

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT COMMITTEE

October 17, 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
Mr. Larry Magid [by telephone]

Members Excused:

None.

Staff Present:

Mr. Bob Jacksha, CIO
Mr. Mark Canavan, Real Estate & Real Assets Portfolio Manager
Ms. Kay Chippeaux, Deputy CIO, Public Markets & Credit

Others Present:

Mr. Allan Martin, NEPC
Mr. Chris Hill, NEPC [by telephone]
Mr. Howard Kaplan, Hamilton Lane
Mr. Brent Burnett, Hamilton Lane
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: September 19, 2019

Ms. Cameron moved approval of the September 19 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed guests and staff.

2. EASTERN TIMBERLANDS III – NATURAL RESOURCES

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

Mr. Canavan introduced Mark Seaman, president and CIO of Timberland Investment; Chung-Hong Fu, chief economist; and Tiffanie Starr, acquisitions manager.

Mr. Canavan presented staff's recommendation of a \$50 million investment in Eastern Timberlands Opportunities III, which is seeking to raise \$200 million targeting timberland mainly in the Southeastern and Eastern United States.

Mr. Canavan stated that, although the demand for timber collapsed in the 2008-09 downturn, pricing has since recovered in the Pacific Northwest and other parts of the country, so it is not necessarily in favor in other parts of the United States. Staff and Hamilton Lane are bringing this investment recommendation forward because it targets Southeastern timberlands. The management team believes it can use its active management strategy to increase land and timber values.

Mr. Canavan said their prior funds have all outperformed the NCREIF national index by anywhere from 19 basis points to more than 53 basis points; and for NCREIF South, while their first investment was 73 basis points under the index, for the last two funds, which were institutional-type funds that the ERB would be investing in, outperformance was 267 basis points and 442 basis points over their relative index.

In terms of why Southeastern timberland is an excellent investment, Mr. Canavan said he personally believes that this is a once-in-a-lifetime opportunity within the timber space because of the convergence of several different factors going on both regionally and globally. After the collapse of the real estate markets during the global financial crisis, other U.S. timber markets fully recovered and in some instances are beyond their former levels. The Southeast, however, has never fully recovered and in some instances is 40 percent off of its highs, so there is a tremendous amount of room to be able to move upward in those markets before even reaching prior levels. He cited other advantages in the region over the Pacific Northwest and Canada, along with other reasons why this is a compelling opportunity.

Mr. Burnett said this team has very deep expertise in this space. Timberland Investment Resources (TIR) was formed in 2003, but before that, Mr. Seaman had formed a very similar strategy at Wachovia Bank.

Mr. Jacksha commented that this group has done well for the ERB in the past, so he supported this recommendation.

Ms. Cameron moved that the Investment Committee that the Investment Committee approve a commitment of \$50 million to Eastern Timberland Opportunities III, L.P. for the Natural Resources 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 Eastern Timberland Opportunities III fund should they become available from time to time. The motion was seconded by Mr. Magid and passed unanimously.

Mr. Seaman stated that TIR has really enjoyed its relationship with the ERB over the last few years, and its staff will work hard to make this new investment a success for the ERB.

3. DISTRIBUTION OF INCREASED ALLOCATION TO REAL ESTATE PORTFOLIO

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

Mr. Canavan noted that, because the board recently increased its target allocation to real estate from 7 percent of the total portfolio to 8 percent, Hamilton Lane updated pacing requirements to grow the real estate portfolio's market value towards the new target. This results in a commitment pace of approximately \$220 million per year, up from previous forecasts of \$160 million per year.

Mr. Canavan said staff and Hamilton Lane are therefore recommending that the ERB take advantage of an opportunity to increase commitments to three existing funds that were recently approved by the Investment Committee. These "top-up" commitments would bring the commitment to each fund to \$50 million; on a combined basis they would total \$55 million across the three funds.

Recommendations are as follows:

- Ram Realty Fund—commit an additional \$10 million for a total of \$50 million
- Sares Regis Multifamily Fund III—commit an additional \$20 million for a total of \$50 million
- Realterm Logistics Fund III—commit an additional \$25 million for a total of \$50 million

Mr. Jacksha remarked that there are two choices with this increased allocation. One is to add more managers, and the second is to do what is being recommended here, which is to give more to the managers. Doing it this way is in accordance with the ERB's philosophy of having fewer managers and larger commitments, which also makes sense from an administrative standpoint.

Ms. Cameron moved that the Investment Committee approve an additional commitment of \$10 million plus notional interest to Ram Real Estate Fund V; an additional \$20 million plus notional interest to Sares Regis Multifamily Fund III, and an additional \$25 million to Realterm Logistics Fund III for the Real Estate portfolio. The commitments are subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval of placement agents, negotiation of final terms and conditions, and completion of appropriate paperwork. Mr. Magid seconded the motion, which passed unanimously.

4. U.S. AG. INVESTMENT PERIOD EXTENSION – NATURAL RESOURCES

[Presenters: Mark Canavan and Hamilton Lane consultants Brent Burnett and Howard Kaplan]

Mr. Kaplan made a slide presentation on farmland investing, historical returns, global demographics and demand drivers, supply factors (including water and climate) and financial factors.

