

ACTION SUMMARY

INVESTMENT COMMITTEE

March 22, 2018

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MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

March 22, 2018

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

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, Alternative Assets
Ms. Kay Chippeaux, Deputy CIO, Public Securities & Credit
Mr. G. Alan Myers, Public Securities & Debt Portfolio Manager
Mr. Aaron Armstrong, Portfolio Manager
Ms. Debbie O'Dell, Operations Supervisor

Others Present:

Mr. Allan Martin, NEPC
Mr. Reino Ecklord, NEPC [by telephone]
Mr. Steve Gruber, Hamilton Lane
Mr. Brent Burnett, Hamilton Lane [by telephone]
Mr. Kevin Tatlow, Top Tier
Ms. Charmaine Clair, Recorder [for Judith Beatty]

b. Approval of Agenda

Mr. Magid moved approval of the agenda, as published. Ms. Cameron seconded the motion, which passed unanimously.

c. Approval of Minutes: January 18, 2018

Mr. Magid moved approval of the December 7, 2017, minutes, as submitted. Ms. Cameron seconded the motion, which passed unanimously.

d. Introduction of Guests

Mr. Jacksha introduced Debbie O'Dell, who joined the NMERB this month as Operations Supervisor.

2. TAIGA FUND – OPPORTUNISTIC CREDIT

[Presenters: G. Alan Myers and Allan Martin, NEPC.]

Mr. Myers presented staff's recommendation of a \$50 million increase to the Taiga Special Opportunities Fund.

-- The Investment Committee approved a \$150 million commitment to the Taiga Fund in December 2016.

-- Orchard Global Asset Management (OGAM) sponsors Taiga as well as two other funds approved by the Investment Committee. The first investment was made in 2011 to the EleanTree Fund for \$200 million and the second was to the Black Forest Structured Lending Fund in 2014 for \$150 million. The total \$500 million invested with OGAM makes up about 6 percent of the opportunistic credit portfolio, which is 18 percent of the entire portfolio.

-- OGAM launched Taiga in July 2017 and has raised \$822 million to date. The fund is on track to raise \$2.5 billion. Of the initial commitments, OGAM has invested \$277 million in six deals with two more deals committed to another \$150 million. OGAM currently has a pipeline of approximately \$1.2 billion across 13 transactions in regulatory capital and \$800 million across 16 transactions in specialty lending.

-- Given the results of the NMERB's investment in the Orchard funds along with the current opportunity in the marketplace for both regulatory relief and specialty lending investments, staff believes this additional commitment will provide a positive enhancement to the opportunistic credit portfolio.

Mr. Ecklord noted that EleganTree and Black Forest, both drawdown-style funds, are entering their harvest periods. NMERB is looking to maintain its exposure to OGAM's strategies, and the Taiga Special Situations Fund, which will be their core all-weather strategy, combines the strategic focus of both of those funds.

Mr. Ecklord stated that there is a yield on a cash flow basis of 12 percent gross currently across all the deals in the Taiga fund, with an expected equity upside of 17 percent.

Mr. Martin asked Mr. Ecklord to discuss the fact that Europe trails the U.S. in terms of recovery, offering more opportunity in terms of profit growth, etc., but there is also a lot of negatives with respect to the European banks starting to tighten, which could slow down the recovery.

Mr. Ecklord commented that, apart from some of the rhetoric around global trade wars, there is probably more support of European growth than U.S. growth. Although there are more bumps in the road to recovery for Europe, there continue to be more opportunities on the lending side for banks as they are pressured on a capital basis to put out new loans but do not want to hold any of those risks on their balance sheets. This creates opportunities for managers like OGAM to partner with banks on deals or to help them alleviate the capital intensity on their balance sheets. On the global side, the bigger risk would be any sort of global credit default cycle or pickup in the global recession that could challenge some of the positions that they hold in the portfolio. NEPC is comfortable with the way OGAM structures these deals, however.

Mr. Jacksha said OGAM has done well for the NMERB over the years, they've delivered what they'd promised, and staff feels this is a very good investment.

Mr. Magid moved that the Investment Committee approve an additional commitment of \$50 million to Orchard Global Asset Management Taiga Fund 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, negotiation of final terms and conditions, and completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously.

