

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT BOARD**  
**INVESTMENTS COMMITTEE MEETING**

**March 10, 2015**

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Vice Chair Roman Jimenez, at approximately 10:20 a.m. on the above-cited date in the PERA Building, 33 Plaza La Prensa, Fabian Chavez Jr. Board Room, Santa Fe, New Mexico.

1. **ROLL CALL:** Executive Director Wayne Propst called roll and a quorum was established with the following members present:

**Members Present:**

Roman Jimenez, Vice Chair  
Dan Esquibel  
Patricia French  
Stewart Logan  
Louis Martinez

**Member(s) Excused:**

Dan Mayfield, Chair

**Other Board Members Present:**

Tim Eichenberg  
Jackie Kohlasch  
Paula Fisher

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Jonathan Gabel, Chief Investment Officer  
Sylvia Barela, ASD Director  
Greg Trujillo, Deputy Director  
Julian Baca, Deputy CIO  
Judy Olson, Executive Assistant  
Karen Risku, Deputy General Counsel  
Roderick Ventura, Assistant General Counsel  
Claudia Armijo, Assistant General Counsel  
Natalie Cordova, Controller/CFO  
LeAnne Larrañaga-Ruffy, Portfolio Manager  
Joaquin Lujan, Portfolio Manager  
Christina Keyes, Portfolio Manager  
Jude Perez, Portfolio Manager

Kristen Varela, Financial Analyst  
Patricia Thaxton, Liaison Officer  
Karyn Lujan, Deferred Compensation Plan Manager

**Others Present:**

Jamie Feidler, Cliffwater  
Tom Toth, Wilshire  
Paul Lium, Nationwide  
Jim Sakelaris, JP Morgan  
Devon Muir, Mercer Investment  
Erick Resnick, KSL Capital Partners  
Adam Knox, KSL Capital Partners  
Steve Cowan, 57 Stars LLC  
Amit Chandra, 57 Stars LLC  
Gene Pohren, 57 Stars LLC

**2. APPROVAL OF AGENDA**

Mr. Logan moved to approve the agenda as published. His motion was seconded by Ms. French and passed by unanimous [5-0] voice vote.

**3. APPROVAL OF CONSENT AGENDA**

Vice Chair Jimenez stated that he reviewed the minutes and found them satisfactory.

Ms. Logan moved to approve the consent agenda. Ms. French seconded and the consent agenda was unanimously [5-0] approved.

**4. CURRENT BUSINESS**

**A. Action Item: Alternative Asset Recommendation for Approval, to be Funded According to the Cash Plan and Subject to Legal Review by General Counsel**

**1. Recommendation to Commit up to \$60 Million to KSL Capital Partners IV, LP, an Opportunistic Real Estate Fund in the Real Estate Portfolio**

*[Exhibit 1: Staff recommendation re: KSL, 3/10/15; Exhibit 2: Cliffwater report, 3/10/15; Exhibit 3: KSL Fund IV Report, 3/10/15]*

Christina Keyes, Portfolio Manager, said staff, in conjunction with Cliffwater, is recommending a \$60 million commitment to KSL in an opportunistic real estate partnership focused in the travel and leisure sector. The partnership is fundraising \$2.25 billion with a subsequent close at the end of April. The fund will invest in various assets and operating companies in five distinct sectors of the travel and leisure industry including the hospitality, recreation, clubs, resort real estate and travel service sectors in the US and western Europe.

Ms. Keyes reviewed PERA's due diligence review process over the past six months. Staff finds the composition of the fund and focus of the firm would complement PERA's real estate portfolio. This is the first recommendation for the 2015 real estate budget. She introduced the KSL representatives.

Eric Resnick, CEO, KSL Partners, said KSL has been investing in the travel/leisure sector since 1985 in various forms and predecessors of the company. He provided an overview of the firm's operative history within the travel and leisure business which started in the ski business with KKR. In 2005 KSL went out on their own and he highlighted the excellent performance of their previous funds. Mr. Resnick spoke about their 45-member professional investment team based in Denver, New York, and London.

Mr. Resnick said there has been a global trend of increased spending patterns on travel and leisure activities. The firm focuses on the three and four star segments where there is a deep market to penetrate. Their track record has been to grow the acquired businesses' cash flow by approximately 50 percent.

Mr. Resnick pointed out that KSL practiced patience during the 2008/2009 economic downturn. KSL has a deep understanding of how consumers alter their spending patterns during good and bad economic times. The underlying economics of the investments made by KSL are quite different and KSL is able to "quite nimbly" rotate across types of investments in order to preserve and enhance capital for their investors.

Responding to Mr. Esquibel's question regarding risk, Jamie Feidler, Cliffwater, said KSL tends to go toward larger transactions which in Cliffwater's opinion is a strong competitive advantage that KSL has. However, the flipside of that advantage is the limited pool of buyers when exiting those investments. He asked the Committee to keep in mind that commercial real estate and particularly with KSL's specifics, it is a very operationally intensive operation.

