

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

**March 21, 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 1:10 p.m. in the Educational Retirement Board offices, Suite A-319, 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. Mark Canavan, Real Estate and Real Assets Portfolio Manager

**Others Present:**

Mr. Steve Gruber, Hamilton Lane  
Mr. Brent Burnett, Hamilton Lane  
Mr. Ron Hulme, Bluescape  
Ms. Charmaine Clair, for 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: February 21, 2019**

**Ms. Cameron moved approval of the February 15 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.**

**d. Introduction of Guests**

Chairman Goff welcomed staff and consultants.

## 2. BLUESCAPE ENERGY FUND IV LP

[Presenters: Mark Canavan and Brent Burnett, Hamilton Lane]

Mr. Canavan presented staff's recommendation of a \$50 million investment in Bluescape Energy Fund IV, which is targeting \$600 million with a cap of \$850 million. This is a re-investment for the ERB. The fund will invest in distressed upstream energy and power opportunities, working collaboratively with its portfolio companies and creditors to restructure them for the current environment. The founders, John Wilder and Ron Hulme, are responsible for one of the largest turnarounds in the history of the U.S. utility markets, and the single largest private equity transaction in history at the time it was completed.

Mr. Canavan reviewed Bluescape's track record. Bluescape III (2016) a \$653 million fund in which the ERB is invested, has a gross IRR of 36 percent and a 1.6x gross multiple with 18 percent distributed in paid capital to date.

Mr. Burnett commented on Bluescape's unique strategy. He said nearly all of the capital that has been raised in the private equity energy space has been in groups that try and back management teams to acquire and drill and prove up acreage positions that they then look to flip. That is a very competitive market today, and lots of groups with large pools of capital are chasing those same transactions in the same basins. Bluescape does not play in that space; they are very opportunistic and source proprietary transactions, many times at very large holding company levels that they can get into and restructure. They primarily pursue three types of investments in the energy space: deep value equity, restructuring partnerships, and long-term options.

Mr. Burnett said Fund III, which is in the ERB portfolio, is one of the strongest-performing energy managers in the portfolio. That fund was raised in 2014-2015 and was deployed at a time when commodity prices were higher. Prices have since come off quite a bit, and yet the fund is still showing a very strong return. Hamilton Lane feels this is representative of the fact that their strategy is not correlated to commodity prices.

Mr. Burnett said Parallel Resources was a fund that was raised when oil was about \$100 a barrel. The fund was dedicated to upstream activities, so it could only deploy capital into upstream energy opportunities, and because of that, it had a higher commodity price correlation. Today, that is marked at a .7x gross multiple. A public market equivalent during that same timeframe would be market at a .4 or .5, so there has still been significant outperformance relative to what commodity prices did, but Parallel Resources has underperformed by virtue of its targeted strategy.

Mr. Burnett also noted that the team is contributing a lot of their own capital to this fund, as they did in Fund III.

Mr. Jacksha recommended approval. He said this is a good strategy, they did well with the first fund, and the team remains unchanged.

**Ms. Cameron moved that the Investment Committee approve a commitment of \$50 million to Bluescape Energy Partners IV, L.P. for the Real 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. REAL ASSET INVESTMENT POLICY DRAFT REVISION**

[Presenter: Mark Canavan]

Mr. Canavan reviewed changes section 4.2.3 (Investment Alternatives) in the Agriculture category. He explained that, when the ERB started its agriculture program, there were only three meaningful funds, and the only other agriculture funds available were too small to consider for an ERB investment. This led to a decision to hire Halderman Farm Management Services. Since then, however, the vast majority of the opportunities have been in agriculture-related companies and not necessarily farmland companies. Staff wants to broaden its ability to invest in agricultural-related businesses, and is proposing amendments to allow for that. These changes include changing the category from Farmland to Agriculture, and inserting “traditional agriculture, as well as related agriculture value-chain industries” while allowing for strategies to have a component of value underpinned by farmland, pastureland and/or fixed assets. “Row and field crop land, irrigated and non-irrigated, permanent plantings such as fruit and nut trees and vines, multiyear crops such as sugar cane and alfalfa” would be deleted. Strategies focused on farmland would include permanent and annual crops.

Mr. Jacksha stated that, following committee approval, the full board would consider final approval at the April meeting.

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

### **4. OTHER REPORTS AND DISCUSSION**

Mr. Jacksha stated that the NEPC flash report for February, to be released later today, reflects a 1 percent return for the month.

### **5. NEXT MEETING: THURSDAY, APRIL 18, 2019**

Mr. Jacksha said the next committee meeting potentially would have a full agenda, and suggested noon as a tentative start time.

**ADJOURN**

Its business completed, the Investment Committee adjourned the meeting at 1:40 p.m.

Accepted by:

  
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H. Russell Goff, Chairman