

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

April 18, 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 12:05 p.m. in the Educational Retirement Board offices, Suite A-450, 8500 Menaul Boulevard, N.E., 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. Steve Neel, Deputy CIO, Alternative Assets
Mr. Ian Oldham, Portfolio Manager
Mr. Mark Canavan, Real Estate and Real Assets Portfolio Manager
Mr. Aaron Armstrong, Portfolio Manager
Mr. G. Alan Myers, Public Securities & Credit Portfolio Manager

Others Present:

Mr. Steve Gruber, Hamilton Lane [by telephone]
Mr. Allan Martin, NEPC
Mr. Mike Miranda, NEPC [by telephone]
Ms. Noi Spyrtatos, Caledon
Mr. Asif Hussain, Caledon
Mr. Kevin Tatlow, Top Tier
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: March 21, 2019

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

d. Introduction of Guests

Chairman Goff welcomed staff and consultants.

2. **MANAGER SELECTION FOR NON-US DEVELOPED MARKETS EQUITY MANDATE**

[Presenters: Alan Myers, and NEPC consultants Allan Martin and Mike Miranda]

Mr. Myers presented staff's recommendation to hire Winslow Capital Management, LLC to manage the non-US Equity Portfolio. In February, the Investment Committee approved a request for information process for non-US small cap and/or mid cap manager selection. The decision to go with small cap instead of mid cap was based on NEPC's analysis of the performance of each segment, and small cap outperformed mid cap. The international small cap allocation is expected to be approximately 20 to 25 percent of the Non-US Developed Markets Equity portfolio, or approximately \$125-\$150 million. Staff and NEPC believe this is an appropriate amount to invest because non-US small cap securities provide higher risk-adjusted returns than other asset classes.

Mr. Myers stated that staff worked with NEPC to narrow down the managers on NEPC's top-ranked list of international small cap equity managers. After careful analysis and discussion, staff selected Winslow Capital in global alpha capital management.

Mr. Martin noted that the ERB has a low equity exposure overall, with 19 percent in US equities, which are passively managed, and 14 percent in non-US equities, with 5 percent in developed markets and 9 percent in emerging markets. Fidelity, an active manager in the developed markets space, was underperforming, and the decision was made to expand the passive component and then seek out a developed markets small cap manager as active. As Mr. Myers described, they have increased the passive component of the non-US developed market allocation, and the active manager will now be active in a smaller cap space.

Mr. Miranda discussed the search process and criteria used in choosing Winslow over other managers for this recommendation.

Winslow Capital representatives Steven Larson and Megan Anderson appeared before the committee and made a presentation.

[Representatives left the meeting.]

Mr. Jacksha said the strategy here of picking a manager that diverges from the benchmark and can then add value makes a lot of sense. This is the type of manager the ERB is looking for, and staff and NEPC did a good job.

Ms. Cameron moved that the Investment Committee approve a four-year investment services contract for Non-US Developed Market Small Cap Manager with Winslow Capital. This approval 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. Mr. Magid seconded the motion, which passed unanimously.

3. LONE STAR RE FUND VI, LP – REAL ESTATE

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

Mr. Canavan presented staff's recommendation of a \$50 million commitment to Lone Star Real Estate Fund VI. The ERB is invested in Fund V, and Lone Star was very judicious in their deployment during the investment period, but subsequently made a decision to restructure and reposition themselves into a more European-focused fund, which is Fund VI. The ERB will be allowed to roll \$15.9 million of its prior commitment to this new fund, adding an additional \$35 million to reach the \$50 total commitment.

Mr. Jacksha said he understands a new rule will require European banks to write down their nonperforming loans to a zero value. Given that Lone Star buys non-performing loans, he assumes this will be a large part of this portfolio.

Mr. Gruber noted that Fund Vi's targeted investments include non-performing commercial real estate loans and special situations that may arise globally, with an emphasis on acquiring investments at a discount to intrinsic value. Continued deleveraging by European banks is expected to drive non-core and non-performing asset disposals. This is expected to represent the largest investment theme within the fund.

