ACTION SUMMARY

INVESTMENT COMMITTEE

June 28, 2018

Item	Action	Page #
APPROVAL OF AGENDA	Approved	2
APPROVAL OF MINUTES April 19, 2018	Approved	2
OGAM OLEA FUND	$100 million commitment	3
TPG REAL ESTATE PARTNERS III	$50 million commitment	5
INVESTMENT POLICY STATEMENT REV.	Recommended approval	6
BURGISS AND QED CONTRACTS	Approved/approved	6
Q4 2017 REAL ESTATE AND NATURAL RESOURCES REPORT	Informational	7

MINUTES OF THE

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INVESTMENT COMMITTEE

June 28, 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
Mr. Larry Magid

Members Excused:
Ms. Mary Lou Cameron

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
Mr. Aaron Armstrong, Portfolio Manager
Ms. Debbie O'Dell, Operations Supervisor

Others Present:
Mr. Allan Martin, NEPC
Mr. Reino Ecklord, NEPC (on phone)
Mr. Steve Gruber, Hamilton Lane (on phone)
Ms. Charmaine Clair, for Judith Beatty, Recorder

b. Approval of Agenda

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

c. Approval of Minutes: April 19, 2018

Mr. Magid moved approval of the April 19 minutes, as submitted. Mr. Goff seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed staff.

2. OGAM OLEA FUND – DIVERSIFYING ASSETS

[Presenters: Steve Neel; Allan Martin, NEPC; Reino Ecklord, NEPC (on phone)]

Mr. Neel presented staff's recommendation of a $125 million commitment to the Orchard Global Asset Management Olea strategy.

-- NMERB has a long relationship with OGAM, dating back to 2012, and has in excess of $500 million committed to three of Orchard's products: EleganTree ($200 million, returning 11 percent net and 14 percent gross); Black Forest ($150 million, returning 9.2 percent net and 12.2 percent gross); and Taiga Special Opportunities Fund ($200 million, returning 17.5 percent net and 22 percent gross).

-- The common theme that flows from Orchard's history is its engagement in the banking system, specifically with regulatory relief trades. One of its principals, Paul Horvath, previously worked at the Federal Reserve Board and was global head of structured product with JP Morgan. Many of the team members for this product have had stints at UBS and Deutsch Bank, both early adopters of the regulatory relief trade.

-- Orchard has deep credit domain expertise; today, there are 30 global employees dedicated to investments or credit research. They are headquartered in London with offices in Singapore, Toronto, Houston, and Washington, D.C.

-- Orchard is implementing two strategies underpinned by CDS (Credit Default Swap) trading, combining an evergreen trading opportunity (Liquid Credit Strategy) with a more targeted, opportunistic approach (Olea Special Opportunities).

-- The Liquid Credit Strategy is a CDS index tranche trading strategy aimed at capturing a yield premium through a long/short hedged approach. The strategy will buy first-loss CDS index tranches (selling default protection), capturing an insurance premium, while hedging against interest rate/spread movements and individual-name default risks.

-- The Olea Special Opportunities Fund is aiming to capitalize on the increased regulatory pressure faced by banks by partnering on risk-transfer trades specific to banks' CDS exposure.

Mr. Ecklord discussed the opportunity set underpinning both of the split-mandate vehicles.

Mr. Martin added that the liquid strategy is an arbitrage strategy, involving many smaller bets, so the returns are not as high. He said this is ideally situated in the diversified strategies bucket. The second strategy is working with large banks, and almost creating a clearinghouse where the more banks they are working with, the more opportunities to do the trades. This is a new product for them, and the NMERB is an initial funder, but there is also a little bit of risk that they are successful in raising enough money to have the critical mass down the road to do the larger transactions on a diversified basis. NEPC is fully supportive of the strategic concept, but the committee's approval will be subject to staff negotiating satisfactory resolutions to fees and so forth.