In regard to volatility, PERA CIO Jonathan Grabel, stated that private asset funds like KSL are structurally less volatile. They mark investments quarterly rather than with each trade. KSL is not constantly buying and selling assets and rather holds and then sells.

Mr. Resnick agreed, adding that they are a buy and hold investor for a five- to seven-year timeframe.

Mr. Esquibel said he was comfortable with the investment and moved to recommend to commit up to \$60 million to KSL Capital Partners IV, LP, an Opportunistic Real Estate Fund in the Real Estate Portfolio, subject to legal review by General Counsel. Ms. French seconded.

Mr. Martinez asked if the investments planned for Fund IV are similar to those of Fund III. Mr. Resnick responded absolutely, as well as Fund I and with the same strategy. Typically, in conjunction with management KSL will own 100 percent but they have joint venture and other structured investments where their ownership is smaller.

Mr. Resnick said they are invested heavily in North America with up to 35 percent permitted outside that area.

Mr. Resnick said KSL was one of the first firms audited under the new SEC rules and there was nothing of significance found. Mr. Feidler said the SEC did issue a findings letter but none of the findings were significant nor caused KSL to change any of their operations.

The motion passed by unanimous [5-0] voice vote.

**2. Recommendation to Commit up to \$150 Million to 57 Stars LLC in an Emerging Market Private Equity Separate Account for the Private Equity Portfolio**

*[Exhibit 4: Staff recommendation re: 57 Stars LLC; Exhibit 2: Cliffwater report, 3/10/15; Exhibit 5: 57 Stars LLC Report, 3/10/15]*

Mr. Grabel said this is a recommendation for PERA's first potential separate account in a private equity space.

LeAnne Larrañaga-Ruffy, Portfolio Manager, said this is a joint recommendation with Cliffwater to commit up to \$150 million to 57 Stars. She indicated that staff and Cliffwater have been working on this recommendation for over a year. The strategy will complement the current private equity portfolio by diversifying geographically to less efficient areas and gaining access to smaller funds that PERA would be unable to obtain. 57 Stars was chosen after meeting with over 10 firms; their sole focus is emerging markets private equity.

Steve Cowan, 57 Stars founding partner, provided an overview of the firm and what differentiates them in the marketplace. They are a boutique firm focused exclusively on partnerships, secondary and co-investments and markets outside of the United States and Western Europe – the emerging markets. They have five offices around the world and manage approximately USD \$2.5 billion.

Mr. Cowan said another element of their business is building separate account relationships with large sophisticated institutes, primarily public sector US pensions. He highlighted the investment team's professional and personal experience diversity and the client-service culture 57 Stars has created. He provided an overview of their investments under management and their relationship with CalPERS.

Mr. Cowan spoke about scale, growth, stability, value and diversification in regards to investing in the emerging private equity markets. He reviewed favorable demographics, growing middle class and increased productivity within the emerging markets.

Amit Chandra, 57 Stars, said the firm believes that the growth of consumption in the EM benefits from a multiplier effect. As the number of consumers grow the levels of disposable income per capita will increase thus the aggregate level of consumption will grow and drive

global growth. As the level of income increases in societies, the spending basket of consumers changes.

Mr. Chandra pointed out that after the emerging market crisis of the late 1990s many of the emerging countries put in place significant reforms and those markets are in a stronger position. He said fundamentally the private equity markets 57 Stars focuses on are less efficient and that allows GPs to buy companies at attractive valuations. Companies can be purchased in the emerging markets at lower valuations and because emerging markets' currencies have traded down relative to the US dollar, the US dollar investor can buy more.

Gene Pohren, 57 Stars, founding partner, focused on three points in regard to a customized separate account: turn-key planning and investment process, customized annual, quarterly and monthly communication plan, and knowledge sharing. Fund of funds have a reputation of having an extra layer of cost and he provided an approach that can be taken to building an emerging markets strategy. With the firm's experience and resources they were able to bring interesting pricing. 57 Stars can negotiate terms and conditions on management fees at a fund level and co-investment level that are reduced.

Mr. Pohren reviewed the fund of funds on a risk adjusted basis. The risk return ratio for funds of funds is significantly higher than for direct P/E funds, indicating competitive performance, but with significantly lower risk.

Mr. Pohren said the firm has a top-down bottom-up approach with deep market mapping. 57 Stars works closely with a construction model that is used to evaluate each commitment in the context of a macro-level, track record/GP scorecard; forecast forward; and, asset allocation software.

Commitments by geography, strategy and sector were reviewed by Mr. Pohren as well as performance of their most mature fund.

Mr. Grabel said this commitment will afford PERA the exposure they desire in fund of funds.

