

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

**January 17, 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. in the Educational Retirement Board offices, Suite B-450, 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. Bob Jacksha, CIO  
Mr. Steve Neel, Deputy CIO, Alternative Assets  
Mr. Aaron Armstrong, Portfolio Manager  
Mr. Ian Oldham, Portfolio Manager  
Ms. Debbie O'Dell, Investment Operations Manager

**Others Present:**

Mr. Allan Martin, NEPC  
Mr. Andrew Brett, NEPC [by telephone]  
Mr. Jed Drake, NEPC [by telephone]  
Mr. Kevin Tatlow, Top Tier  
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: December 6, 2018**

**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. AVIATOR FUND IV – DIVERSIFYING ASSETS**

[Presenters: Steve Neel and Aaron Armstrong. On phone: NEPC consultants Jed Drake and Andrew Brett.]

Mr. Armstrong presented slides demonstrating why this particular investment would meet or exceed the goals of the diversifying assets portfolio; the specifics of Aviator Capital Management’s investment strategy; and the due diligence process followed by the NMERB.

Mr. Armstrong noted that KPG Capital Partners was disclosed as having been involved with respect to the NMERB’s proposed commitment, but would not be paid an agent fee.

Mr. Armstrong summarized staff’s recommendation for an \$80 million investment in Aviator Fund IV, which is focused on mid-life and end-of-life aircraft leased to commercial airlines.

-- The fund is expected to acquire approximately 20 to 30 aircraft with existing leases in place or execute a sale-leaseback transaction with the end user.

-- The firm’s senior professionals have worked together for over 12 years and have significant experience in the commercial aircraft leasing industry.

-- The fund will invest primarily in narrow-body aircraft but may selectively invest in wide-body aircraft. Aviator Capital believes that the commercial aircraft leasing market presents an attractive investment opportunity as passenger air travel continues to grow globally and airline companies are increasingly opting to lease their aircraft.

-- The fund has a target pre-tax IRR of 15 percent with a substantial component of the total return coming from current cash flow. The manager is expecting to reach the fund’s hard cap of \$1 billion and will hold a final close in Q1 2019.

Mr. Martin said the U.S. is in the late stages of an economic cycle, and more and more people are thinking about strategic changes to be able to protect assets on the downside, so this is an area where the ERB was a leader 18 months ago when it set up this allocation. He commented that a lot of people used to do this with market neutral absolute return fund-of-funds, where the lack of correlation was statistics, whereas the ERB has built the portfolio

where there is economic logic involved. The ERB has done it differently from others, and NEPC feels more successfully.

Mr. Martin noted that this particular product is not rated by NEPC, which is a function of timing. Staff and NEPC have been working on this for seven or eight months up to this point, but because the fund's closing date is near, NEPC did not have a chance to resolve all the issues. Those issues, some of which have been discussed today and can also be addressed during the manager's presentation, are detailed in the memorandum. NEPC supports the investment recommendation.

Mr. Armstrong noted that the ERB would be the final investor before the fund close.

Mr. Drake pointed out that Aviator Capital is quite conservative with their leverage and will seek to secure asset-level financing at 50 percent loan-to-value. When possible, they will structure debt with minimal amortization, resulting in lower service costs and higher cash flow. He also discussed the advantages of the fee structure.

Aviator Capital Management principals Jorge Wolf (CEO) and Hugo Reiter (portfolio manager) appeared before the committee and made a presentation.

[Representatives left the room.]

Mr. Neel commented that the risk profile for this structure fits very nicely in the diversifying assets portfolio, and the return profile exceeds the goals of the portfolio.

**Ms. Cameron moved that the Investment Committee approve a commitment of \$80 million to Aviator Fund IV, LP 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. Mr. Magid seconded the motion, which passed unanimously.**

### **3. B CAPITAL FUND II – PRIVATE EQUITY**

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

Mr. Neel stated that, two years ago, the ERB entered into an agreement with Top Tier to set up a separately managed account with them with a commitment of \$100 million. One-third was in co-investments, one-third was in secondaries, and one-third was in primary fund commitments. The strategy was to incubate relationships in the separately managed account and eventually graduate them into a primary fund commitment. Today's recommendation is

the fruition of that structure and will be the first commitment that was incubated in the separately managed account.

Mr. Neel distributed 9/30/18 results from this new strategy and noted that early indications are that the overhaul has been successful.

Mr. Neel summarized staff's recommendation of a \$30 million commitment to B Capital Fund II. He noted that disclosure documents have been submitted since staff's memorandum was prepared, with no issues of concern.

-- B Capital is raising \$600 million for their second fund to make expansion stage venture capital investments in early-revenue high-growth software and technology enabled businesses. The fund will investment globally and focus on financial services and insurance; health and wellness, industrial and transportation, and consumer enablement. B Capital will also investment in enterprise software that is targeted across all four sectors.

-- B Capital Fund II is focused on expansion stage venture capital investments in companies that have achieved an early product market fit, focusing on existing industries that are reaching a tipping point where they can be transformed with technology.

