

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

**INVESTMENT COMMITTEE**

**June 27, 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 1:04 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  
Mr. Larry Magid

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Rod Ventura, Deputy Director  
Ms. Kay Chippeaux, Deputy CIO, Public Securities & Credit  
Mr. Mark Canavan, Real Estate & Real Assets Portfolio Manager  
Mr. Steve Neel, Deputy CIO, Alternative Assets  
Mr. Aaron Armstrong, Portfolio Manager  
Mr. G. Alan Myers, Public Securities & Credit Portfolio Manager  
Ms. Debbie O'Dell, Investment Operations Manager

**Others Present:**

Mr. Allan Martin, NEPC  
Mr. John Lutz, NEPC [on phone]  
Mr. Steve Gruber, Hamilton Lane  
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: May 23, 2019

Ms. Cameron moved approval of the May 23 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

d. Approval of Minutes of Special Meeting: May 28, 2019

Mr. Magid moved approval of the May 28 minutes, as submitted. Ms. Cameron seconded the motion, which passed unanimously.

e. Introduction of Guests

Chairman Goff welcomed staff and consultants.

## 2. REALTERM LOGISTICS III

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

Mr. Canavan presented staff's recommendation of a \$25 million commitment to Realterm Logistics III.

Mr. Canavan stated that the ERB has previously made commitments to Realterm Industrial Fund I (2013) and Realterm Industrial Fund II. Fund I invested in high-flow-through (HFT) warehousing facilities are smaller facilities, where bulk items are broken out into smaller trucks for last-mile delivery. After acquiring its first investment in 2013, it assembled a portfolio of 66 HFT properties as part of their rollup strategy, and then exited through a sale to J.P. Morgan's Strategic Property Fund, generating a levered net IRR of 24.9 percent.

Mr. Gruber said part of Hamilton Lane's research in this sector included a review of the public filings of UPS, FedEx and other common third-party truck logistics firms. In their research, they learned that FedEx is doing 50 million packaged deliveries a day in the U.S. and expects to double that by 2026; so this is a big trend. He said the other aspect of this is reverse deliveries, where a customer will order four items, pick one, and return the rest.

Mr. Jacksha commented that Amazon started this trend of inviting people to order items and return what they don't want, and now it has become more competitive, with firms such as Walmart offering the same service.

Mr. Gruber said the ERB committed \$25 million to Realterm Fund II (2016), which is currently on track. Fund III is a continuation of this strategy, with a US-only focus.

Mr. Jacksha commented that there is not much competition in this space, as there are very few firms doing rollup strategies.

**Ms. Cameron moved that the Investment Committee approve a commitment of up to \$25 million to Realterm Logistics Fund III, 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. Mr. Magid seconded the motion, which passed unanimously.**

## 3. REALTERM EUROPEAN LOGISTICS I

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

Mr. Canavan presented staff's recommendation of a \$50 million commitment (in euros) to Realterm European Logistics I. He discussed the fee structure.

Mr. Gruber said this fund will acquire and operate high-flow-through (HFT) logistics properties in Western Europe, drawing on the firm's 28-year history of acquiring and managing

industrial properties, which are critical components of the global logistics supply chain. This is identical to Realterm's strategy in executing Realterm Logistics III in the U.S.

Mr. Canavan said Realterm is very serious about hiring the right players, and stressed that their management team fully vetted new managing director Balazs Lados, who would manage this fund out of the office in Amsterdam.

Realterm management team members Pete Lesburg, Paul Underwood and Balazs Lados appeared before the committee and made a presentation.

Mr. Lesburg noted that the team cumulatively has made over 750 HFT investments over the life of the company, with 140 years of cumulative investment experience specifically in this asset class.

Mr. Lados said he was very excited to join Realterm nine months ago, because none of the other big players in Europe are looking at this investment strategy.

[Representatives left the meeting.]

Mr. Canavan said he personally sees this as a great opportunity, as the trend of rolling up these types of properties hasn't started yet in Europe.

