

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

**November 7, 2019**

**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. at the Educational Retirement Board, Suite A-319, 8500 Menaul Boulevard, N.E., 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. Rod Ventura, Deputy Director  
Mr. Bob Jacksha, CIO  
Mr. Steve Neel, Deputy CIO, Alternative Assets  
Mr. Mark Canavan, Real Estate & Real Assets Portfolio Manager

**Others Present:**

Mr. Sean Gill, NEPC  
Mr. Dave Rogers, CBRE Caledon  
Mr. Adam Wylychenko, CBRE Caledon  
Ms. Judith Beatty, Recorder

**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: October 17, 2019**

Mr. Magid moved approval of the October 17 minutes, as submitted. Ms. Cameron seconded the motion, which passed unanimously.

d. **Introduction of Guests**

Chairman Goff welcomed guests and staff.

2. **AE INDUSTRIAL AEROSPACE AGGREGATOR -- DIVERSIFYING ASSETS**

[Presenters: Steve Neel and CBRE Caledon consultants Dave Rogers and Adam Wylychenko]

Mr. Neel stated that he would be asking the committee to approve two commitments in the Other Diversifying Assets category, each for \$150 million. The first is to AE Industrial Aerospace Aggregator (AEIAA). He said the ERB reached out to AE Industrial and asked them to customize a product for the ERB that would give it high quality exposure in the aviation space, an area in which CBRE Caledon has a long history.

Mr. Neel stated that AEIAA has five legs to their platform: commercial aviation leases; aircraft engine leasing; credit solutions; general aviation; and co-investment. He said this would be an evergreen vehicle, where the ERB, as seed investor, would have the option of moving performing assets into subsequent tranches rather than having to sell them.

Mr. Wylychenko commented that this is a sophisticated approach to a new asset class for the portfolio, similar to an all-weather strategy, with different investment types in the five different buckets, each having different risk-return characteristics and so on. He said many longer-term aircraft leases are intended to be 10-15 years or longer, and most fund structures require selling at some point along the way, which would not be the case with an evergreen structure.

Mr. Wylychenko said CBRE Caledon has assessed the team and their capability to build out this platform. Ultimately, this will be a well built-out platform by a team that is very experienced in the broader space.

Mr. Rogers pointed out that private equity is very competitive with many funds that are all about asset accumulation. He credited Mr. Neel for building a great relationship with AE that helped facilitate this unique approach for the ERB.

Ms. Cameron asked if recent problems in connection with airplane maintenance would have any impact in terms of liability. Mr. Neel responded that AE Industrial owns

the largest maintenance repair base in South Florida, which has turned into a real ecosystem for aviation. He said the fact that they are managing the parts and the engines, etc., should be viewed as a positive for this organization.

AE Industrial representatives David Rowe and Marc Baliotti appeared before the committee and made a presentation.

Chairman Goff asked how AEI addresses potential liability issues with respect to engine maintenance. Mr. Rowe responded that an engine lease includes a lease rate factor charge, which is based on fair market value, in addition to an airplane maintenance reserve, which is collected for every hour that an engine is on wing and utilized. The reserve will be supportive of the engine when it goes into the overhaul shop, so there is minimal downside. In terms of liability, there is operating insurance that the airline has to carry along with hangar insurance, and AEI would be identified as additional insured under the operating insurance policy. He said the major liability really lies with the operating company and maintenance company, and not the lessor.

[Representatives left the room.]

Mr. Neel said Investment staff has been looking at aviation for a year, and he really appreciated the amount of work done in looking at the market and analyzing the final product. He commented that he was very innovative structure, very creative, and would fit very well in Diversifying Assets.

Mr. Jacksha complimented Mr. Neel and Caledon on their work. He feels this was structured the right way by taking a broad approach that takes advantage of AEI's capabilities. Another good feature is that the ERB will be able to hold onto assets that are doing well rather than have to sell them.

