

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INVESTMENT COMMITTEE

TELEPHONIC/VIRTUAL MEETING

July 16, 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.

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. Mark Canavan, Real Estate & Real Assets Portfolio Manager

Mr. Casey Poe, Compliance and Portfolio Manager

Ms. Francine Jacquez, Portfolio Manager

Mr. Alan Myers, Manager of Operations

Others Present:

Mr. Allan Martin, NEPC

Mr. Brent Burnett, Hamilton Lane

Mr. Aaron Hamilton, Moss Adams

Ms. Judith Beatty, Recorder

Opening comments by the Chair

Chairman Goff said he would like to remind guests that are attending virtually, perhaps to make a comment on divestiture or private prisons, that the Investment Committee does not

have an agenda item for public comment. All information that has been sent to the NMERB on the divesture/private prisons issue has been forwarded to board members. He said persons wishing to make public comment would be able to do so at the Board of Trustees meeting scheduled on Friday, August 14.

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: May 21, 2020

Ms. Cameron moved approval of the May 21 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

d. Introduction of Guests

Mr. Jacksha introduced Francine Jacquez, who joined the ERB in April and works with Kay Chippeaux as a portfolio manager at the Santa Fe office.

In discussing her background, Ms. Jacquez stated that she was most recently chief investment officer at Santa Fe Community Bank, where she managed their fixed income investment portfolio.

2. SMALL INVESTMENT-RELATED PURCHASES NOTIFICATION

[Presenter: Alan Myers]

Mr. Myers stated that, in FY 2016, the Investments Division changed the procedure for renewing small investment service contracts. As part of that change, staff is notifying the Investment Committee of the contracts approved for renewal by the Executive Director, which are in a memorandum in the committee packet. He said these contracts fall under the definition of Small Investment-Related Purchases, which may be approved by the Director of the ERB, and include all agreements that have automatic or specific term renewal provisions for amounts currently \$60,000 or less.

3. INVESTMENT POLICY STATEMENT DRAFT REVISION

Mr. Jacksha noted that the biggest change to the Investment Policy Statement would eliminate the Board Investment Committee, which General Counsel Susanne Roubidoux feels would require a statutory change. He suggested that the committee not pursue this until that question is resolved.

Ms. Goodwin said Ms. Roubidoux consulted with the ERB's fiduciary attorney, David Groom, who also feels a statutory change would be necessary.

Mr. Jacksha said there are other changes in the Investment Policy statement that he feels should be pursued. He reviewed a summary of those changes:

9. Page 6, under RISK CONTROLS, removes the maximum allocation of 25 percent 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.
10. Page 9, change the assumed rate from 7.25 percent to 7 percent to reflect board's action taken earlier this year.
11. Page 10, change allowable range of cash allocation, increasing maximum allowed.
15. Page 16, allow Chief Investment Officer to delegate proxy voting responsibilities to another staff member.

16. Pages 19 and 20, minor changes to proxy voting details to be consistent with formatting.

Mr. Magid moved to recommend approval by the full board of the changes that Mr. Jacksha has suggested in the Investment Policy Statement. Ms. Cameron seconded the motion, which passed unanimously.

Ms. Cameron said she would like the Investment Policy to include language stating in effect that careful consideration would be given to any investments that might do harm to children. She asked that the Investment Committee take up this discussion at its next meeting on August 13.

4. TPG GROWTH FUND V – PRIVATE EQUITY

[Presenters: Steve Neel and BlackRock consultants Kamal Maruf and Monica Dyches]

Mr. Neel presented staff's recommendation that the Investment Committee approve a commitment of \$60 million to TPG Growth Fund V for the Private Equity portfolio.

Mr. Neel said TPG Growth is the single largest relationship that NMERB has across its private equity platform; and to date, \$300 million is committed in four separate TPG funds:

- 2011, TPG Growth Fund II, \$75 million. Performance: 16.27% IRR, 1.99x TVPI. As of Q2 2020, gross IRR of 21% and a 2.1x TVPI
- 2015, TPG Growth Fund III, \$100 million. Performance: 17.33% IRR, 1.37x TVPI. As of Q2 2020, gross IRR of 20% and 1.7x TVPI
- 2017, TPG Growth Fund IV, \$100 million. Performance: -12.28% IRR, 0.88x TVPI. As of Q2 2020, gross IRR of 8% and 1.1x TVPI
- 2017, TPG Rise Fund I, \$25 million. Performance: -0.26% IRR, 1.00x TVPI. As of Q2 2020, gross IRR of 9% and 1.1x TVPI

Mr. Neel said performance across TPG's growth platform has been consistently 1st or 2nd quartile. Most impressively, the growth platform's impairment rate has been less than 10 percent, and this is in a space where investments are in high quality growth and late stage venture. In Fund II, which is in its ninth year, the NMERB has received \$1.80 in cash for every dollar it has paid in, and it is estimated that this fund will ultimately sit at 2.1x. He also noted that the TPG growth platform has generated more than \$5.4 billion in liquidity since 2018.