-- The firm has a global footprint and an exclusive relationship with the Boston Consulting Group (BCG) that provides access to expertise and value-add capabilities for their portfolio companies. BCG works with approximately 2,000 leading corporations worldwide and makes this network available to B Capital.

-- BCG is committing \$50 million to Fund II.

-- The fund will follow a similar strategy to the prior fund and target 25-30 portfolio companies for \$20 to \$30 million of equity in targeted sectors.

-- The partners have a combined total of more than eight decades of investment experience, along with significant operating, consulting and business building experience.

Mr. Tatlow stated that Top Tier was one of the investors in Fund I. At that time, Top Tier found the track record and the background of the partners to be very compelling. He stated that Howard Morgan, cofounder of the highly successful First Round Capital, started as an advisor to B Capital and is now working full time as chairman. There are no losses in the portfolio to date, and the total portfolio is at a 1.2x gross with more than half of the portfolio deployed in the last year.

Managing partner and co-founder Raj Ganguly and Chief of Staff Meghan Moreland appeared before the committee and made a presentation.

[Representatives left the room.]

Mr. Neel commented that this is a small but very meaningful commitment, and what he finds most compelling is that Mr. Ganguly came from Bain Capital, which drives a highly disciplined and methodical process, to venture capital.

Mr. Jacksha said this is a unique approach that makes a lot of sense. In addition, their terms are reasonable, which is not generally the case in the venture capital world.

**Mr. Magid moved that the Investment Committee approve a commitment of \$30 million to B Capital Fund II 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. Ms. Cameron seconded the motion, which passed unanimously.**

[Break.]

#### **4. NOVAQUEST PRIVATE EQUITY FUND I, L.P.**

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

Mr. Oldham presented staff's summary on a recommended commitment of \$40 million to NovaQuest Private Equity Fund I for the Private Equity Portfolio.

-- Over \$3.3 trillion was spent on healthcare in the U.S. in 2016, and this is expected to continue growing both in absolute dollars and as a percentage of the GDP. Staff believes this is recession-resistant growth throughout an economic cycle because of fundamental drivers in this sector, including an aging population and greater incidence of chronic disease.

-- NovaQuest was originally the investment arm of one of the largest clinical research organizations in the world, whose main business was administering drug trials. From there, they spun out, but maintain a close strategic relationship with that organization, which is an investor.

-- NovaQuest has a specialized team with direct experience and strategic partnerships with several of the most successfully companies in the healthcare space. They have a broad network and is one of the few players located in the heart of the industry (Raleigh-Durham, NC).

-- IQVIA, one of the strategic partners, provides NovaQuest with valuable insight and resources that another organization their size is not going to have access to.

-- This will be NovaQuest's first buyout fund. Staff believes this provides a powerful alignment with ERB that can lead to outperformance, which is supported by a research paper that showed that post-2014 first-time funds outperformed top quartile funds on an IRR and multiple basis.

Mr. Tatlow stated that NovaQuest manages commitments of over \$2.5 billion in product finance and private equity, with the majority of their historical activity in product finance, a drug development strategy. A lot of their expertise and network is around drug trials. To date, there are three deals in the fund in the pharmaceutical business area. They are committed to doing proprietary deals, and their location in Raleigh-Durham is an advantage. With respect to their lower-middle market focus, a lot of the successful healthcare buyout firms have become a lot bigger in size, while NovaQuest's focus is on smaller companies, where there is less competition in proprietary deals.

NovaQuest partners Michael Sorenson and Jeff Edwards appeared before the committee with placement agent David Welp of Eaton Partners, and made a presentation.

[Representatives left the room.]

Mr. Oldham commented that staff is very excited about this opportunity. NovaQuest has three investments in its portfolio to date. The ERB is invested in one of them, which is doing very well, through BlackRock.

Mr. Jacksha stated that NovaQuest's approach, which is to make things more efficient and less costly, is a very attractive element to this investment.

**Mr. Magid moved that the Investment Committee approve a commitment of \$40 million to NovaQuest Private Equity Fund I, 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. Ms. Cameron seconded the motion, which passed unanimously.**

#### **5. Q4 2018 PROXY VOTING REPORT**

Mr. Jacksha said he found no outstanding issues to report.

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

#### **6. Q4 2018 COMMISSION REPORTS**

[Informational item in committee packet.]

**7. OTHER REPORTS AND DISCUSSION**

Mr. Jacksha said accounting was closed earlier this week, and early indications are that the fund will be slightly positive for the calendar year. Mr. Martin commented that this result was "much better than most."

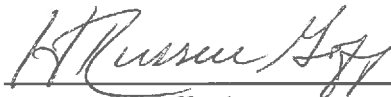
**8. NEXT MEETING: THURSDAY, FEBRUARY 14, 2019**

The meeting was scheduled at 1:00 p.m. in the Investment office on Pacheco Street.

**ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 4:30 p.m.

Accepted by:



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H. Russell Goff, Chairman