Mr. Martin noted that NEPC in the past has told the NMERB a manager is "preferred" (FPL), "neutral," or "don't invest, ever." NEPC has recently changed the rating system, so it is now 1 to 5, with 1 being a "preferred" and a "3" (the rating given the Olea Special Opportunities strategy) being "neutral." The difference between the two is that, in a preferred, NEPC has had ample time to document the product and deem it suitable for all clients. "Neutral" means they haven't had all the time to go to the depth they would like to in order to raise the rating to preferred, but they still support the recommendation subject to some identified concerns. In this instance, they are things like key man risk and fees, all of which NEPC feels can be successfully mitigated through negotiation.

Chair Goff asked Mr. Neel to discuss the fact that there are a large number of new hires on the team. Mr. Neel said the team is new, but there are many members who have worked together for a few years.

Orchard representatives Paul Horvath, Afif Baccouche and Michael Hidalgo appeared before the committee and made a presentation.

[Representatives left the meeting.]

Mr. Jacksha said that the recommended commitment right now is up to $125 million, but staff may come back later with an additional allocation request on the credit side. He added that the amount to be allocated to each fund from today's commitment will be solidified once negotiations are complete.

Mr. Neel discussed why staff likes the strategy. He commented that there are times when transactions are conducted with non-economic actors, and in various circumstances the banks are non-economic actors, which is a great situation to be in. It provides a unique context for this opportunity.

Mr. Neel added that this is an extension of what Orchard has already been doing. Staff likes to see a manager in a specialized space and where they have domain expertise. He said Orchard is a relatively early mover in the opportunity set, and there are real barriers to entry here. In addition, he liked the long/short strategy.

On the subject of potential competitors in this space, Mr. Jacksha commented that eventually someone will come in and develop the expertise once they begin to see high returns. He said some hedge funds might be doing this on a relatively small scale right now, but there is not much competition at this point.

Mr. Neel said the investment period is relatively short, and the fund will be deployed in the near term.

Mr. Magid moved that the Investment Committee approve a commitment of up to $125 million split between OGAM's Liquid Credit and Olea Special Opportunities Fund for the Diversifying Assets 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. Chair Goff seconded the motion, which passed unanimously.

3. TPG REAL ESTATE PARTNERS III – REAL ESTATE

[Presenters: Mark Canavan and Steve Gruber (on phone)]

Mr. Canavan presented staff's recommendation for a $50 million commitment to TPG Real Estate Partners III. The offering is oversubscribed, however, with only $40 million currently available, but that could be potentially increased to $50 million.

-- In 2012, NMERB committed to TPG Growth Fund II, a private equity fund. Since that time, there have been three additional investments, two in TPG equity growth funds, and one in TPG's Rise Fund, for a total of $300 million in commitments. Performance in these predecessor funds has been positive with a reported gross IRR of 38.6 percent for Fund II and 25.3 percent for Fund 1, as of 9/30/17.

-- TPG's performance has been at or above expectations. Staff considers TPG to be one of its high conviction investments.

Mr. Jacksha noted that, on the private equity side, TPG's last fund is the NMERB's biggest commitment to a manager other than to a co-investment fund, at $100 million, plus $25 million to the Rise Fund.

-- TPG Real Estate III is targeting 15 to 20 real-estate-rich operating companies that are located primarily in the U.S., the UK, and Western and Central Europe, while utilizing up to 75 percent leverage, although they have never exceeded 50 percent.

TPG representatives Kelvin Davis (Founder and Co-Head), Erin Dobbs and Charles Froeb appeared before the committee and made a presentation.

[Representatives left the meeting.]

Mr. Canavan commented that he was very impressed in meeting this team, buying in situations using low leverage, focusing on net operating income and cash-on-cash returns, in defensive sectors such as senior housing and self-storage. He finds their level of understanding of the markets to be very compelling.

Mr. Jacksha said NMERB has had a relationship with TPG for a while, and he has a great deal of respect for the organization. He said this looks like an attractive opportunity.