Mr. Neel said Fund VI will be in growth, growth buyout, and late state venture. They will be geographically diversified, with 80 percent invested in developed markets and 20 percent in developing markets. Their sweet spot is in healthcare, business services, and technology.

BlackRock representatives Kamal Maruf and Monica Dyches made a presentation.

Responding to Ms. Cameron, Mr. Neel said BlackRock is underwriting this investment in partnership with the NMERB, and no capital will be flowing to BlackRock as part of this investment.

Ms. Cameron said she knows BlackRock invests in private prisons. Mr. Neel clarified that private prisons are not part of TPG Growth's mandate.

Mr. Jacksha said TPG is a good organization and has some good depth, and this relationship has worked very well for NMERB. In addition, Mr. Neel sits on the LPAC board, so knows the organization very well.

Mr. Magid moved that the Investment Committee approve a commitment of \$60 million to the TPG Growth Fund V for the Private Equity 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. 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 TPG Growth Fund V should they become available from time to time. Ms. Cameron seconded the motion, which passed, with Ms. Cameron in abstention.

5. Q1 2020 PROXY VOTING REPORT

Mr. Magid moved to accept the proxy voting report. Ms. Cameron seconded the motion, which passed unanimously.

6. Q4 2019 REAL ESTATE AND NATURAL RESOURCES REPORT

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

Mr. Canavan presented this report and reviewed performance numbers. He noted that the total portfolio net IRR was 11.56% as of 12/31/2019.

Mr. Burnett commented that the portfolio is very well diversified across various subsectors in real assets, which is especially important right now with so much volatility in the financial markets. He noted that about 4-5 percent of the total portfolio is in upstream energy, which has seen the most volatility in this market, and the balance of the energy exposure is in midstream and power, neither of which has experienced the impact of COVID-19 to the extent that some of the upstream companies have. While the largest component of the natural resources portfolio is energy, it is in midstream energy. Upstream energy had the biggest negative change between Q4 and Q1 of this year. Since inception, however, the performance of the energy portfolio in aggregate on 12/31/2010 was 14 percent, so it has historically been a strong performer in the portfolio. With the commodity price corrections as a result of massive

demand shocks from COVID-19 related travel restrictions, in addition to the supply shocks seen from OPEC countries not agreeing to a production curtailment, there were massive swings in pricing that troughed in Q1. Performance in the energy portfolio is expected to drop significant at the Q1 mark.

Mr. Burnett commented that the silver lining on the portfolio are two things: relatively limited exposure to energy; and that the names in the portfolio are overwhelmingly groups with very good liquidity, that have very conservative balance sheets, and are very well positioned to withstand near-term correction to commodity prices. While a downturn in energy performance can be expected in Q1, it is expected to snap back meaningfully in Q2 with downside protection expected from the timber, agriculture and water exposure in the portfolio.

Mr. Burnett stated that retail properties are of some concern in the real estate portfolio and can be expected to drop by 10-20 percent going into Q1. He said the GPs in the real estate portfolio tend to take a very conservative approach in their capital structures, however, and are reporting rent collections ahead of expectations going into April and May.

Mr. Jacksha asked how the hotel and resort sector is doing. Mr. Burnett responded that exposure is very limited, and the portfolios that are in that property have conservative capital structures and very little near-term debt issues coming up. Unlike some of the more travel-rated assets on the infrastructure side, there has been some rebound in the hotel sector.

Chairman Goff asked how the thousands of layoffs in the airline industry will impact the portfolio. Mr. Jacksha responded that, on the public equity side, the NMERB owns a lot of the large airlines in the indexes, so there will be some impact there; however, the NMERB has done very little on the aircraft leasing side. He said there is a little bit of aircraft leasing in the infrastructure portfolio, but the amount is relatively small.

Mr. Neel stated that the NMERB made a commitment to an aviation aggregator platform a few months ago, but that fund remains largely un-deployed, so the NMERB should be able to pick up assets at very reasonable pricing. He said the NMERB does have an aviation private equity fund that has subcontractors for Boeing, so there may be some short-term volatility with that.

7. Q1 2020 COMMISSION REPORTS

[informational.]

8. OTHER REPORTS AND DISCUSSION

Mr. Jacksha stated that June performance numbers will be slightly delayed because the books will be kept open until the last day of the month in order to get the most accurate performance possible.

9. NEXT MEETING: THURSDAY, AUGUST 13, 2020

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

ADJOURN

The meeting adjourned at 2:30 p.m.



H. Russell Goff, Chairman