Mr. Magid moved that the Investment Committee approve a commitment of \$50 million, \$15.9 million of which comes from a previous investment, to Lone Star Real Estate Fund VI, 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. ANDROMEDA III, L.P. – INFRASTRUCTURE

[Presenters: Mark Canavan and Caledon consultants Noi Spyrtatos and Asif Hussain.]

Mr. Canavan presented overviews of Andromeda 1 and Andromeda II.

-- Andromeda I: \$81 million committed to date (since 2013). Gross IRR to Q3 2018 of 15 percent and net IRR of 13.1 percent.

-- Andromeda II: \$73 million committed to date (since 2016). Gross IRR to Q3 2018 of 9.9 percent and net IRR of 7.8 percent.

Ms. Spyrtos reviewed the co-investment pacing plan. She noted that they plan two more investments in Andromeda II; and without Andromeda III, the proportion of the program within co-investments would begin to fall and would go to the 20 percent or below over the long term. Andromeda III will enable ERB to maintain a meaningful allocation to co-investments/directs within the program while building towards a 50 percent target co-investment allocation through to 2025.

Ms. Cameron moved that the Investment Committee approve a commitment of \$100 million to Caledon Andromeda Fund III, L.P. for the Real 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. Mr. Magid seconded the motion, which passed unanimously.

5. ORBI MED ROYALTY/CREDIT OPPORTUNITIES III, L.P.
– DIVERSIFYING ASSETS

[Presenters: Steve Neel, Aaron Armstrong and Top Tier consultant Kevin Tatlow.]

Mr. Armstrong presented an overview of the Diversifying Assets portfolio with details on the macro environment and macro trends in healthcare, and presented staff's recommendation of a \$100 million commitment to OrbiMed Royalty & Credit Opportunities III, L.P.

Mr. Armstrong stated that, in late 2017, claims of harassment in 2009-2010, involving a co-founder of OrbiMed, were made. Prior to 2012, OrbiMed was much smaller and lacked practices and procedures for monitoring and addressing harassment or compliance, and in 2012, Kristen Kearns was hired as global head of human resources and began implementing new policies and procedures. In addition, Jones Day, a globally recognized law firm, was hired in 2018 to run an independent investigation related to allegations. The cofounder was removed from the organization and has no ongoing relations with OrbiMed.

Mr. Armstrong stated that, as part of the due diligence process, staff, Top Tier and Foster Pepper interviewed Jones Day, interviewed existing investors, reviewed OrbiMed's sexual harassment policy and confirmed that the co-founder, who has been removed, never had involvement with the royalty team.

Mr. Armstrong said royalty performance was not affected and will not be affected by the cofounder's absence. In addition, the organization continues to perform well.

Mr. Tatlow said Top Tier is very familiar with this space, having worked with DRI Capital for several years. The difference between DRI and the OrbiMed space is that DRI just does traditional royalties; however, over the years, the returns through DRI had begun to fall off as competition for returns has increased. While OrbiMed does traditional royalties, they also do structured or synthetic royalties, private debt investments backed by healthcare products, and credit opportunities. These three strategies allow OrbiMed a broader investment opportunity set within the royalty space, and they have reached their target returns in all three categories with a 15 percent net IRR, collectively. Despite having called only 76 percent of capital to date, Fund II has achieved an 11.2 percent net IRR and distributed 40 percent of paid-in-capital. The firm has over 80 professionals with a total of 25 PhD or MD degrees, and includes 15 former CEOs or founders of healthcare companies.

With respect to the harassment issue, Mr. Tatlow said Top Tier does not feel this is a problem with the firm going forward. No lawsuits or complaints were ever made, and there were no settlement claims. He noted that one-third of OrbiMed's employees are women.

Matthew Rizzo, partner with OrbiMed, appeared before the committee and made a presentation.