**Mr. Magid moved that the Investment Committee approve a commitment of \$150 million to AE Industrial Aerospace Aggregator 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 completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously.**

### **3. CLOVERLAY/NMERB CO-INVESTMENT SMA – DIVERSIFYING ASSETS**

[Presenters: Steve Neel and NEPC consultant Sean Gill.]

Mr. Neel reviewed staff's recommendation of a \$150 million to Cloverlay, which would be a Separately Managed Account in the Other Diversifying Asset class. This allocation targets investment strategies providing positive return exposures generally not found elsewhere in the portfolio. Strategies identified by the ERB in this asset class

include asset leasing (e.g., aircraft); CTA strategies or other strategies driven by commodity exposures; life settlements; litigation finance; long volatility strategies; re-insurance; royalty streams; and trade finance.

With respect to Cloverlay, Mr. Neel commented that the ERB does not have a universe of 50 to choose from, because these are highly specialized groups, but the ERB met with and interviewed four separate organizations and went on site with three of them.

Mr. Neel said the Cloverlay team is a spinout of the old Morgan Stanley team in Philadelphia, and executes their strategy through adjacent markets. While this is a relatively small firm that is only three or four years old, it is important to note that their lineage is through Morgan Stanley.

Mr. Gill commented that they were looking for groups that could take deal flow from the ERB's existing portfolio. What stood out about Cloverlay is that they will do asset deals or company deals, i.e., an amalgamation of people they will put together for an investment, as well as traditional co-investment and some fund investment. While Cloverlay is a young firm, they significantly capitalized themselves at their inception, including taking on less traditional outside capital providers such as technology executives. This allowed them to hire staff and continue to do deals while building up the new organization.

Cloverlay managing partner Jeff Collins introduced himself to the committee and made a presentation.

[Mr. Collins left the meeting.]

Mr. Neel discussed some of the reference calls made by staff and NEPC. He said the list was extensive.

Mr. Jacksha recommended approval. He said this commitment is a good fit for the Other Diversifying Assets portfolio.

**Mr. Magid moved that the Investment Committee approve a commitment of \$150 million to Cloverlay Co-Investment SMA. The commitment is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents, and completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously.**

#### **4. CBRE/CALEDON CONTRACT RENEWAL – INFRASTRUCTURE**

[Presenter: Mark Canavan.]

Mr. Canavan stated that ERB staff is recommending renewal of the Caledon professional services agreement for infrastructure consulting services on substantially the same terms and conditions as the prior contract, for a term of four years, effective October 22, 2019.

Mr. Jacksha explained that the delay in bringing this renewal forward was due to staff turnover in the Operations group, whose duties include keeping track of when contracts come due.

Mr. Canavan stated that Caledon has grown from eight employees to 50, three clients to 22, and from no U.S.-based clients to four, which includes the ERB. Caledon has exhibited high levels of creativity and responsiveness to ERB and its staff, as well as a forthright and supportive nature across ERB departments.

**Ms. Cameron moved that the Investment Committee approve an extension on the CBRE/Caledon Infrastructure contract for a period of four years, effective October 22, 2019. This approval is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents, and completion of appropriate paperwork. Mr. Magid seconded the motion, which passed unanimously.**

**5. Q3 PROXY VOTING REPORT**

Mr. Magid moved to accept this report. Ms. Cameron seconded the motion, which passed unanimously.

**6. Q3 COMMISSION REPORTS**

[Informational.]

**7. OTHER REPORTS AND DISCUSSION**

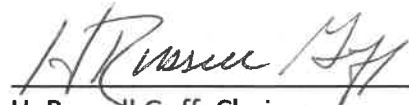
Mr. Jacksha reported a 1 percent FYTD return for September, and an estimated 1.2 percent for the quarter.

**8. NEXT MEETING: DECEMBER 6, 2019**

The meeting was scheduled for 8:45 a.m. in the ERB offices, 4th floor, immediately preceding the Board of Trustees meeting at 9:00 a.m.

**ADJOURN**

The meeting adjourned at 2:45 p.m.

A handwritten signature in cursive script, appearing to read "H. Russell Goff", is written above a horizontal line.

H. Russell Goff, Chairman