

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INVESTMENT COMMITTEE

TELEPHONIC/VIRTUAL MEETING

September 17, 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. A quorum was present.

Members Present:

Mr. H. Russell Goff, Chair
Ms. Mary Lou Cameron
Mr. Larry Magid

Members Excused:

Mr. Steven Gluckstern.

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Rod Ventura, Deputy Director
Mr. Bob Jacksha, Chief Investment Officer
Mr. Steve Neel, Deputy CIO, Alternative Assets
Ms. Susanne Roubidoux, General Counsel
Mr. Mark Canavan, Investment Officer, Real Estate
Mr. Aaron Armstrong, Portfolio Manager
Mr. Casey Poe, Jr., Compliance Manager
Ms. Liz Lorang, Executive Assistant, Board Liaison
Mr. Duncan Manning, Fixed Income Analyst
Mr. G. Alan Myers, Investment Accounting & Operations Manager

Others Present:

Mr. Allan Martin, NEPC
Mr. Ben Challengren, Top Tier
Ms. Jessica Archibald, Top Tier
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: August 13, 2020

Ms. Cameron moved approval of the August 13 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

d. Introduction of Guests

Chairman Goff welcomed staff and guests.

2. ORBIMED PRIVATE INVESTMENTS FUND VIII

[Presenters: Steve Neel and Aaron Armstrong, NMERB; Ben Challgren, Top Tier]

Mr. Neel noted that the NMERB made a \$100 million commitment to the OrbiMed Credit & Royalty Fund III in 2019 for the Other Diversifying Assets portfolio, and today's recommendation will be the NMERB's first commitment to venture in 2020. NMERB has put a great deal of time and effort into its venture exposure, which resulted in a return of almost 24 percent in CY2019.

Mr. Armstrong presented staff's recommendation of a commitment of up to \$50 million to OrbiMed Private Investment Fund VIII for the Private Equity portfolio. He said OrbiMed is a leading global healthcare platform with approximately \$14 billion under management spanning across royalty and credit, public equity, and private equity. Staff believes that the platform's depth and breadth of relationships and experience provides a unique investing edge in the healthcare space. As an example of this, in less than one year from the date of the NMERB's investment in OrbiMed Royalty Credit Fund III, the compounding growth rate was at 11.8 percent.

Mr. Challgren said this is in one of the most attractive biopharma investment opportunities in the life sciences ecosystem. OrbiMed is raising \$1.4 billion, making this one of the larger funds in this space. The firm has a staged diversified focus on life sciences in biopharma medical devices and a key competency in biopharma, which is mostly therapeutic drug development. Referring to the performance review chart for Funds I through VII, he noted that all of the funds are either first or second quartile.

Mr. Challgren discussed OrbiMed's strengths. They have a focus on funding specific clinical products at key value creation inflection points. They underwrite deals to three-to-five-year exit time horizons, and this focus has helped them generate considerable early successful

outcomes across their funds. The senior OrbiMed team is one of the most stable across the private equity ecosystem.

In discussing concerns, Mr. Challgren said OrbiMed is raising more capital than their peers but they can probably deploy this as effectively as the rest of the ecosystem because they have a diversified stage focus and intend to invest this fund over a long period of time. Regarding potential senior management team turnover, he said OrbiMed GPs have now accrued a significant amount of carry from their prior funds and are entering their mid-fifties; however, there are no likely near-term transitions at the senior level.

Mr. Challgren said the OrbiMed portfolio is 30-50 percent in Start Up/Early stage, 30-50 percent Middle stage, and 10-30 percent Growth stage with its main focus (75-85 percent) in biopharma, which is the best performing subsector in the industry. Exposure will mostly (80-90 percent) be in North America. OrbiMed is unique in that they have expertise from company creation all the way up to public investing in life sciences because they have a very successful hedge fund. In terms of their private equity strategy, there is a lot of capital coming in at the late stage, generally from large public funds looking for crossover investments. OrbiMed's core competency is in setting up companies by taking science out of academia, or licensing a company spun out from big pharma.

Ms. Cameron asked if OrbiMed asked if there are any negative or questionable treatments being considered that might cause concern for the public. Mr. Challgren responded that OrbiMed are an ethical group and don't look at what might be considered investments that are "on the fringe."

OrbiMed representatives William Price and David Bonita, M.D. made a presentation.

Mr. Neel commented that OrbiMed's performance is mostly top quartile and the kind of venture exposure that NMERB will be looking for in the future. He added that these opportunities are very difficult to access, which is a tribute to both Ben Challgren and Aaron Armstrong for their hard work.

Mr. Jacksha agreed that this is a very good investment opportunity. In addition, it is gratifying to be participating in new healthcare solutions.

Mr. Magid moved that the Investment Committee approve a commitment of up to \$50 million to the OrbiMed Private Investment Fund VIII, L.P. 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 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 OrbiMed Private Investment Fund VIII, L.P. should they become available from time to time. Ms. Cameron seconded the motion, which passed unanimously.

