

**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**

**INVESTMENT COMMITTEE**

**TELEPHONIC/VIRTUAL MEETING**

**August 13, 2020**

**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. via teleconference. A quorum was present.

**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. Rod Ventura, Deputy Director  
Mr. Bob Jacksha, Chief Investment Officer  
Ms. Kay Chippeaux, Deputy CIO, Public Markets & Credit  
Mr. Steve Neel, Deputy CIO, Alternative Assets  
Ms. Susanne Roubidoux, General Counsel  
Mr. Aaron Armstrong, Portfolio Manager  
Mr. Casey Poe, Jr., Portfolio/Compliance Manager  
Ms. Liz Lorang, Executive Assistant, Board Liaison

**Others Present:**

Mr. Allan Martin, NEPC  
Mr. Sean Gill, NEPC  
Mr. Steven Gluckstern, NMERB Board of Trustees  
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: July 16, 2020

Ms. Cameron moved approval of the July 16 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

**d. Introduction of Guests**

Chairman Goff welcomed staff and guests.

**2. DYNAMO – DOCUMENT MANAGEMENT TECHNOLOGY**

[Presenter: Aaron Armstrong]

Mr. Armstrong presented staff's recommendation that the Investment Committee approve the "independent research and selection process with negotiated price," as outlined in the Investment Services Procurement Policy, for the selection of a document management system; and that the committee also approve a Master Service Agreement with Dynamo for the document management system.

Mr. Armstrong said the search conducted by Investment staff meets all of the requirements outlined in Section E.2c of the procurement policy:

- 1) When the Investment Division staff, a consultant or an independent firm has experience, knowledge with regard to a specific service or list of service providers, the NMERB may ask for a list of those service providers that are best suited to accomplish the objective.
- 2) Once those service provider are identified by Investment Division staff, a consultant or an independent firm, the NMERB may negotiate with one or more of the potential service providers to obtain the highest quality of services at the most reasonable price.
- 3) For purposes of example and not by way of limitation, this procurement process is most frequently used in the asset categories of private equity, real estate, Infrastructure, real assets, global tactical allocation ("GT AA") and risk parity.

Mr. Armstrong noted that, because the search met all of the criteria for the selection methodology, and because timing was significantly reduced as a result, staff concluded that the independent research and selection process with negotiated price was the most effective and efficient for the search. He noted that staff engaged a third party consultant to review the list staff had of service providers obtained from industry relationships, including ILPA, and to add names in order to ensure an extensive list. A total of 13 service providers were on the list.

Mr. Armstrong stated that, after performing the necessary research, and with the field narrowed down to two candidates, staff concluded that Dynamo is best suited to meet NMERB's needs because it has more robust services as well as institutional backing among other public plans. He presented an overview of the company background, track record, platform for asset allocations and other details.

**Mr. Magid moved that the Investment Committee approve the "independent research and selection process with negotiated price" as outlined in the Investment Services**

**Procurement Policy for the selection of a document management system. Further, I move that the Investment Committee approve a master service agreement with Dynamo Software, Inc. for up to four years, subject to and contingent up on New Mexico State Law and Educational Retirement Board policies. Ms. Cameron seconded the motion, which passed unanimously.**

### **3. INVESTMENT POLICY STATEMENT DRAFT REVISION**

Addressing members of the public who are listening in on this meeting, Mr. Jacksha prefaced his report by clarifying that it has been incorrectly reported in the news that the Investment Committee will decide today whether or not divestment will be on the Board of Trustees agenda. It is on the board agenda for tomorrow, however, and it is the board that approves all policy changes. He said the committee makes recommendations for policy changes.

Mr. Jacksha reviewed a summary of policy changes:

1. Page 3, remove manager and consultant selection authority of the Investment Committee.
2. Page 4, transfer those duties to a Staff Selection Committee.

Mr. Jacksha said the Investment staff would be selecting managers and consultants with the exception of the general investment consultant. This is an issue the NMERB discussed along similar lines two years ago, when the executive director of Arizona's pension fund discussed their process and commented that the board, as an oversight authority, has an inherent conflict in choosing managers and then overseeing that process. The board decided not to make a change at the time, and Mr. Jacksha said he thought now would be a time to take another look at this.

The IC approved the following changes at the July meeting. They are included again to present a complete draft:

3. Page 5 "RISK CONTROLS", removes the maximum allocation of 25% in a manager's investment product. From a risk control standpoint, the exposure to a certain percentage of a product is irrelevant. The dollar amount is the defining factor for exposure.
4. Page 8, change the assumed rate from 7.25% to 7% to reflect the board's action taken earlier this year.
5. Page 9, change allowable range of cash allocation, increasing the maximum allowed.
6. Page 15, allow the Chief Investment Officer to delegate proxy voting responsibilities to another staff member.
7. Pages 18 and 19, minor changes to proxy voting details to be consistent with formatting.