Mr. Burnett said Halderman, later called US Ag (after merging with Halderman) began managing a \$50 million commitment to farmland through a non-discretionary separate account for ERB in February 2013. In February 2018, the ERB extended the term of the Separate Account by two years and allocated an additional \$25 million to it. He noted that a separate account gives the ERB the flexibility to own these assets perpetually. The unique and attractive elements of the account are the governance and control elements that were set up for it, which provide the ERB with significant control and flexibility, including approval rights over all acquisitions and affiliate transactions, and the ability to remove the manager within 30 days with or without cause.

Mr. Burnett said US Ag has done a very good job with the portfolio to date, tracking a 6 percent gross return, which is consistent with the NCREIF Index. A couple of properties were only acquired recently, so their business plan has yet to be realized.

Mr. Burnett said Hamilton Lane and staff recommend that the ERB extend the management agreement and investment period of the separate account by up to an additional four years to February 2024.

Mr. Jacksha said he supports this recommendation, which is intended to diversify the portfolio and therefore makes good sense from a portfolio standpoint.

Ms. Cameron moved that the Investment Committee approve a 4-year extension to both the term and investment period of ERB's farmland separate account as managed by US Agriculture. The extensions are subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents, negotiation of final terms and conditions, and completion of appropriate paperwork. Mr. Magid seconded the motion, which passed unanimously.

5. INFRASTRUCTURE PERFORMANCE

[Presenter: Mark Canavan]

Mr. Canavan presented this report on behalf of Caledon consultant Asif Hussain, who was en route to this meeting but had been delayed.

Highlights from the report from data as of June 30, 2019:

- Portfolio fair value: \$422,053,155
- Unfunded commitments: \$216,512,676
- Portfolio inception date: June 2008
- Total number of fund investments: 12
- Total number of direct investments: 17
- Net IRR since inception: 6.9 percent

6. VÄRDE FUND XIII – OPPORTUNISTIC CREDIT

[Presenter: Kay Chippeaux, NEPC advisor Allan Martin and NEPC research consultant Chris Hill on phone]

Ms. Chippeaux presented staff's recommendation to commit \$102 million to Värde Fund XIII for the Opportunistic Credit portfolio. Värde was founded in Minneapolis in 1993 and now has a global presence in the U.S., Europe and Asia. Since its inception 26 years ago, they have developed a depth and breadth of experience that gives it flexibility and insight to invest in opportunities that have good risk and return value relative to other investments around the world. The proposed investment will continue to diversify the Opportunistic Credit portfolio by geography, particularly with regard to Asia-focused investments, and the fund is expected to provide a balanced exposure across opportunistic and distressed or special situations credit.

Ms. Chippeaux stated that, since the ERB changed its asset allocation, the Opportunistic Credit portfolio allocation overall is 16 percent, but current holdings are at about 17 percent. Several distributions from the existing funds are expected,

however, and the ERB also wants to help the overall portfolio stay fully invested as the other sectors increase their allocations.

Mr. Hill discussed Värde's strategy. The firm has historically sought to identify undervalued and inefficient markets, determine the resources and strategies necessary to invest in such markets and execute the required strategies to benefit from the opportunities. They are looking at opportunities in Asia, and particularly in India, where there are some regulatory reforms around the corporate sector.

Mr. Hill stated that the fund has raised just over \$2 billion and will have a final close in December. The strategy targets a 12-15 percent net IRR and a 1.8 to 2.0 net multiple. He said they have five main buckets: corporate and traded credit; specialty finance; real estate; mortgages; and real assets and infrastructure. He said they have about 100 investment professionals located across the world working within those five buckets.

Värde CEO George Hicks and managing director Eric Perry appeared before the committee and made a presentation.

[Representatives left the meeting.]

Mr. Jacksha said this is an extension of what the ERB has been doing for a while with the portfolio, which is to move the portfolio around to follow the opportunities because they are not where they used to be. Given the ERB investment team philosophy of investing in emerging markets, he said it is important to have somebody on the ground and in the region, and Värde does have offices in Asia, which gives him comfort.

Ms. Chippeaux said Värde is an experienced global manager, including Asian experience, and it has such depth in the team that it can be nimble and flexible as opportunities change.

Chairman Goff commented that their portfolio is very large and diverse. Ms. Chippeaux said Värde currently has about \$14 billion in total assets under management, and this fund will end up being slightly over \$2 billion.

Ms. Cameron moved that the Investment Committee approve a commitment of \$102 million to the Värde Fund XIII for the Opportunistic Credit portfolio. The commitment is subject to New Mexico State Law, Educational Retirement Board policies, Educational Retirement Board approval for placement agents, negotiation of final terms and conditions, and completion of appropriate paperwork. Chairman Goff seconded the motion, which passed unanimously. [Mr. Magid was not present for the vote.]

7. OTHER REPORTS AND DISCUSSION

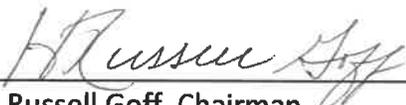
None.

8. NEXT MEETING: THURSDAY, NOVEMBER 7, 2019

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

ADJOURN

The meeting adjourned at 3:00 p.m.



H. Russell Goff, Chairman