

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

September 19, 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 1:00 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 [telephonically]

Members Excused:

Mr. Larry Magid

Staff Present:

Mr. Bob Jacksha, CIO
Mr. Steve Neel, Deputy CIO, Alternative Assets

Others Present:

Mr. Allan Martin, NEPC
Mr. Kevin Tatlow, Top Tier
Ms. Charmaine Clair for Judith Beatty, Recorder

b. Approval of Agenda

Ms. Cameron moved approval of the agenda, as published. Chairman Goff seconded the motion, which passed unanimously.

c. Approval of Minutes: August 22, 2019

Ms. Cameron moved approval of the August 22 minutes, as submitted. Chairman Goff seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed staff and consultants.

2. EDISON PARTNERS BUYOUT FUND I, L.P.

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

Mr. Neel presented staff's recommendation of a \$30 million commitment to Edison Partners Buyout Fund I. In addition, staff is recommending approval of another \$25 million in Edison VII, Edison VIII and Edison IX, which would allow staff the discretion to pick up a secondary transaction in the Edison family of funds.

Mr. Neel said the ERB has had a relationship with Edison since 2011, and this will be the fourth Edison fund the ERB has committed to. The ERB committed \$30 million in a 2011 vintage fund; \$40 million in a 2015 vintage fund; and \$50 million in a 2018 vintage fund. All of those commitments were under the ERB's growth equity banner, which has been a very successful sub-strategy for the ERB. This fund, however, will target similar companies to Edison's growth funds, but will focus solely on companies where a controlling equity position can be obtained.

Mr. Neel said the Edison platform offers a full complement of services. When they are courting a portfolio company, they can offer help through a growth equity fund, or the owner could cash out in a controlled structure.

Mr. Tatlow said the fund will focus on small to medium-sized buyout investments in growing software and technology-enabled businesses in the Eastern U.S., targeting 4-6 investments from \$25 to \$50 million.

Mr. Tatlow discussed the pros and cons of this strategy. On the pro side, this strategy is similar to what has been used by Edison in the past, and they are actively sourcing these companies and taking their time in making investments, which often leads to a much lower entry valuation than their peers. Funds VII and VIII have experienced much better performance than prior Edison funds, which Top Tier and ERB staff believe is because of refinements in the investment strategy and the change in leadership. In addition, the team has built a substantial platform to cater to the needs of its portfolio companies with the "Edison Edge" Value Creation platform. He also noted that the Eastern U.S. focus is in a far less competitive atmosphere than the West and will provide exposure to growing companies at lower valuations. On the con side, there has been an almost constant strategy evolution at the firm, which Top Tier feels is based on a good understanding of what is working and what is not working. In addition, there were numerous transitions at the firm beginning with the retirement of founder John Martinson. Under the leadership of Chris Sugden, the organization has made several senior hires and added junior members to the investment team.

Mr. Jacksha noted that, while normally the ERB doesn't ask fund representatives to appear before the committee with follow-on funds, this is a different strategy and staff elected to have them appear today.

Mr. Neel introduced Managing partner Christopher Sugden and partner Kelly Ford, who made a presentation.

[Mr. Sugden and Ms. Ford left the room.]

Mr. Jackson commented that Edison has been a good partner, and returns have been good. He recommended approval.

Ms. Cameron moved, seconded by Chairman Goff, that the Investment Committee approve a commitment of \$30 million to Edison Partners Buyout Fund I, LP for the Private Equity portfolio. The commitment is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval of 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 \$25 million, in secondary partnership interests offered by other limited partners in the Edison funds that NMERB has invested, should they become available from time to time. The motion passed unanimously.

3. DERIVATIVES MANAGER PROCUREMENT

[Presenter: Mr. Jacksha]

Mr. Jacksha stated that, as part of the recent asset allocation and investment policy change approved by the board at the last meeting, staff indicated that they would be hiring an outside manager. Per the policy, staff would come to the committee for approval of the type and method of procurement, which would be “independent research and selection process with negotiated price.” He said staff has identified and spoken with three or four managers that are qualified, but because the number of qualified managers is fairly limited, staff does not feel that going through the RFP process is justified.

Mr. Jacksha asked the committee to authorize staff to use the method of procurement discussed. He said there is no set time for when this will be done, but they would come back to the committee for approval to hire one manager or possibly two managers.

Ms. Cameron moved that the Investment Committee authorize the investment staff to use the “independent research and selection process with negotiated price” procurement method in the selection for derivatives manager procurement. Chairman Goff seconded the motion, which passed unanimously.

4. OTHER REPORTS AND DISCUSSION

Responding to Ms. Cameron, Mr. Jacksha said that, in private equity, there isn't anybody that the ERB is involved with that are in private prisons. He said staff always looks at what sectors a manager invests in, and none of them have indicated that they invest in private prisons. When these questions have come up, staff has taken a second look to be sure there is no exposure there. If a manager were to target private prisons, the ERB would know that on the front end.

Chairman Goff thanked Mr. Jacksha for a very positive report before the Legislative Finance Committee.

5. NEXT MEETING: THURSDAY, OCTOBER 17, 2019

ADJOURN

The meeting adjourned at 1:50 p.m.



H. Russell Goff, Chairman