

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

**December 6, 2018**

**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  
Mr. Larry Magid

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Bob Jacksha, CIO  
Mr. Mark Canavan, Real Estate Portfolio Manager [by phone]  
Mr. Steve Neel, Deputy CIO, Alternative Assets

**Others Present:**

Mr. Steve Gruber, Hamilton Lane  
Mr. Brent Burnett, Hamilton Lane  
Mr. Kevin Tatlow, Top Tier  
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: October 18, 2018**

**Mr. Magid moved approval of the October 18 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.**

d. Introduction of Guests

Chairman Goff welcomed staff and consultants.

2. BP NATURAL GAS OPPORTUNITIES PARTNERS II – NATURAL RESOURCES

[Presenters: Mark Canavan and Hamilton Lane consultants Steve Gruber and Brent Burnett.]

Mr. Canavan presented staff's recommendation of an additional \$15 million commitment to BP Natural Gas Opportunity Partners II. The committee previously approved a \$35 million commitment to this fund in November 2017.

Mr. Canavan said the ERB's relationship with BP Capital began in 2015 with a \$30 million commitment to Fund I. The recommended sizing for the ERB's Fund II commitment was consistent with pacing guidelines at the time of the recommendation, and Fund I had yet to return any meaningful capital back to investors. There have been positive developments since then, including the expected realization of the ERB's invested capital in Q1 2019, which would significantly reduce overall exposure to BP Capital.

Mr. Canavan also presented a summary of staff's recommendation of a \$50 million commitment to Basin Acquisition Fund II for the Natural Resources portfolio (next agenda item). He stated that the vetting and negotiation process in this fund took more than a year.

[Mr. Canavan signed off.]

Mr. Burnett stated that BP Capital targets lower-middle market energy companies in North America that stand to benefit from substituting oil-based fuels to lower cost natural gas. This has been a very good relationship for ERB dating back to 2015, when it was one of the early anchor investors in that first institutional fund and subsequently bought a secondary from that fund, when it also acquired a share of the carried interest economics. Both of those positions have continued to perform exceptional well. They came back to market about a year ago, when Hamilton Lane recommended a \$35 million investment. Since then, BP has returned over 60 percent of ERB's invested capital in Fund I. They have another realization that just went under LOI this week and is expected to return another 60 percent on the ERB's invested capital early next year.

Mr. Burnett said Hamilton Lane is therefore recommending an increase of \$15 million to Fund II.

Mr. Jacksha asked if there is much of an effect on BP from the recent drop in oil prices. Mr. Burnett responded that there isn't, which is what Hamilton Lane likes about their strategy. BP had Paradigm in their portfolio, which was a very high growth midstream system that they built in the core of the Permian, which was a big realization they had earlier this year. They were also invested in Mesa Energy Solutions, which builds generators that power well site activity and uses the flared gas at the low end to power the well operations.

**Ms. Cameron moved that the Investment Committee approve an additional \$15 million commitment to BP Natural Gas Opportunity Partners II for the Natural Resources 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 in 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. BASIN ACQUISITION FUND II – NATURAL RESOURCES**

[Presenter: Brent Burnett, Hamilton Lane]

[See Mr. Canavan’s presentation under the previous agenda item.]

Mr. Burnett stated that Basin’s strategy is to invest in non-operated oil and gas interests in the U.S. Non-operated interests represent partial ownership of oil wells, whereby the owner is responsible for funding their share of expenses and collects their share of revenues while the wells are managed by the operator. These interests represent a large share of U.S. oil production, yet many owners consider these assets to be non-core, creating attractive investment opportunities to purchase them in off-market transactions. The holders of these interests tend to be high net worth individuals. He said it is a very inefficient market but lends itself to a group with strong sourcing networks.

Mr. Burnett noted that the holder of a non-operated interest has the right to propose a new well or to decide not to participate in a well that the operator wants to drill. Behind Basin’s founders Stephen Howard and Mason Manulik is a very deep technical operations team at the firm that assesses the geology and engineering of these non-operated interests. He stressed that non-operated interest holders are not passive bystanders; there is a great deal of technical assessment that goes into acquiring those positions, and they still have the ability to drive value.

Mr. Burnett stated that, prior to founding Basin, Messrs. Howard and Manulik worked together at Bluestem Energy Partners, L.P. which was a portfolio company of Quantum Energy, a highly regarded energy private equity firm. Mr. Howard’s role at Bluestem centered on sourcing and acquiring attractive land positions for development in the Permian. After the sale of Bluestem, Mr. Howard and the team saw a substantial opportunity in the non-operated space given a lack of focus on these interests from other operators, and founded Basin in 2014.

Mr. Burnett stated that ERB staff and Hamilton Lane spent considerable time negotiating the terms in this investment, in return for which ERB received substantial governance and economic benefits.

Basin President/CEO Stephen Howard and CFO Mason Manulik introduced themselves and made a presentation.

[Representatives left the meeting.]

Mr. Jacksha said he thought this was a very interesting opportunity and it was a good portfolio fit.

**Mr. Magid moved that the Investment Committee approve a commitment of \$50 million to Basin Acquisition Fund II, L.P. and affiliated entities for the Natural Resources 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 in 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.**

Mr. Burnett stated that political contribution disclosures showed no relevant contributions. Although Basin uses a placement agent, it will not be compensated for the New Mexico commitment.

#### **4. Q2 2018 REAL ESTATE AND NATURAL RESOURCES REPORT**

[Presenter: Steve Gruber and Brent Burnett, Hamilton Lane]

Mr. Gruber presented this report, with the following highlights:

- Capital committed: \$2.2 billion with a current market value of \$1.4 billion. There is \$700 million of committed capital that has not yet been called.
- There are 29 different relationships in 50 funds.
- Since-inception returns are 11.6 percent (since 2003).

Mr. Gruber reviewed Hamilton Lane's memo on policy compliance, which noted that, as of June 30, 2018, the Real Estate portfolio complied with the Investment Policy Statement in all respects except for the ERB's position in Brookfield US Value Income REIT Strategy, which comprises 30.12 percent of the ERB's overall Real Estate portfolio and exceeds the sub-asset class allocation maximum of 30 percent to Public Real Estate Securities. He said Hamilton Lane will work with staff to reallocate capital to rebalance the Real Estate portfolio over a 12-to-24 month period of time in the event that the portfolio varies from the policy ranges.

Mr. Gruber said Hamilton Lane plans to make a "small tweak" to the agriculture policy. Mr. Jacksha stated that this will go to the Investment Committee in January or February and to the board at its February meeting for final approval.

#### **5. Q2 2018 PRIVATE EQUITY REPORT**

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

Mr. Neel presented the highlights for the Q2 report:

- Q2 return: 3.59 percent.
- Net IRR since inception: 13.1 percent.
- Cumulative value added: \$1,014,899,308, a first in hitting the \$1 billion mark. In the last quarter, it reached \$900 million.
- Q2 distributions: \$66,736,414.

-- Since 2013, the ERB has committed more than \$1 billion to the private equity program.

Mr. Tatlow reviewed investment performance in the private equity portfolio.

**6. OTHER REPORTS AND DISCUSSION**

None.

**7. NEXT MEETING: THURSDAY, JANUARY 17, 2019**

**ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 2:45 p.m.

Accepted by:

  
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H. Russell Goff, Chairman