. Christine Ortega, Financial Analyst  
Mr. Aaron Armstrong, Portfolio Manager

**Others Present:**

Mr. Carl Boaz, Recorder  
Mr. Brent Burnett, RAPM  
Mr. Steve Gruber, RAPM  
Mr. Howard Kaplan, RAPM

**b. Approval of Agenda**

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

c. Approval of Minutes of 5/28/15

Dr. Woodfin moved for approval of the May 28 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously by voice vote. [Ms. Cameron was not present for the vote.]

d. Introduction of Guests

Consultants and staff were acknowledged.

2. REAL ESTATE AND NATURAL RESOURCES CONSULTANT CONTRACT

Mr. Canavan reported that the ERB received six initial notifications of submission, but there were ultimately five final responses after one vendor withdrew from the process. He noted that the RFP looked for a high level of experience within the natural resources sector in particular. He stated that the review committee members were Mr. Jacksha, Mr. Neel, and himself, and criteria included consulting philosophy; personnel and experience; proven ability to underwrite and execute on secondary and co-investments; administrative resources; and cost.

[Ms. Cameron joined the meeting by telephone.]

Mr. Canavan reviewed the scores of the respondents and noted that RAPM's scores were significantly higher than those assigned to any of the other respondents. For that reason, RAPM was determined to be the sole finalist and would be making a presentation today.

Mr. Canavan stated that RAPM has submitted its disclosure documents. No placement agent has been used and there have been no campaign contributions.

RAPM representatives Steve Gruber, Brent Burnett and Howard Kaplan made a presentation to the committee.

Mr. Gruber stated that RAPM was established in 2011 and registered with the SEC as a Registered Investment Advisor. In anticipation of an SEC audit, RAPM hired a firm to do a mock SEC audit to test processes and procedures, which went well.

Mr. Gruber stated that RAPM currently advises eight institutional clients with global real asset portfolios exceeding \$2.4 billion. RAPM has never lost a client relationship.

Mr. Gruber said RAPM continues to expand its team with exceptional talent, although hiring such highly qualified people in the Portland area has proven to be a challenge.

Mr. Magid noted that RAPM's universe is about 1,200 funds, which is a rather large universe for an eight-person staff. He asked how RAPM manages that.

Mr. Gruber responded that, about a year ago, they began capturing deal-level cash flows for each of these managers. As an example, the ERB just recommitted with RAM and Sares-Regis on the multifamily side. RAPM then looked through its database for every multifamily manager to find the best or top quartile apartment manager in the country. Armed with that information, he said it is a

very quick process to benchmark the new funds coming in against the best or top quartile manager. He said having these data in place allows RAPM to dismiss managers very quickly.

Mr. Burnett added that the number cited by Mr. Magid includes 800 funds that are older vintage year funds that RAPM has collected data on over time for benchmarking purposes, and 300-400 of the 1,200 are live opportunities. He added that a lot of those fall out fairly quickly when basic screening criteria are applied.

[RAPM representatives left the room.]

Mr. Jacksha stated that RAPM works very hard on the ERB's behalf and that is apparent in the quality of their work. In addition, the ERB is very important to them, and staff sees that in their responsiveness. He commented that this has been a good relationship for the ERB; performance has been good, and the review committee ranked them significantly higher than the other candidates. As pointed out by Mr. Canavan, RAPM has special expertise in natural resources that other consultants don't generally have.

Mr. Jacksha recommended that the committee approve executing a new contract with RAPM.

Ms. Ortega stated that she works with RAPM's back office and is "absolutely satisfied" with them.

**Dr. Woodfin moved that the Investment Committee approve a four-year investment services contract for real estate and natural resources consulting services with Real Asset Portfolio Management, LLC. This recommendation 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. BROOKFIELD REIT CONTRACT (REAL ESTATE)**

Mr. Canavan and Mr. Gruber presented this report.