3. RAM REALTY V – REAL ESTATE

[Presenters: Mark Canavan and Steve Gruber, Hamilton Lane]

Mr. Canavan presented staff's recommendation of a \$40 million investment in Ram Realty Partners V, LP.

-- Ram develops and redevelops apartments and retail in multiuse and mixed-use properties.

-- Ram is seeking to raise \$300 million with a hard cap of \$375 million. The prior funds were significantly smaller. The fund is targeting net returns of 13-16 percent with about 60 percent leverage on the portfolio, but up to 75 percent leverage on a single property.

-- NMERB staff sits on the firm's limited partnership advisory committee. Because of this, staff has been involved in site inspections in numerous cities as well as the firm's co-investments.

Mr. Canavan asked Mr. Gruber to highlight one of Ram's co-investments.

Mr. Gruber stated that, in Fund III, they co-invested in a mixed-use project, now called The Exchange on Erwin, near Duke University Medical Center. The building contains retail, two floors of residential condominiums, and two floors of offices leased to Duke Medical Center. Behind that building ~~is~~ are 250 units of "class A" multifamily apartments housing graduate-level university employees and medical center employees.

Mr. Gruber said another co-investment that included the NMERB consisted of three development properties, two in Florida and one in Durham, N.C., packaged into one investment. The NMERB's commitment of \$10 million was made when one of the properties was nearing completion, so this was a positive investment.

Responding to Ms. Goodwin, Mr. Gruber stated that, in working with Mr. Canavan on how to capture multifamily exposure across the U.S., they decided to pick two vertically integrated property specialists rather than going with a generalist covering all of the U.S. He said a national strategy usually involves working with operating partners and incurring an additional level of fees. By going with these two specialists, everything is done in-house and there is less gross-to-net spread in terms of performance.

Mr. Gruber said the two strategies are complementary. Saris Regis (next on the agenda) is targeting class-B (workforce) market opportunities in coastal Northern and Southern California as well as Seattle, Denver, Portland and Phoenix. Ram, on the other hand, is in low tax states and in job growth markets, including North Carolina, Florida, Tennessee and Atlanta.

Mr. Jacksha stated that the NMERB has ~~done~~ invested with this manager before, and they have delivered. Their strategy and the team are consistent, and this is a good, solid investment.

Mr. Magid moved that the Investment Committee approve a commitment of \$40 million to Ram Realty V L.P. for the Real Estate 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. Ms. Cameron seconded the motion, which passed unanimously.

4. SARES REGIS III – REAL ESTATE

[Presenters: Mark Canavan and Steve Gruber, Hamilton Lane]

Mr. Canavan presented staff's recommendation of a \$30 million commitment to Sares Regis Multi-Family Value-Add Fund III, L.P. ("SRG").

-- The NMERB invested in SRG's Fund I in 2013 and Fund II in 2015. As of December 2017, Fund I is mostly liquidated with three assets remaining and Fund II is approximately 80 percent committed to 12 apartment properties. SRG is targeting \$400 million in Fund III.

-- Maximum leverage on the fund is 65 percent.

-- Fund I is tracking at a 16.8 percent net return. Fund II is still too young to generate very meaningful results.

Mr. Gruber said the NMERB hasis co-invested in Fund I and Fund II investments. In Fund I, the co-investment was in a multifamily project. That property has been distributing 10 percent cash on cash since purchase, and is currently on the market. In Fund II, the co-investment is in an interurban 4-5-story apartment complex to the north of the University of Seattle.

Mr. Gruber said SRG has had a strong track record for New Mexico over the last six years. They have attractive fundamentals in the markets in which they're operating along the West Coast. The team has largely been the same, but they have been adding to it selectively to build out on the asset management and acquisition sides. Their terms are also very attractive.

Mr. Jacksha said NMERB has invested with this manager in two other funds. The strategies remain the same and are complementary to those in Ram Realty, and this manager has delivered in the two prior funds. He recommended approval.

Mr. Magid moved that the Investment Committee approve a commitment of \$30 million to Sares Regis Multi-Family Value-Add Fund III L.P. for the Real Estate 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. Ms. Cameron seconded the motion, which passed unanimously.

[Agenda was reprioritized.]

6. AE INDUSTRIAL FUND II – PRIVATE EQUITY

[Presenter: Steve Neel and Kevin Tatlow, Top Tier.]