Commending staff on their thorough due diligence, Ms. French moved to approve the recommendation to commit up to \$150 million to 57 Stars LLC in an emerging market private equity separate account for the private equity portfolio, subject to legal review by general counsel. Her motion was seconded by Mr. Esquibel and passed by unanimous [5-0] voice vote.

[Vice Chair Jimenez excused himself from the remainder of the meeting.]

**B. Information Item: Listed Infrastructure RFP MQs and Timeline**

Ms. Keyes said this RFP is a result of the recent study session the Board had regarding listed infrastructure and the services associated with it. She reviewed the timelines with an April 1, 2015 RFP release. Deadline for the RFP is May 22, 2015 and the remainder of the dates will be established in the future. She reviewed the MQs and the infrastructure. She noted that there

will be a very narrow selection of candidates responding to the RFP.

Mr. Grabel said the number of managers that focus on listed infrastructure is not large and financial metrics were left off the RFP to encourage greater response.

**C. Information Item: Deferred Compensation Plan Review Q2FY15**  
*[Exhibit 6: NM PERA Deferred Compensation Plan 4Q2014 Review]*

Mr. Grabel introduced Karyn Lujan, PERA's 457B Plan Manager, who previously worked at ERB on member outreach. He said the deferred compensation plan is a tremendous benefit and Ms. Lujan's background will help grow the participation numbers. Mr. Grabel noted that deferred compensation is PERA's plan not Nationwide's.

Ms. Lujan was welcomed to PERA and she said was excited by the opportunities.

Paul Lium, Nationwide, concurred with Mr. Grabel that this is PERA's plan and he shared the goal of growing the plan participation. He highlighted that there are 18,044 participants, assets currently at \$492 million, 407 increases in contributions, 35 reinstatements and the fact that lifecycles continues to grow in participants.

Mr. Lium said Nationwide staff is working to discourage rollovers and the numbers are trending down. An interactive retirement planning tool was activated on the website and the banner at the top of site has been improved. Statements can be e-delivered to participants.

Mr. Logan mentioned the importance of the 457 plan in regard to plan liability. He agreed with Mr. Grabel that every PERA member should participate in the plan.

**D. Information Item: Deferred Compensation Investment Performance Review Q2FY15 including Stable Value Review**  
*[Exhibit 7: Mercer, Defined Contribution Performance Evaluation]*

Devon Muir, Mercer, reviewed the investment options within the plan – custom target date funds, passive Tier II, actively managed array of Tier III and the extended choice in Tier IV. The structure has been refined and simplified over the years.

Mr. Muir outlined the asset investments mentioning that there has been an \$11 million quarter over quarter increase which were attributed to investment gains. Roughly 40 percent of the new contributions are going into the lifecycle portfolio. There are 10,000 participants with over five asset classes which is a very positive thing, stated Mr. Muir.

In regard to investment expenses, Mr. Muir said a participant will on an average pay 42 basis points – far lower than in a retail environment. From a fee standpoint, the fund is quite attractive.

Mr. Muir reviewed performance and stated that 2014 was characterized as a volatile environment with 70+ percent of active managers underperforming their benchmark. Thus far in

2015, a reversal of the 2014 trend is experienced. He reviewed a breakdown of the lifecycle portfolio performance. The Vanguard institutional index fund ranked in the top quartile during 2014.

Mr. Muir highlighted a couple of funds that underperformed due to energy bets, namely Dodge and Cox, and Fidelity Contra Fund. Both had detraction from energy stock and poor stock selection within the IT sector causing performance for 2014 below standards. However, the 3-, 5-, and 7-year performances look very good in excess of the benchmark.

Mr. Muir also highlighted that Fidelity low-price stock had challenges in the past and the Board elected to hold it. While they had a slightly below benchmark performance for the quarter, in the longer term performance it is exceeding its benchmark.

5. **OTHER BUSINESS**

None was presented.

6. **ADJOURNMENT**

Having completed the agenda, and with no further business to come before this Committee, Mr. Logan moved to adjourn. Mr. Esquibel seconded and Board Chair French declared this meeting adjourned at 12:10 p.m.

Approved by:



Dan Mayfield, Chair  
Investments Committee

Román Jiménez  
for Dan Mayfield

ATTEST:

  
Wayne Propst, Executive Director

**Attached Exhibits:**

*Exhibit 1: Staff recommendation re: KSL, 3/10/15*

*Exhibit 2: Cliffwater report, 3/10/15*

*Exhibit 3: KSL Fund IV Report, 3/10/15*

*Exhibit 4: Staff recommendation re: 57 Stars LLC, 3/10/15*

*Exhibit 5: 57 Stars LLC Report, 3/10/15*

*Exhibit 6: NM PERA Deferred Compensation Plan 4Q2014 Review*

*Exhibit 7: Mercer, Defined Contribution Performance Evaluation*