Mr. Magid moved that the Investment Committee approve a commitment of $50 million to TPG Real Estate Partners Fund III 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. Chair Goff seconded the motion, which passed unanimously.

[Break.]

4. INVESTMENT POLICY STATEMENT REVISION

Mr. Jacksha reviewed changes to the Investment Policy Statement, which would go to the board for final review and approval on August 24.

-- Page 3, under Sudan policy restrictions, the name of the service provider was changed to EIRIS Conflict Risk Network.

-- Page 3, under Investment Committee, asset allocation reviews must occur at least every three years instead of two years.

-- Page 3, Investment Division staff will be required to pass a self-administered ethics exam every two years instead of periodically.

-- Page 8, under Public Equities, Domestic Equity, it previously said the NMERB believes the large cap market is efficient but the smaller cap market is inefficient, so for small and midcap would have active managers. It now states that the midcap market is efficient as well, and it has been indexed.

Mr. Magid moved that the Investment Committee recommend the board approve the changes to the Investment Policy Statement. Chair Goff seconded the motion, which passed unanimously.

5. BURGISS AND QED CONTRACTS

[Presenters: Steve Neel and Debbie O'Dell]

a. Burgiss Contract

Mr. Neel said staff was recommending that the NMERB extend the existing master service agreement for the Burgiss Private i® software system and add the Advanced Analytics program. This portfolio management system simplifies the process of capturing cash flows and capital account balances and allows investors to report on and analyze private market portfolios. The vendor specifically designated Private i® for investments in alternative assets such as private equity, real estate, infrastructure and natural resource funds.

Mr. Neel requested an extension of up to four years and to add an additional module (Advanced Analytics Toolpak), which allows staff to do private market equivalence calculations, which is currently being done through Bloomberg and spreadsheets. Staff estimates the 2018 expense to be $73,440, the 2019 expenses to be $77,520, and the 2020 expenses to be $81,600.

Mr. Magid moved that the Investment Committee authorize the continuation of the Burgiss contract with the addition of the Advanced Analytics Toolpak for up to four years subject to, and contingent upon, New Mexico State Law and Educational Retirement Board policies. Chair Goff seconded the motion, which passed unanimously.

b. QED Contract

Ms. O'Dell requested approval of a contract extension for the Broadridge/QED accounting system for up to four years with the ability to cancel the contract within 90 days. The NMERB uses QED to track transactions for the internally managed accounts. The base fee is $103,817, with an increase of 5 percent each year above the prior year. For 2017 it was $138,865.07, and the approximate fee for 2018 will be $145,808.32 with an increase of 5 percent next year.

Mr. Magid moved that the Investment Committee approve renewal of a service agreement with QED for the license to utilize the application software for a period of (4) years with the option for either party (Broadridge or NMERB) to cancel the service with 90 days' notice, subject to, and contingent upon, New Mexico State Law, Educational Retirement Board policies, negotiation of the final terms and conditions, and completion of appropriate paperwork. Chair Goff seconded the motion, which passed unanimously.

6. Q4 2017 REAL ESTATE AND NATURAL RESOURCES REPORT

[Presenter: Mark Canavan.]

Mr. Canavan reviewed the Hamilton Lane Q4 2017 Real Estate and Natural Resources Report as of 12/31/2017.

-- There were 51 active partnerships and 30 active GP relationships.

-- Total committed capital was $2.091 billion and the multiple of invested capital was 1.38x.

-- Total portfolio net IRR: 11.55 percent, an increase of 12 basis points over Q3.

-- For the 12 months, the NMERB did four Natural Resources transactions (two in energy, one in agriculture and one in water) and one in Real Estate (private real estate).

-- Since inception, net IRR in Real Estate (including REITs) is 12 percent; net IRR in Natural Resources is 7.9 percent.

7. OTHER REPORTS AND DISCUSSION

None.

8. NEXT MEETING: THURSDAY, July 19, 2018

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 3:55 p.m.

Accepted by:

H. Russell Goff, Chairman