

**ACTION SUMMARY**

**INVESTMENT COMMITTEE**

**November 12, 2015**

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

**November 12, 2015**

**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 Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

**Members Present:**

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

**Members Excused:**

None

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Mark Canavan, Real Estate Portfolio Manager  
Ms. Kay Chippeaux, Fixed Income Portfolio Manager  
Mr. Alan Myers, Investment Financial Analyst

**Others Present:**

Mr. Allan Martin, NEPC  
Mr. Reino Ecklord, NEPC (by telephone)  
Ms. Judith Beatty, Recorder

**b. Approval of Agenda**

Dr. Woodfin moved to approve the agenda, as published. Ms. Cameron seconded the motion, which passed unanimously by voice vote.

**c. Approval of Minutes: October 22, 2015**

Ms. Cameron moved approval of the October 22 minutes, as submitted. Dr. Woodfin seconded the motion, which passed unanimously by voice vote.

d. Introduction of Guests

Staff was present.

2. GRAMERCY DISTRESSED OPPORTUNITIES FUND III – OPPORTUNISTIC CREDIT

[Presenters: Kay Chippeaux, NEPC consultant Allan Martin, and NEPC analyst (on phone) Reino Ecklord.]

Ms. Chippeaux presented staff's recommendation of a \$100 million commitment in Gramercy Distressed Opportunities Fund II (GDOF III). The NMERB currently has a commitment of \$125 million in GDOF II, which is fully drawn, and \$50 million in Gramercy Distressed Argentina Fund II, which is also fully drawn.

Ms. Chippeaux said Gramercy has an emphasis on stressed and distressed debt investing in emerging markets. The fund will be a continuation of the original fund that the NMERB invested in, which is the more global distressed opportunity fund. Gramercy seeks to have highly uncorrelated returns while remaining tail-risk aware. She commented that Gramercy likes to be an agent for change when they identify some distress in a security, and often does this by sitting on restructuring committees. Gramercy uses credit default swaps to preserve capital and minimize different risks in the portfolio such as sovereign credit risk or global market risk.

Ms. Chippeaux briefly reviewed how a credit default swaps work, which is to act as an "insurance policy" against a default. She commented that Gramercy uses credit default swaps to reduce downside risk on investments, and also as alpha generators to create more value for the fund.

Reviewing a geographic breakdown of the opportunistic credit portfolio, Ms. Chippeaux noted that 33 percent is in developed Europe with 10 percent in Asia/emerging markets (which would increase to 14 percent with this commitment) and 56 percent in the U.S. In addition, the allocation to distressed strategy would increase from 15 percent to 18 percent.

Ms. Chippeaux also said staff enjoys its relationship with Gramercy as a partner for the NMERB. The newly formed internal fixed income management group has several emerging market bonds in the portfolio, and now the Barclay's Aggregate (their benchmark) includes a lot of emerging market corporates that do U.S. dollar denominated debt. She said it is very helpful for the team to be able to call Gramercy to get their opinion on bonds and industry sectors.

Ms. Chippeaux noted that the NMERB currently has a 20 percent target in the opportunistic credit allocation. She said the range for credit is 10 to 30 percent and the actual market value is about 22.5 percent. Staff prefers to keep the actual allocation closer to 20 percent, so with this allocation and some other capital calls coming in the next several months, staff plans to take down some exposure from other credit managers. This should bring the allocation down to about 21 percent by the end of the year.

Ms. Chippeaux stated that this \$100 million commitment to Gramercy would make them the NMERB'S fourth largest opportunistic credit manager, at \$275 million; however, the first fund is scheduled to begin distribution in about a year.

Ms. Chippeaux said Fund I has a cumulative return of 13 percent annualized, and the Distressed Argentina fund has a 1-year return of about 11 percent.

Mr. Ecklord stated that NEPC has Gramercy on their preferred list because of the landscape for emerging markets and all of the “scary headlines” that people are seeing about headwinds due to currency pressures or commodity price pressures with low growth. These create an almost perfect opportunity set for this type of strategy, where they are looking to go into countries where securities are trading at a discount to par value.

Chairman Goff asked if the moderately high level of turnover experienced by Gramercy recently is a concern. Mr. Ecklord responded that a couple of people who left were junior analysts, and other departures have been driven by Gramercy’s reorganization and rebuilding elements of the team. In addition, the dynamics of the market have been an influence.

Gramercy representatives Robert Koenigsberger, David Herzberg and Stephen LaVersa appeared before the committee and made a presentation.

