

**ACTION SUMMARY**

**INVESTMENT COMMITTEE**

**July 23, 2015**

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

**July 23, 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  
Mr. Larry Magid  
Dr. Beulah Woodfin

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Mark Canavan, Real Estate Portfolio Manager  
Mr. Steve Neel, Deputy CIO  
Mr. Alan Myers, Investment Financial Analyst  
Mr. Aaron Armstrong, Portfolio Manager

**Others Present:**

Mr. Kevin Tatlow, Top Tier  
Ms. Noi Spyrtatos, Caledon  
Mr. Asif Hussain, Caledon  
Mr. David Rogers, Caledon  
Mr. Scott Davies, RAPM  
Mr. Dan LeBeau, NEPC  
Ms. Charmaine Clair for 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. [Not present: Dr. Woodfin.]**

**c. Approval of Minutes: June 11, 2015**

Mr. Magid moved for approval of the June 11 minutes, as submitted. Ms. Cameron seconded the motion, which passed unanimously by voice vote. [Not present: Dr. Woodfin.]

**d. Introduction of Guests**

Sally Hubert, a member of the UNM Retiree Association, introduced herself to the Committee.

[Later in the meeting, Fred Rose, a member of the Board of Directors of the UNM Alumni Association, introduced himself to the Committee.]

**2. Q4 2014 PRIVATE EQUITY REPORT**

[Dr. Woodfin joined the proceedings during this presentation.]

Mr. Neel and Mr. Tatlow presented the Q4 2014 private equity performance report, with the following highlights:

- The portfolio experienced a positive Q4 return of 5.8 percent, versus a pooled average for the ILPA benchmark of 2 percent, and a one-year return of 17.9 percent versus a pooled average of about 10 percent.

- At year-end, the Plan had \$1.87 billion in net commitments to 51 private equity funds managed by 37 different managers.

- Since inception, the portfolio has had a 13+ percent net return, a new high watermark for the program, and has gained \$440 million in value.

Mr. Neel stated that about 9 percent of the portfolio has some exposure to natural resources, and the GPs with significant exposure are EIG, Ares, Pine Brook, and in the co-investment portfolio, there is a cap of 15 percent exposure in oil and gas. He said there has been approximately 10 percent write-down in Q4, particularly in upstream oil and gas investments, and some additional impact is anticipated going forward. He stressed that much of ERB's commitments are based on milestones, which is a capital efficient strategy; if a GP is not reaching milestones, the GP will cut the funding to the portfolio. This strategy "feeds the winners."

Regarding fees and expenses, Mr. Neel referred to a memorandum that the ERB sends out to the GPs, which includes (in Section 6), language regarding transparency around fees, expenses, operating partners, and other issues. He said the ERB does not enter into any meaningful discussions with a GP until they agree to this. In essence, the ERB is doing the job of the SEC in addressing the need for transparency.

Mr. Jacksha added that 13 state treasurers and comptrollers have joined together and written a letter to the SEC stating the SEC should be leading the charge and setting the standards on disclosure requirements.

### **3. STONEPEAK INFRASTRUCTURE FUND II – INFRASTRUCTURE**

Mark Canavan presented this report with Caledon consultants Asif Hussain, David Rogers and Noi Spyrtatos.

Mr. Canavan presented staff's recommendation of a \$50 million commitment to Stonepeak Infrastructure Fund II. The Fund is targeting \$2.5 billion of investor commitments and will focus on control positions in midmarket transactions in infrastructure assets, predominantly in the U.S. and Canada.

Mr. Canavan said this investment would represent a re-up to an existing fund relationship. Stonepeak Fund I closed in October 2012, and since that time, the team has delivered as promised on their investment strategy. In just under three years, the fund's total value is 1.6x on invested capital and the IRR (internal rate of return) is 50 percent. This return is artificially high because of a couple of investments that "popped" early in the cycle. The fund is expected to easily meet its expected return of 14-16 percent as measured by the IRR.

Dr. Woodfin expressed concern about personnel turnover at Stonepeak. She noted from Stonepeak's presentation materials that a lot of the personnel are junior members, and many are new, and there are statements of concern about whether or not the new hires can be effectively integrated into the culture of the firm. Since there are only about 20 people involved, which includes an administrative assistant and a receptionist, the concern is that conflicts in these areas could cause severe disruption.

Dr. Woodfin also noted that Stonepeak has six people listed as operating partners, but those individuals are not employees of Stonepeak. While the presentation states that more important information regarding that issue can be found toward the end of the presentation, she could not find any reference to it.