Mr. Neel presented staff's recommendation of a \$60 million commitment to AE Industrial Partners Fund II ("AE"). Fund II will focus on buyout and growth equity investments in markets dominated by large industrial machinery, including segments of aerospace, power generation and specialty industrial markets.

-- Fund I, in which the NMERB is invested, is showing a net IRR of 30+ percent.

-- The NMERB made three separate co-investments in Fund I portfolio companies. The first is returning an 18 percent net IRR, the second is returning a 45 percent net IRR, and the third, the newest investment, is current held at cost.

-- The team has deep domain experience with pedigrees that include Gulfstream Aerospace, Boeing, General Electric and Pratt & Whitney.

-- AE will primarily target U.S. middle market companies in specialized manufacturing, distribution and supply chain management, maintenance, repair and overhaul, and industrial service business with the target markets of aerospace and defense, power generation, and specialty industrial markets.

-- AE is a buy-and-build strategy. They will target established businesses with strong perceived growth potential that provide value-added products and services.

-- The current portfolio has seven platforms with 11 add-on acquisitions. AE's opportunity set represents ~~has over 4,000 companies that are that represent the tier 3, 4 and 5 suppliers to the major aviation manufacturers.~~

Mr. Tatlow said the merits of AE are their domain expertise and networks in the industry. He said they have a lot of operating partners with a lot of experience along with many friends in the industry, which gives them good proprietary deal flow.

Mr. Tatlow said AE is targeting \$1 billion with a hard cap of \$1.25 billion for this fund. ~~While~~ Since the target fund size is larger than the prior fund, which was \$650 million, there is the possibility that there will be fewer co-investment opportunities. He added that this group has been investing at a pace of \$300 million a year, however, and their pace of investment and deal size is not changing very much.

Mr. Tatlow noted that David Rowe and Michael Greene are no longer named individually as key men, as they were in the prior fund, and now it would take both to leave to trigger such

| a provision. He said this is a fair adjustment, particularly given the size of the team they built out in the first fund.

Mr. Jacksha commented that this is one of the NMERB's better-performing private equity funds.

Mr. Magid moved that the Investment Committee approve a commitment of \$60 million to AE Industrial Partners Fund II, L.P. for the Private Equity 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. Ms. Cameron seconded the motion, which passed unanimously.

[Break.]

5. EUROPEAN PE SEPARATE ACCOUNT – PRIVATE EQUITY

[Presenters: Steve Neel and Kevin Tatlow, Top Tier]

Mr. Neel presented staff's recommendation of a \$100 million commitment to SL Capital Partners ("SL" or "Standard Life"), the private equity division of Aberdeen Standard Investments, to manage a European focused separate account ("SMA").

-- SL Capital Partners ("SL" or "Standard Life") is the private equity division of Aberdeen Standard Investments. Standard Life is now a subsidiary of Aberdeen Standard Investments and has offered European focused private equity fund of funds and separate accounts since 1999.

-- The SMA will provide broad exposure to buyout opportunities in the European middle market and lower middle market through fund commitments, secondary fund interests and co-investments.

-- This commitment fits into the 2018-19 Private Equity Strategic Plan, which recommends an allocation to European focused strategies.

Mr. Neel noted that the NMERB's European exposure is limited to two buyout commitments (Bridgepoint Europe IV and Lion Capital Fund II) made in 2007, which was before the global financial crisis. Bridgepoint has performed near median, while the commitment to Lion Capital has underperformed, one of the very few funds that have lost money in the private equity portfolio. He stressed that those were the first and only European solely directed commitments in the private equity portfolio, and the NMERB has not done a European commitment since then.

Mr. Neel said the \$100 million separate account will be broken into thirds (co-investments, primaries and secondaries).

Mr. Tatlow stated that SL has been managing money since before 2000; they have the longest track record among their peers in doing co-investments and secondaries in conjunction with separate accounts. He said this group has been the most transparent since the beginning. Top Tier has seen their pipeline and knows what they are targeting over the next couple of years.

Standard Life Aberdeen partners and investment directors Mark Nicolson and Stewart Hay introduced themselves and made a presentation.