**Mr. Magid moved that the Investment Committee approve a commitment of up to \$50 million to Realterm European Logistics Fund, 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. NON-US DEVELOPED MARKETS EQUITIES**

[Presenters: Alan Myers and NEPC advisor Allan Martin, with research analyst John Lutz on phone]

Mr. Myers stated that, after the committee approved Winslow Capital as the new non-US small cap equity manager in April, the head portfolio manager resigned before the fund documents could be executed. After discussing the situation with NEPC, staff decided to terminate the negotiations with Winslow.

Mr. Myers said that in February, the committee approved the request for information process for non-US small cap and/or midcap manager selection. Their decision to go with small cap instead of midcap was based on NEPC's analysis of the performance of each segment, and small cap outperformed both the midcap and the overall index. Because BlackRock, the other manager, is an all cap investor, the Staff and NEPC wanted to make sure the entire portfolio wasn't too overweight small caps, so they are recommending a mandate of approximately 20%

to the new manager which will give the non-US developed markets portfolio approximately 25% exposure overall. Staff and NEPC believe this is appropriate because non-US small cap securities are expected to provide higher risk-adjusted returns than either non-US large cap or midcap securities.

Mr. Myers said 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, they selected Winslow Capital and Global Alpha Management. At the beginning of April, he and Mr. Lutz conducted site visits to perform due diligence on each manager. While their first selection was Winslow, both firms were considered strong candidates. At the time, Winslow was felt to be the best candidate, but Global Alpha came in a strong second. For that reason, staff and NEPC are recommending Global Alpha.

Mr. Lutz discussed what he and Mr. Myers considered when reviewing Winslow and Global Alpha, the two finalists in the selection process. He said Global Alpha has a young team, all of whom have experience in entrepreneurial ventures, with regional focus and secondary sector expertise.

Mr. Martin noted that Global Alpha's team, through their ESG integrated process, seeks to mitigate business risks. He said the evolution of ESG is interesting, as more and more firms are starting to recognize that companies that waste resources present risk in the long term. He said he thinks it is constructive to see someone that uses an ESG framework to buy companies that have a better opportunity to resist negative changes in other aspects of the business and avoid them through choice.

Mr. Martin added that this is a fairly small team with a concentrated portfolio, and their track record has been quite strong. He said the concern is that they don't grow too fast, given the size of the team, or that they lose people; however, the team has been together for a long time.

Mr. Myers stated that the team owns 51 percent of the organization, with the remaining 49 percent owned by their back office, which is handled by their partner. This is a large organization that is able to support them both strategically and from an operational standpoint. Because they are a boutique organization, this is all they do.

Representatives Steve Reynolds, David Savignac and Sain Godil appeared before the committee and made a presentation.

[Representatives left the meeting.]

Mr. Myers stated that Global Alpha disclosed a corporate affiliate, which Mr. Reynolds is by definition, because he works for their minority shareholder. He is therefore considered a placement agent; however, the ERB would not be paying for those services.

Mr. Myers stated that he and Mr. Lutz were very impressed with Global Alpha, and liked their buy-and-hold strategy. He added that he liked their discipline, purchase and sale rules, and real world experience. He said the portfolio managers own 51 percent of the business, so they

definitely have skin in the game. He said Global Alpha's small cap fund has produced excess funds in all but two years since 2010.

**Ms. Cameron moved that the Investment Committee approve a four-year investment services contract for Non-US Developed Market Small Cap Manager with Global Alpha Capital Management. 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.**

[Break.]

## **5. CROSS OCEAN – OPPORTUNISTIC CREDIT**

[Presenters: Kay Chippeaux and NEPC advisor Allan Martin]

Ms. Chippeaux presented staff's recommendation for a \$100 million commitment to Cross Ocean European Special Situations Fund III (ESS III), which would be allocated to the Opportunistic Credit portfolio. Cross Ocean is a European direct lending investment manager based in London, and the ERB invested \$100 million in their European Special Situations Fund II in 2017. That fund is now in its harvest period.