[Gramercy representatives left the meeting.]

Mr. Jacksha commented that the uncorrelated returns are very attractive to the NMERB, and they are not correlated with any of the other managers in the portfolio. Gramercy is a specialist in this with proven results. During their presentation, they touched on the environment for this type of investment, and he would agree that there is a very good opportunity set for it these days that will afford them the chance to do well.

**Dr. Woodfin moved that the Investment Committee approve a commitment of \$100 million to Gramercy Distressed Opportunities Fund III, subject to and contingent upon New Mexico state law, Educational Retirement Board policies, negotiation of final terms and conditions, and completion of appropriate paperwork. Mr. Magid seconded the motion, which passed unanimously by voice vote.**

### **3. Q3 2015 PROXY VOTING REPORT**

**Ms. Cameron moved that the Investment Committee accept the Proxy Voting Report. Dr. Woodfin seconded the motion, which passed unanimously by voice vote.**

### **4. Q2 2015 REAL ESTATE AND NATURAL RESOURCES REPORT**

[Presenter: Mark Canavan.]

Mr. Canavan reviewed the Q2 report (as of June 30, 2015), with the following highlights:

-- NAV of the real estate portfolio was \$741,139,323 and NAV for the natural resources portfolio was \$200,816,156.

-- As of June 30, NMERB had \$463,559,771 of committed but uncalled allocations to private real estate managers and \$266,674,198 of committed but uncalled allocations to natural resources managers.

-- Net IRR since inception: Public Real Estate, 12.91%; Private Real Estate, 9.70%; and Natural Resources, 3.52%.

## **5. Q3 INVESTMENT PERFORMANCE REPORT**

[Presenter: Allan Martin, NEPC]

Mr. Martin reviewed the Q3 (September 30, 2015) report.

Mr. Martin said this was a negative quarter, but the NMERB did relatively well; of the funds he has seen, NMERB is in the top 3-4 percent on a total fund basis for the period. He said the NMERB did reasonably well, with emerging markets being the under performer. Most of the other elements of the portfolio performed fairly well against the benchmarks and expectations.

Mr. Jacksha said this report would be reviewed in more detail at the December board meeting.

## **6. DISCUSSION OF INVESTMENT COMMITTEE GOVERNANCE**

Mr. Jacksha stated that the committee heard a presentation from NEPC consultant Dan LeBeau in September that discussed governance activities of some of the other funds. He asked committee members if there is interest in pursuing this further; and if so, what path should the committee take.

Mr. Martin commented that the world has become more complicated, portfolios have gotten bigger, and the number of investments has expanded as people move away from stocks and bonds and add emerging market debt, private equity, and other more complicated investment vehicles to their asset allocation. The challenge to a lay board is how to keep track of all of this complexity, and the issues are efficiency of time, the alignment of responsibility with expertise, and, in some cases, insulation of manager selection from political pressures. These factors have caused some entities to rethink the traditional model of the board making all of the decisions.

Mr. Martin noted that the NMERB has already taken a huge step with the creation of its Investment Committee and inclusion of members who have investment expertise.

Mr. Martin said the question is whether the committee wants to stop at this point, or wants to delegate certain activities to staff, such as manager selection. The chart Mr. LeBeau reviewed with the committee showed that both Arizona State (\$30 billion) and Arizona Public Safety (\$7 billion) have delegated authority to hire and fire managers to the staff. In order to make sure that the board's experience is incorporated, it has worked with staff to define what the selection process should look like, and have hired their general consultant to oversee the process.

Dr. Woodfin said she is willing to leave most decisions up to staff, but would like to see managers who are moving in the direction of having more gender diversity on their staff.

The committee agreed to see if the full Board is interested in pursuing any change in governance. If so, the Board can vote on whether to move forward with a half-day retreat that would bring in outside expertise to discuss different models. Committee members also suggested inviting someone from a peer fund who has experienced this kind of change to discuss the pros and cons.

7. Q3 2015 COMMISSION REPORT

[Informational.]

8. OTHER INVESTMENT REPORTS AND DISCUSSIONS

None.

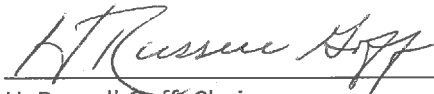
9. NEXT MEETING: THURSDAY, DECEMBER 10, 2015

The December 10 meeting was tentatively set for 1:00 p.m.

ADJOURN

Its business completed, the Investment Committee adjourned the meeting at 3:45 p.m.

Accepted by:

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

H. Russell Goff, Chairman