Ms. Goodwin asked what efforts are being made by OrbiMed to increase diversity on their staff. Mr. Rizzo responded that the firm has 105 employees around the world. HR head Kirsten Kearns has been with the firm for about seven years and has done a lot over that time to try to increase diversity. The company is working with outside recruiting firms in these efforts, and they are attracting women and minorities to the firm, and keeping them there. With respect to women, the firm is a very friendly environment in that there are a number of working mothers on staff who are given flexible schedules that allow them to work from home. Of the 105 employees, 69 percent are male and 31 percent are female. Of their investment professionals, 19 percent are female, and 60 percent are non-white. In the last two years, they have hired 16 new female employees, 7 of whom are investment professionals.

[Mr. Rizzo left the meeting.]

Ms. Cameron suggested the ERB's due diligence process include verification that there is a harassment policy in place.

Mr. Magid moved that the Investment Committee approve a commitment of \$100 million to OrbiMed Royalty & Credit Opportunities III, L.P. 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. 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.

6. RAINE PARTNERS III, L.P. – PRIVATE EQUITY

[Presenters: Ian Oldham and Top Tier consultant Kevin Tatlow.]

Mr. Oldham presented staff's report for a \$40 million commitment to Raine Partners, III, for the Private Equity portfolio. He said Raine Partners is focused on the telecommunications, media and tech (TMT) sectors, with deep domain expertise. The group has an integrated advisory arm, which staff feels provides a unique opportunity set. The team is very large, with deep relationships within the sector. He added that the group has a worldwide footprint, so they have an ability to drive global expansion and a global perspective. He noted that the global market in TMT is approximately \$17 billion, with nearly 2,000 public companies. This area is projected to grow at a 4.4 percent annual rate, well above the expected growth rate of the investment market. Raine Partners has six offices around the world with over 100 employees.

Mr. Tatlow stated that, since its inception, Raine has been involved in over \$160 billion in advisory transactions and manages over \$2.5 billion in capital across Raine's principal investing strategies. The firm launched its private equity business to capitalize on the breadth and experience of its partners, and has extensive experience in the TMT sectors dating back to its origins as a merchant banking platform. Top Tier believes there will be little to no portfolio duplication with the ERB's current investments due to the proprietary nature of the investments and subsector focus within the TMT space.

Founding partner Joe Ravitch and managing director Sherri Williams appeared before the committee and made a presentation.

[Representatives left the meeting.]

Mr. Oldham said the cash return in this environment and in this sector is notable with respect to Raine. He commented that many organizations in this sector have good returns but not in terms of cash, but Raine's distributed capital is much higher than many other competitors in this space.

Ms. Cameron moved that the Investment Committee approve a commitment of \$40 million to Raine Partners 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. Mr. Magid seconded the motion, which passed unanimously.

7. Q4 2018 INFRASTRUCTURE PERFORMANCE REPORT

[Presenters: Mark Canavan and Caledon consultants Noi Spyrtatos and Asif Hussain.]

Mr. Canavan, Ms. Spyrtatos and Mr. Hussain presented highlights from this portfolio summary:

- Portfolio fair value: \$393,375,373. Unfunded commitments: \$217,726,655.
- Total number of investments: 11. Total number of direct investments: 16.
- Net IRR since inception: 5.9 percent.
- Caledon Andromeda Investments (2013) net IRR: 11.9 percent.
- Caledon Andromeda Investments II (2016): net IRR: 6.1 percent.
- Total commitments in co-investment portfolio: \$185 million; net IRR, 10.4 percent.

8. OTHER REPORTS AND DISCUSSION

Mr. Jacksha reported preliminary returns for March at .8 to .9 percent, or 5 percent for the quarter.

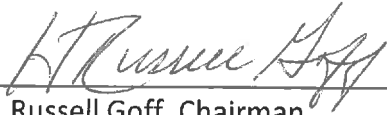
9. NEXT MEETING: THURSDAY, MAY 23, 2019

The meeting was set for 12:00 noon.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 4:00 p.m.

Accepted by:



H. Russell Goff, Chairman