Ms. Chippeaux said Cross Ocean is focused on countries in Europe with strong creditor protection, and they primarily purchase existing secured senior debt from banks. European banks are quite a bit behind US banks in getting back to stronger capitalization, so they are still selling non-core assets at prices below intrinsic value. These banks are incentivized to sell to people like Cross Ocean; and as they get more capital, they are able to sell at a lower price than what Cross Ocean thinks their real value is. Cross Ocean is looking to not only get the interest they would get on the loan, but are also looking for price appreciation on the assets. She said these banks are divesting assets at advantageous prices.

Ms. Chippeaux said the banks in Europe have about €2 trillion of non-core assets on their balance sheets, 50 percent are performing assets, which is where Cross Ocean does most of their investing. She noted that Cross Ocean targets assets that have a relatively short expected life, with low loan-to-value ratios, meaning there is a lot of asset protection underlying the loans being purchased. They are also mostly floating rate, and their legal jurisdiction is in Western Europe. She said they consider four factors: 1) the size of the opportunity in the country they are looking at; 2) is the country creditor friendly, i.e., does it offer good bankruptcy protection for creditors; 3) the macro and political backdrop; and 4) the health or recapitalization of the banking sector.

Mr. Martin stated that ESS III is targeting 10-12 percent net returns, and the money comes back in 12 to 36 months, since these are mature loans. These are floating rates, so there is no interest rate risk, and 90 percent of these loans are senior secured.

**Mr. Magid moved that the Investment Committee approve a total commitment of \$100 million to Cross Ocean European Special Situations Fund III 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.

## **6. HAMILTON LANE CONTRACT EXTENSION**

[Presenter: Mark Canavan]

Mr. Canavan requested approval of a two-year extension of the Hamilton Lane four-year contract with the ERB. He said the relationship with Steve Gruber and his team goes back to Q4 of 2007, when the ERB approved ORG Real Property as its real estate consultant. In early 2008, the ERB approved expansion of the ORG mandate by adding a natural resources allocation (timber and agriculture).

Mr. Canavan said Hamilton Lane continues to provide superior performance as well as exceptional expertise within the silos they invest. He said he would not want to invest in real estate directly without Mr. Gruber and his expertise, nor in the energy, minerals and mining space without the expertise of Mr. Gruber and Brent Burnett. He said Howard Kaplan knows timber and agriculture quite well and has extensive expertise in these areas.

**Ms. Cameron moved that the Investment Committee approve a two-year extension of the Hamilton Lane Professional Services Agreement pursuant to Section I.I of the NMERB Investment Services Procurement Policy, dated August 23, 2013. This approval is subject 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.**

## **7. PRIVATE EQUITY PERFORMANCE Q4 2018**

[Presenters: Steve Neel and Top Tier advisor Kevin Tatlow]

Mr. Neel presented the Q4 performance report, with the following highlights:

- The private equity portfolio experienced a negative Q4 return of 0.55% and a one-year return of 10.86%, outperforming the ILPA (Institutional Limited Partners Association), which was about 9%.
- The cumulative value added to the portfolio is \$1.1 billion.
- Net IRR since inception is 12.76%.
- At the quarter end, the portfolio had \$3.39 billion in net commitments to 82 private equity funds managed by 46 different managers.

Mr. Tatlow reviewed investment highlights.

Mr. Tatlow reviewed the trailing period performance summary, noting that the ERB's performance for Q4 outperformed the ILPA by 75 basis points. The ERB was 1.75% ahead of the

ILPA benchmark for the one-year period, for the three-year period was 1% ahead, and for the five-year period it was 2.9 % ahead of its peers.

**8. OTHER REPORTS AND DISCUSSION**

Mr. Jacksha discussed rebalancing through futures and potential revisions to the Investment Policy.

**9. NEXT MEETING: THURSDAY, JULY 18, 2019**

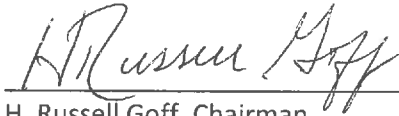
The meeting was tentatively set for 1:00 p.m.



**ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 4:15 p.m.

Accepted by:

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

H. Russell Goff, Chairman