Mr. Canavan stated that the ERB hired Brookfield Investment Management to manage a real estate securities separate account, and their four-year contract will expire in 30 days. He noted that real estate exposure through the REIT market was the fastest way to get real estate exposure when this allocation was created about a decade ago. However, over time, as the Board decided that this asset class was too volatile and the ERB should go into private real estate, RAPM was tasked with doing an analysis to see whether or not the ERB should stay in REITs at all. At the end of that period, the decision was made to stay in REITs because of the ability to make strategic and tactical movements of the asset allocation. In addition, there is slight outperformance within the REIT market over the long term.

Mr. Gruber stated that the ERB hired Brookfield in July 2011 with a \$100 million commitment. He said the \$100 million was funded from the passive REIT portfolio, and ERB staff transferred over securities in kind that Brookfield configured into its own REIT portfolio. He said the contract comes up for renewal in July 2015. Since inception of the account, Brookfield has outperformed by about 261 basis points with a since-inception return of 16.1 percent.

Mr. Gruber stated that, in the first quarter of 2014, the ERB had excess liquidity in the fund and Mr. Jacksha asked about allocating \$60 million of additional capital to Brookfield. In 2014, REITs were performing at 30 percent, most of which was in the fourth quarter, so the ERB picked up much of that return in the allocation that took place earlier.

Mr. Gruber stated that Brookfield's 10-year performance for its Value Income Strategy is 12.76 percent against a benchmark of 8.41 percent. He stated that, last year, the VIS strategy underperformed slightly (29.3 percent in a 30 percent year). He commented that to have a value-oriented strategy perform this well is a remarkable achievement.

Mr. Gruber said the portfolio manager for the strategy has remained unchanged since the ERB's investment. There have been some changes at the top with the retirement of the CEO, but RAPM feels that has been handled well.

Mr. Gruber said RAPM recommends extending this agreement for another two years, in accordance with ERB investment policy.

Ms. Goodwin asked why Brookfield slightly underperformed last year, given that they typically outperform. Mr. Gruber responded that Brookfield takes out-of-benchmark positions, and one of them has underperformed, which is in a billboard advertising company.

Mr. Jacksha recommended approval of a two-year extension. He commented that Brookfield has done well for the ERB.

Mr. Canavan noted that Brookfield representatives had offered to come out and address the committee but were told it was not necessary. Mr. Jacksha added that Mr. Canavan had discussed this with him. He said he did not think Brookfield needed to appear before the committee to make a case.

Mr. Jacksha stated that Brookfield has submitted disclosure documents and reported no campaign contributions or placement agents.

**Dr. Woodfin moved that the Investment Committee approve a two-year extension of the Brookfield investment Management Incorporated contract. The contract 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.**

#### **4. CALEDON CAPITAL CONTRACT (INFRASTRUCTURE)**

Mr. Canavan stated that staff would like to issue an RFI (Request for Information) to a select group of peoplefirms. He said the number of consulting firms with infrastructure expertise has been increasing, and there are a handful of firms he would be interested in interviewing in order to have a comparative database. This would be a fair review of the market for the committee.

Dr. Woodfin moved that the Investment Committee authorize staff to conduct a Request for Information search process for an infrastructure consultant, in accordance with the ERB's policies. Mr. Magid seconded the motion, which passed unanimously by voice vote.

5. OTHER INVESTMENT REPORTS AND DISCUSSIONS

Mr. Jacksha noted that the ERB's article was published in today's *Albuquerque Journal*. He said he thought it was a balanced article.

Mr. Jacksha agreed to post a link to the article on the ERB website.

Dr. Woodfin stated that there was an item in the current AARP Bulletin that asserts that the requirement that pension funds must aggressively attempt to recover overpayments is not an actual requirement by the IRS.

6. NEXT MEETING: THURSDAY, JULY 23, 2015

The committee agreed to schedule the meeting at 1:00 p.m.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 2:20 p.m.

Accepted by:

  
H. Russell Goff, Chairman