

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

October 18, 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 1:05 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

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 Markets & Credit
Mr. G. Alan Myers, Public Securities & Debt Portfolio Manager
Mr. Pete Werner, Fixed Income Portfolio Manager
Ms. Monica Lujan, Member Services Director

Others Present:

Mr. Oliver Fadly, NEPC [by telephone]

b. Approval of Agenda

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

c. Approval of Minutes: September 21, 2018

Mr. Magid moved approval of the September 21, 2018, minutes, as submitted. Ms. Cameron seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed staff.

2. RIVERSTONE – OPPORTUNISTIC CREDIT

[Presenters: Pete Werner and Alan Myers]

Mr. Werner presented staff's recommendation for a \$100 million commitment to Riverstone Credit Partners (RCP) II Fund for the opportunistic credit portfolio.

Mr. Werner said Kay Chippeaux asked staff in April to begin due diligence on an energy-specific fund within the credit space that focused on direct lending. Staff looked at a half dozen different firms with a goal toward adding exposure to the various energy sectors and sub sectors from the lending side.

Mr. Werner said Riverstone is focused on private equity and credit within the energy and power sectors, and over the last 18 years has committed roughly \$39 billion in capital to various investments. They have done well, and in 2014, they decided to extend their investment focus to include direct lending with Riverstone Credit Partners, which is headed up by Chris Abbate and Jamie Brodsky, seasoned professionals in leveraged financing.

Mr. Werner noted that banks have historically been more reluctant to lend to small energy companies than to other industries for a variety of reasons, including regulatory restrictions and the volatility in commodities. Typically, smaller growing energy companies lose access to commercial bank credit before they are able to access the credit markets, IPOs and bond issues. He said this "wedge market" presents interesting and unique investment opportunities, which is River stone's focus. He said these companies are in this wedge space for a period of about 18 to 36 months, so these are relatively short maturity loans that have incentives built in for these companies to pay back the loans as quickly as possible.

Mr. Werner said staff chose Riverstone based on four factors:

- The investment gives the ERB exposure to energy lending in a wedge market that staff finds very attractive;
- The loans in this fund are of very short maturity, so there is little risk of them extending past the next energy cycle and being subject to volatility;
- The loans are high quality, generally first liens, with favorable covenants; and

-- The management team is well supported by the equity team, which has been in business for 18 years.

Mr. Myers discussed Riverstone's strategy. He added that they are diversified geographically, and this will broaden the ERB's North American exposure to direct lending and energy, noting that the ERB has limited exposure to energy in the opportunistic credit portfolio. This is also an opportunity to add the co-investment vehicle to the portfolio, which has no fees and no carry.

Mr. Fadly reviewed NEPC's history with Riverstone and the due diligence process. He said this is a unique strategy that offers an opportunity that is an added benefit for NEPC's clients, adding that credit markets are very heated right now and there is a lot of money chasing bad deals, driven by inexperienced managers. NEPC has a lot of conviction in Riverstone, which has always been very transparent and responsive with them.

Christopher Abbate and Jamie Brodsky, co-heads of Riverstone Credit Partners, and Angela Cantu, Investor Relations, introduced themselves and made a presentation.

Responding to a question from Ms. Goodwin about what efforts Riverstone is making to improve the diversity of the team, Mr. Brodsky stated that Meghan Pasricha, a member of the RCP team, is co-heading an initiative around some female hiring, including visiting schools to try to attract women into the energy sector. As a firm, Riverstone is keenly focused on "making the mix look more like the real world."

[Representatives left the meeting.]

Mr. Jacksha said he found this an interesting niche and strategy, and recommended approval.

Mr. Magid moved that the Investment Committee approve a commitment of \$100 million to be split between Riverstone Credit Partners II, L.P., and to the extent applicable, to the co-investment fund, Riverstone Credit Partners II (NEPC) 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 and negotiation of final terms and conditions, and completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously.

3. Q3 2018 PROXY VOTING REPORT

Ms. Cameron moved to accept the Q3 Proxy Voting Report. Mr. Magid seconded the motion, which passed unanimously.

4. Q2 2018 INFRASTRUCTURE REPORT

[Presenters: Mark Canavan and Caledon advisor Noi Spyrtos, who was on the phone]

Mr. Canavan presented highlights from the infrastructure report:

- Portfolio fair value: \$401.5 million
- Unfunded commitments: \$230 million
- Total number of fund investments: 11
- Total number of direct investments: 16
- Net IRR since inception: 6.2 percent.

Mr. Canavan and Ms. Spyrtos reviewed the status of individual investments in the portfolio.

5. Q3 2018 COMMISSION REPORTS

[Informational.]

6. OTHER REPORTS AND DISCUSSION

Ms. Chippeaux reported that, with respect to the committee's approval of a \$100 million commitment to Brevet Direct Lending Intermediate Duration Fund at the August meeting, the ERB made a decision not to proceed with this investment after some pending litigation was recently disclosed.

Mr. Jacksha stated that committee members were sent a brief revision to the Investment Policy Statement regarding the Sudan divestment, and this would go to the board for final approval at its meeting tomorrow.

Mr. Jacksha said a guestimate for September is that the fund was down 10 basis points.

Mr. Jacksha said staff will be meeting with XTP later today. Representatives will discuss ways they can help save on expenses and fees.

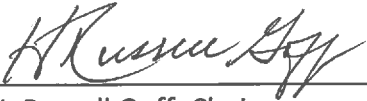
7. NEXT MEETING: THURSDAY, DECEMBER 6, 2018

[The November Investment Committee meeting was canceled.]

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 2:45 p.m.

Accepted by:

A handwritten signature in cursive script, appearing to read "H. Russell Goff", written in black ink.

H. Russell Goff, Chairman

