

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

February 15, 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 8:40 a.m. in Mabry Hall, 300 Don Gaspar Avenue, Santa Fe, New Mexico.

Members Present:

Mr. H. Russell Goff, Chair
Ms. Mary Lou Cameron
Mr. Larry Magid

Members Excused:

None.

Staff Present:

Mr. Rod Ventura, Deputy Director
Mr. Bob Jacksha, CIO
Mr. Steve Neel, Deputy CIO, Alternative Assets
Ms. Kay Chippeaux, Deputy CIO, Public Markets and Credit
Mr. Aaron Armstrong, Portfolio Manager
Mr. G. Alan Myers, Portfolio Manager
Ms. Debbie O'Dell, Investment Operations Manager
Ms. Norma Henderson, CFO

Others Present:

Mr. Allan Martin, NEPC
Mr. Sam Austin, NEPC
Ms. Judith Beatty, Recorder

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 17, 2019**

Ms. Cameron moved approval of the December 6 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed staff and consultants.

2. EQUITY MANAGERS PROCUREMENT APPROVALS

3. EQUITY MANAGERS CONTRACT APPROVALS

[Presenters: Alan Myers and NEPC advisor Allan Martin.]

Mr. Myers requested approval to use a Request for Information with negotiation (RFI) process to contract with investment managers for the two non-US equity portfolios, Developed Markets and Emerging Markets. All of the contracts terminate over the next five months, and only two, Robeco and Parametric, are eligible for two-year extensions, which staff is requesting.

Mr. Myers said staff is also requesting approval for an exception to procurement for the BlackRock investment agreement.

Mr. Myers said the non-US equity investment is divided into two portfolios: Developed Markets, which includes a passively managed account with BlackRock and an actively managed account with Fidelity. Four active managers invest the Emerging Markets portfolio: Robeco, Neuberger Berman, Mondrian, and Parametric.

Mr. Myers reviewed tables reflecting performance relative to each manager's respective benchmark as well as performance to the asset class benchmark in both the Developed Markets and Emerging Markets portfolios.

Mr. Myers stated that staff plans to work with NEPC to determine the right managers through the RFI process, believing this to be the most effective and efficient way of doing it, given that NEPC has performed due diligence on a significant number of managers that cover the international equities marketplace. The list of managers compiled by NEPC represent organizations that meet comprehensive qualitative and quantitative requirements, and using the list will best meet the ERB's needs given the very large number of managers involved. At the conclusion of the RFI process, staff will bring forward one or more finalists to the Investment Committee to make the final selection.

Mr. Myers noted that, several years ago, the ERB made a decision to passively manage approximately 50 percent of the Developed Markets portfolio. Based on performance results, this seems to be a generally good strategy to continue; however, staff and NEPC would like to increase the allocation to passive management. They believe that if they can find an appropriate investment manager, a pocket dedicated to active management of small and/or midcap developed markets equities could add alpha. For that reason, staff would like to use the RFI process to select a manager for 10-25 percent of the developed markets allocation for small and/or midcap equities. The plan is to ask the current active manager, Fidelity, to participate in the RFI.

Mr. Myers said staff would also like to retain BlackRock as passive index manager in Developed Markets, and requests an exception to the Investment Services Procurement Policy under Section H,

item 1, to negotiate an agreement with BlackRock for an increased allocation of the Developed Markets portfolio.

Mr. Martin commented that public boards are sometimes concerned about not issuing Requests for Proposals, the view being that they should be fair to everybody; however, there are probably 300 managers who would apply for this, and about 200 of them would not meet minimum qualifications. NEPC is proposing to take managers they already know to be good and do a much deeper dive on those managers.

Ms. Cameron moved approval of the Request for Information with negotiation process to conduct investment manager searches for both the Developed Markets and Emerging Markets asset allocations. Mr. Magid seconded the motion, which passed unanimously.

Mr. Magid moved the approval of the exception to the Investment Services Procurement Policy, Section H, 1., for the Developed Markets passive allocation to BlackRock. Ms. Cameron seconded the motion, which passed unanimously.

Mr. Magid moved that the Investment Committee approve extending the Robeco and Parametric contracts for an additional two years, subject to and contingent upon New Mexico State Law, Educational Retirement Board policies, negotiation of final terms and conditions and completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously.

4. BROADRIDGE/QED MOTION REVISION

[Presenter: Debbie O'Dell.]

Ms. O'Dell stated that, in June 2018, she requested approval to renew the contract for four years with a clause that either party could terminate the contract with 90 days' notice. However, Broadridge wanted to charge higher fees for that. She said she spoke with them regarding her concerns about QED, and they have agreed to put together an action item list and work with her to address each of those concerns. She said QED is making a good faith effort and has conducted trainings so that she is now much more comfortable with the system.

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 four years, as previously approved at the June 2018 committee meeting, with removal of the language *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 final terms and conditions and completion of appropriate paperwork. Ms. Cameron seconded the motion, which passed unanimously.

5. PRIVATE EQUITY CONSULTING CONTRACT APPROVAL

[Presenters: Steve Neel and Aaron Armstrong.]

Mr. Armstrong stated that staff is recommending extension of the existing professional services agreement with Top Tier Capital Partners for private equity consulting services for a term of two years. The ERB has contracted with Top Tier for the last four years for private equity related services. The

scope of the contract includes full fund due diligence, fun level waterfall analysis, performance tabulation and reporting, and underwriting of up to four secondary transactions per year.

Mr. Armstrong noted that the ERB also has a separate contract with Top Tier, structured as a separately managed account that is exclusively for venture-related items, and that contract is currently performing with a 27 percent IRR.

Mr. Armstrong stated that the contract is in the completion stages, with all additions being favorable to the ERB. Any significant changes would be brought forward for approval.

Ms. Cameron moved that the Investment Committee approve the extension of the professional services agreement with The Top Tier Capital Partners for a period of two years subject to, and contingent upon, New Mexico State Law, Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork. Mr. Magid seconded the motion, which passed unanimously.

6. OTHER REPORTS AND DISCUSSION

None.

7. NEXT MEETING: THURSDAY, MARCH 21, 2019

The meeting was scheduled at 1:00 p.m. in the Albuquerque offices.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 9:00 a.m.

Accepted by:



H. Russell Goff, Chairman