Responding to Ms. Cameron, Mr. Jacksha said the Investment Committee will still monitor the operations, and manager write-ups will be distributed to all board members, including Investment Committee members. If the Investment Committee is not reviewing and approving manager selection, it may not be necessary for the committee to meet every month, as it does now, and could instead meet quarterly. The policy does not discuss timeframe at all, however.

**Mr. Magid moved to recommend the board approve the changes to the Investment Policy Statement. Ms. Cameron seconded the motion, which passed unanimously.**

#### **4. INVESTMENT SERVICES PROCUREMENT POLICY DRAFT REVISION**

Bob Jacksha stated that there are only two basic changes to this policy:

1. Changing the effective date to October 1, 2020.
2. Moving the selection authority from the Investment Committee to staff.

**Mr. Magid moved that the Investment Committee recommend the board approve the changes to the Investment Services Procurement Policy. Ms. Cameron seconded the motion, which passed unanimously.**

#### **5. TOP TIER INVESTMENT CONTRACT – PRIVATE EQUITY**

[Presenter: Aaron Armstrong, Steve Neel, and Top Tier managing director Jessica Archibald]

Mr. Armstrong presented an overview of the five-year relationship between Top Tier Capital Partners (TTCP) and the NMERB, and staff's recommendation that the Investment Committee approve a contract with Top Tier for Private Equity consulting services at an annual cost of \$100,000 with an annual inflation adjustment.

Mr. Armstrong stated that TTCP, with its proven venture domain expertise, is now slated to be an additional pillar in the NMERB's Centers of Excellence initiative by supporting venture investments. With this advisory contract, NMERB and TTCP will work together to create world-class venture programs.

Ms. Archibald discussed highlights of the consulting contract. TTCP will help staff underwrite two or more venture capital commitments per year, essentially serving as an extension of the investment team while providing market intelligence and other insights. She also discussed creating a second Separately Managed Account, similar to the 2017 SMA, sometime in the future.

Mr. Magid asked if staff sees any looming opportunities in the midst of this pandemic.

Mr. Neel responded that opportunities during economic downturns tend to appear in secondaries, and having a separate account that has the ability to execute in primaries, secondaries, and co-investments, is particularly advantageous. In addition, discounts in the venture space are much more aggressive. Ms. Archibald agreed, noting that they are seeing very good discounts in secondary opportunities. She added that they are seeing a lot of opportunities in two areas on the primary side. One is in opportunity funds, where companies need to raise an additional round of funding because of delayed exits, or where early stage venture companies are raising cash to invest in prior companies of theirs. They are also seeing increased access to managers where the endowments or corporate venture funds are pulling back and decreasing exposure because the corporation itself is struggling.

Mr. Jacksha commented that finding quality venture capital managers has been a challenge since the beginning of the NMERB private equity program, as the supply is rather limited and the demand is rather high. Having a partner like TTCP is very valuable to the NMERB, and they have been a good partner. He added that, in this new procedure that the NMERB is following with multiple consultants with focused expertise, not only does the NMERB hope to drive better outcomes, it is also reducing its costs from a contractual standpoint.

**Ms. Cameron moved that the Investment Committee approve a contract with Top Tier Capital Partners for Private Equity consulting services. The annual cost of the contract is \$100,000 with an annual inflation adjustment. The 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.**

## **6. Q4 2019 PRIVATE EQUITY REPORT**

[Presenter: Steve Neel and consultant Sean Gill, NEPC]

Mr. Neel presented highlights:

- For the 4th quarter, the private equity portfolio returned 4.5 percent.
- For the year ending 12/31/19, the private equity portfolio returned 12.5 percent.
- Trailing 5-year and 10-year returns for the program are 12.3 percent and 13.5 percent respectively.
- To date, the private equity portfolio has added approximately \$1.2 billion in value either through cash distributions or the value inherent in general partners' portfolios. The portfolio has received 67 cents back in cash for every dollar contributed to the program.
- The portfolio is first or second quartile with a few vintage year exceptions. In 2010 and 2011, which were third quartile, the portfolio was more defensively positioned toward

“cash generative strategies” because much of the focus was on economic downturn and the need for near-term liquidity as a tradeoff for forgoing longer term multiples and IRRs.

Mr. Gill reviewed highlights for individual funds.

Mr. Jacksha said the committee will recall that there is typically a 3-4 month lag in reporting, but at the end of the year, it is even longer because all of the underlying portfolio companies and funds go through their audits, which adds more time. In addition, the NMERB just switched reporting from Top Tier to NEPC, and this is NEPC's first report for the NMERB in a few years.

**7. OTHER REPORTS AND DISCUSSION**

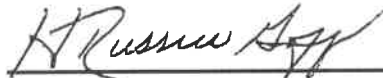
None.

**8. NEXT MEETING: THURSDAY, SEPTEMBER 17, 2020**

The meeting was scheduled at 1:00 p.m.

**ADJOURN**

The meeting adjourned at 2:25 p.m.



H. Russell Goff, Chairman