3. HARVEST MLP EXTENSION – NATURAL RESOURCES

[Presenter: Mark Canavan; Brent Burnett, Hamilton Lane]

Mr. Canavan stated that, in 2016, NMERB committed \$50 million to a separate account managed by Harvest Advisors to invest in Master Limited Partnerships (MLPs) and midstream c-corps in the US midstream energy sector. The term was for four years with two one-year extensions, and the contract allows for termination at any time with 30 days' notice. In response to the question of why the NMERB would want to extend this contract given the state of the oil market, Mr. Canavan discussed the volatility of the oil market in recent years and why the MLP has performed as it has. NMERB is recommending the extension of this contract because it believes it would not be prudent to exit the account at this time at severely depressed prices. He stated that, over the next 12-18 months, the depletion of resources now in storage will cause drilling to come back on line, which will result in an uptick in oil prices. For that reason, NMERB is recommending a one-year extension to the contract.

Mr. Burnett said that, despite the performance, this is a very high quality portfolio that Harvest has continued to manage with some near-term struggles as a result of a demand environment that has been hampered by COVID. Depending on the price environment going forward, staff can come back anytime in the coming year and discuss a change to the portfolio, but now is not the time to do that.

Mr. Canavan added that, due to the quality of the portfolio, the fund is beating its index by 200-300 basis points, sometimes reaching 500 basis points, because of the quality of the picks that Harvest has made.

Mr. Jacksha clarified that the effective date of the extension was May 12, 2020. The date was missed because of staff turnover in Operations. Mr. Canavan added that staff has made a procedural change to prevent this from happening again.

Ms. Cameron moved that the Investment Committee approve a 1-year extension to the Harvest Advisors MLP separate account contract, effective May 12, 2020. The commitment and its extension are 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. Mr. Magid seconded the motion, which passed unanimously.

4. STAFF SELECTION COMMITTEE DISCUSSION

Ms. Cameron stated that Board Member Gluckstern could not attend today's meeting because of a prior commitment.

Mr. Jacksha reviewed a one-page outline describing the new Staff Selection Committee.

- **Membership**: Membership will be the CIO (Mr. Jacksha), who will chair the committee, plus two other members that will rotate and that will depend upon the investment under consideration. For instance, if Steve Neel is bringing a private equity investment, the two other members would be from the other side of the house from Kay Chippeaux's group, and she would decide which two would sit on the committee for that evaluation. The purpose of the rotation is to avoid a presenting group also voting on approval. If Mr. Jacksha is unable to attend, the Executive Director (Jan Goodwin) or Deputy Director (Rod Ventura) will serve as Chair.
- **Meetings**: The meetings will be scheduled initially for the monthly dates previously reserved for the Investment Committee, and the schedule will be updated as needed to accommodate workflow. Because these are not public meetings, the Open Meetings Act does not apply. Board member attendance will be limited to one member at each meeting to avoid quorum issues.
- **Approvals**: Matters will be decided by a simple majority vote.
- **Minutes**: Minutes will be kept of the meetings but will not be distributed to parties other than staff.
- **Strategy Discussions**: In addition to manager selection and contractual matters, the committee will periodically discuss strategy, asset allocations, and the like.
- **Outside Manager Attendance**: The committee will ask managers under consideration for new investments to attend the meetings, which will allow the committee to have the opportunity to ask questions and gain perspective of those managers. While existing managers will not be asked to attend meetings, the committee may request their presence at their discretion.
- **Investment Recommendation Reports**: Staff and consultants will continue to produce reports for investment recommendations and circulate them to staff and the NMERB Board as in the past.
- **Board Reporting**: Staff will report the actions of the Staff Selection Committee, as it currently does with the Investment Committee, either by email or verbally depending on the timing.

Mr. Jacksha said the Board Investment Committee will continue to meet every other month, although the meetings will be shorter than before because the committee will no longer be interviewing managers.

Chair Goff asked Mr. Jacksha if he has looked at other models of this structure. Mr. Jacksha responded that he has received a response to his query from NASIO but hasn't reviewed it yet, although from what he has heard, the structure he is proposing is fairly common.

Mr. Martin said the trend among larger plans is to have more diversified portfolios, which puts a strain on board members in committing the time to evaluate manager hire/fire. This is

very consistent from what NEPC has seen among larger plans, where the board or the investment committee will approve a specific role for a staff group to handle a hire/fire with reporting to the investment committee or board. He is unaware of any situations that have not gone well, and by and large it has freed the board and investment committee up to concentrate on more strategic matters and not get involved in the details of manager section.

Responding to Ms. Cameron, Ms. Roubidoux said a change to the Investment Committee rule in the ERB rules will not be necessary because it only addresses administrative matters such as when the committee meets, who sits on it, etc. She has briefly looked at the Board Policy and Procedure document and it doesn't appear a change is necessary, but she will take another look to make sure.

5. OTHER REPORTS AND DISCUSSION

None.

ADJOURN

The meeting adjourned at 2:25 p.m.



H. Russell Goff, Chairman