Mr. Jacksha responded that operating partners are fairly common with private equity and less common with infrastructure, but generally, they are outside people that will have a relationship with the fund in some sort of agreement, and will be inserted at the portfolio company level on a particular project based on their previous expertise.

Mr. Hussain stated that one of the two biggest areas of diligence for Caledon was team turnover, as there has been quite a bit at all levels. Caledon dug in and made a lot of reference calls and spoke to the people who left to try to understand the reasons behind this. It became apparent that, as Stonepeak matured and its AUM grew, they developed a better understanding of how recruitment works. Some of the reasons why people left were because of Stonepeak's very high expectation for performance that some people were not able to meet. For example, people were sourcing investments that were not appropriate for the fund. He said Caledon is comfortable that all of the departures were justified and that the culture of the firm has been maintained.

Senior Managing Director Trent Vichie and Investor Relations head Daniel Schmitz introduced themselves and made a presentation.

Mr. Vichie discussed team turnover and the reasons behind the removal of two principals in the firm.

[Representatives left the meeting.]

Mr. Jacksha said he likes this particular fund because Stonepeak secures and structures investments where the downside is well protected and returns are skewed to the upside. The experience of the senior managers is good, and he thought Messrs. Vichie and Schmitz had satisfactorily explained the turnover issue. They have obviously done very well in Fund I, and the co-investment fund is a nice side benefit.

Ms. Cameron moved that the Investment Committee approve a commitment of \$50 million to Stonepeak Infrastructure Fund II LP. 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, staff will be granted 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 provisions of the limited partnership agreement for this fund.

Dr. Woodfin seconded the motion, which passed unanimously by voice vote.

#### **4. Q1 2015 PROXY VOTING REPORT**

Mr. Jacksha stated that he would research exactly what a “classified director” is and would report back to Dr. Woodfin. He said generally it is a restriction on the stockholder’s right to vote an in and out director.

On another matter, Mr. Jacksha said he was reviewing the Investment Policy and noted that acceptance of the Proxy Voting Report is not actually required, although it has been the Committee’s practice to do so. He asked for guidance.

Ms. Cameron said she thought it was good practice and another way of showing transparency, and that the Committee should therefore continue doing it.

Dr. Woodfin moved that the Investment Committee accept the Proxy Voting Report. Ms. Cameron seconded the motion, which passed unanimously by voice vote.

#### **5. Q4 2014 REAL ESTATE AND NATURAL RESOURCES REPORT**

Mr. Canavan presented this report with RAPM consultant Scott Davies, with the following highlights:

-- As of December 31, 2014, the NAV of the real estate portfolio was \$761.2 million and for the Natural Resources portfolio was \$178.5 million.

-- Public Real Estate return in the current quarter is 14.33 percent; net IRR since inception is 13.59 percent.

-- Private Real Estate in the current quarter is 7.22 percent; net IRR since inception is 9.75 percent.

-- Natural Resources in the current quarter is -1.15 percent; net IRR since inception is 3.68 percent.

Mr. Canavan reviewed manager performance in the Natural Resources portfolio.

## **6. Q1 2015 COMMISSION REPORT**

[Informational.]

## **7. OTHER INVESTMENT REPORTS AND DISCUSSIONS**

-- Mr. Jacksha stated that the accounting was closed today, and June appears to be down about 1 percentage point for the fiscal year, for a total return of 4 percent for the fiscal year. Nearly everybody else is coming in at 2 percent or 3 percent, so the ERB's ranking is quite good, although it didn't hit 7.75 percent this time.

-- The ERB appeared before IPOC. Ms. Goodwin made a presentation on the experience study, and he did a presentation on fees.

Dr. Woodfin suggested that Mr. Jacksha develop a spreadsheet showing an actual investment and timeline for fees, distribution, return of fees, profit, etc. She said a graphic representation like this could be helpful for IPOC members.

Ms. Goodwin said her report on the experience study was fairly well received.

-- Mr. Jacksha asked if the Committee would like to look at other investment committee models. If so, NEPC could be asked to prepare a presentation on various models.

Chairman Goff said there was discussion of different models at the NEPC conference in January, and he thought this could be of interest to the Board.

Ms. Cameron suggested bringing this up at the August Board meeting as part of the discussion on when to hold the Board retreat.

## **8. NEXT MEETING: MONDAY, SEPTEMBER 21, 2015 AT 12:00**

The Committee agreed to hold its next meeting on September 21, followed by a Board retreat on September 22.

**ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 3:10 p.m.

Accepted by:

  
H. Russell Goff, Chairman

9/21/15