Mr. Hay stated that Aberdeen Standard Investments managed \$753 billion across 80 countries and more than \$22 billion across private equity, infrastructure, strategic credit, venture capital, and real assets, with \$17 billion under management in private equity (primaries, secondaries and co-investments).

Mr. Martin asked Aberdeen to elaborate on their commitment to ESG (environmental, social and government concerns). Mr. Nicolson said they are committed to being a socially responsible investor, and have an award-winning SRI program that has also been given the UN PRI's top rating of A+. He said they have adapted this approach to ESG for private equity, and ESG is an integral part of their investment process.

[Representatives left the meeting.]

Mr. Jacksha commented that Mr. Neel and Mr. Tatlow ran a very good process in sorting through the options for the European providers and came up with three good finalists. He said he was in favor of their conclusion.

Mr. Neel said they have worked on this for more than 18 months and were very happy with their final recommendation.

Mr. Magid moved that the Investment Committee approve a commitment of \$100 million to NMERB European Separate Account, L.P. for the Private Equity 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. Ms. Cameron seconded the motion, which passed unanimously.

7. FIVE POINT CAPITAL PARTNERS FUND III – PRIVATE EQUITY

[Presenters: Steve Neel, Kevin Tatlow, Top Tier, and (on phone) Brent Burnett, Hamilton Lane]

Mr. Tatlow stated that the NMERB recently approved a \$50 million commitment to Five Point Capital Midstream Fund III for the natural resources portfolio. NMERB staff asked Top Tier to provide an opinion as to whether the fund is an appropriate investment for the energy private equity portfolio, but asked Top Tier to refrain from performing full due diligence on the fund given that it had already done that for RAPM four months ago. Mr. Tatlow said Top Tier believes a \$20 million commitment to this fund is a good fit for the energy allocation in the private equity portfolio.

Mr. Neel stated that this \$20 million commitment would be the last available capacity in the fund.

Mr. Neel said the co-investments in this fund have done extremely well. One is at a 20 percent net IRR, another is at 195 percent and the last one is held at cost because it is a new commitment.

Mr. Neel stated that Five Point is technically in the energy infrastructure space, but the water element distinguishes them among their peers. He noted that for every barrel of oil produced in the Permian Basin, six barrels of water are required. He commented that this is an area that has been under-invested in the midstream space, adding that there is a bit of an eco-friendly element to this, which is very nice. He said their second midstream fund had a couple of water investments and those have done very well.

-- The increase in fund size over the last fund is modest, at \$750 million. The investments are relatively modest in size and returns are driven by driving growth across the organization, which is a good structure.

-- With respect to risk mitigation, there is relatively low leverage, they highly structure their transactions with counterparties, off-take agreements, etc., and they are generally a control investor. When in a minority position, they extract negative control rights.

Mr. Burnett said this is a group and a strategy that he would characterize as one of their highest conviction general partners in the energy space because NMERB has invested in both of their funds, and has done three co-investments with them. He commented that they have been impressed each time they have done those deals with them because, whereas most general partners talk about proprietary deal flow and the ability to disproportionately structure upside versus downside, RAPM has actually seen Five Point do this multiple times.

Mr. Burnett said the team is unique because of their very strong and well-rounded skillset in the finance, operations and geotechnical areas, which are all of the things that are critical to success in the midstream space.

Mr. Burnett stated that they have had a very successful fundraise and they have been very disciplined at keeping the fund capped at \$750 million, although they could have easily raised twice that amount.

Mr. Neel noted that Mark Canavan is on the advisory committee.

Mr. Jacksha commented that this manager has done well for the NMERB, and he had no issues with putting them in two ~~buckets~~allocations. He recommended approval.

Mr. Magid moved that the Investment Committee approve a commitment of \$20 million to Five Point Capital Midstream Fund III, L.P. for the Private Equity 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. Ms. Cameron seconded the motion, which passed unanimously.

8. OTHER REPORTS AND DISCUSSION

Mr. Jacksha stated that February returns are expected to be negative.

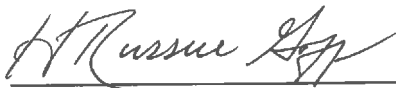
9. NEXT MEETING: THURSDAY, April 19, 2018

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

ADJOURN

Its business completed, the committee adjourned the meeting at 3:30 p.m.

Accepted by:



H. Russell Goff, Chairman