

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

**October 29, 2015**

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Chair Dan Mayfield, at approximately 9:17 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:**

Dan Mayfield, Chair  
Roman Jimenez, Vice Chair  
Dan Esquibel  
Patricia French  
Stewart Logan

**Member(s) Excused:**

Louis Martinez

**Other Board Members Present:**

Loretta Naranjo Lopez  
John Reynolds  
Tim Eichenberg  
Jackie Kohlasch  
Paul Fisher

**Staff Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Jonathan Grabel, Chief Investment Officer  
Greg Trujillo, Deputy Director  
Judy Olson, Executive Assistant  
Karen Risku, Deputy General Counsel  
Claudia Armijo, Assistant General Counsel  
Natalie Cordova, Controller/CFO  
Renada Peery-Galon, ASD Director  
Jude Perez, Deputy CIO  
LeAnne Larrañaga-Ruffy, Portfolio Manager  
Joaquin Lujan, Portfolio Manager

Mark Montoya, Financial Analyst  
Kristen Varela, Financial Analyst  
Karyn Lujan, Deferred Compensation Manager

**Others Present:**

Jamie Feidler, Cliffwater  
Eileen Neill, Wilshire  
Brian Stangel, Hanseatic  
Curtis Spears, Andes Capital  
Nathan Shike, PW Real Estate  
Leon Bressler, PW Real Estate  
Josh Zegen, Madison  
Adam Tantleff, Madison  
Paul Lium, Nationwide

**2. APPROVAL OF AGENDA**

Mr. Logan moved to approve the agenda as published. Ms. French seconded and the motion passed by unanimous [4-0] voice vote. [Mr. Jimenez was not present for this action.]

**3. APPROVAL OF CONSENT AGENDA**

Mr. Logan moved to approve the consent agenda. Ms. French seconded and that motion passed by unanimous [4-0] voice vote. [Mr. Jimenez was not present for this action.]

**4. CURRENT BUSINESS**

**Chief Investment Officer's Report**

**1. Investment Performance Summary – September 15, 2015**

Jonathan Grabel, Chief Investment Officer, said the PERA Fund finished September with \$13.7 billion, a down month and quarter. The plan was down 1.73 percent for the month and down 4.75 percent for the quarter. He characterized the month as “brutal” for investors with broadly diversified portfolios. For the month the fund was down \$291 million and for the quarter \$758 million. For October the portfolio is up over 5 percent and has recovered to \$14 billion. He reminded the Committee that all numbers are net of fees and expenses.

Mr. Grabel discussed what the poor investment results could be attributed to mentioning confusion with global central banks and monetary policy: things that PERA cannot control. He emphasized what can be controlled is the strategic asset allocation: how assets are apportioned to different asset categories. The fund is 6 percent below its long-term targets. Custodian BNY Mellon provided a report showing that not being at target cost the fund 52 basis points. He mentioned the importance of rebalancing when the markets are very volatile, reviewing benchmarks, and reviewing the asset allocations.

Mr. Grabel said financial capital is commodity and human capital is PERA's competitive advantage that "will only get better."

Responding to Ms. French's question of when the strategic asset allocation targets will be met, Mr. Grabel said in the best interest of the PERA fund, achieving vintage year diversification, manager and strategy diversification and having optimal implementation of asset allocation takes time as acknowledged in the Board's Investment Policy Statement.

Ms. French said she wanted it on the record that "targets were not being disregarded ... but moving at a pace most beneficial to the fund."

Mr. Grabel reviewed the asset category performance with domestic equities down for the month 3 percent and for the quarter down 7.3 percent. International equities were down for the month 4.2 percent and for the quarter down 11.5 percent. Core fixed income – restructured and no longer alpha seeking – was up for the month 70 basis points and for the quarter up 1.24 percent. Fixed income plus was down for the month 1.85 percent and for the quarter down 2.92 percent. Absolute return/hedge funds was down 1.98 percent and for the quarter down about 1 percent. Private equity, which has a reporting lag, was up 3.43 percent for month and 5 percent for the quarter. Real estate was up for the month and for the quarter up over 3 percent. Real assets continue to struggle and this month they were down over 7 percent and for the quarter down 9.67 percent.

## **2. Cash Plan Update**

Mr. Grabel said summing all of PERA's pool of cash, September finished with \$358 million in cash. He reviewed the sources of cash for the month with \$38 million from distributions from private equity investments. Uses of cash during September included \$47 million for benefits, refunds and manager fees and \$18 million for previous commitments to various asset managers. He noted the net decrease in private assets.

Mr. Grabel pointed out that this report cites the Investment Policy statement that recognizes it takes time to attain target allocations in a prudent manner.

## **3. Other Updates**

Mr. Grabel reviewed the following:

- Securities lending is earning approximately \$103,000 monthly
- BNY Mellon's ability to report granular configurations of data has already proved valuable
- The negotiations between PERA and 57 Stars, an emerging market private equity fund, were terminated because terms in the best interest for PERA could not be agreed upon. "Sometimes the best investment is no

investment,” stated the CIO

- Emily Lopez was introduced as a new financial specialist

Ms. French said she found it disturbing that IPOC has as an agenda item regarding the combination of ERB, SIC and PERA. Mr. Grabel said the State’s permanent endowment has a very different mission than PERA’s fund. As a result of the different missions the asset allocations differ. He said there are economies of scale to consider and it may be harder to invest a bigger fund. CalPERS which is 20 times the size of PERA pays 57 basis points in investment management fees whereas PERA pays 42 basis points, demonstrating that economy of scale may not be beneficial.

Treasurer Eichenberg remarked on the potential governance nightmare of consolidating the SIC, ERB and PERA.

Mr. Propst said the IPOC chairman is aware of PERA’s position. He agreed with Mr. Grabel that discussing the issue is not a bad thing and provides an opportunity to outline to IPOC why this does not work. When PERA appears before IPOC they will have evidence-based examples of how combining the funds will not necessarily save either administrative or managements fees.

**B. 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 \$70 Million to PW Real Estate Fund III, LP**

*[Exhibit 1: Staff recommendation re: PW Real Estate Report; Exhibit 2: Cliffwater report re: PW Real Estate; Exhibit 3: PW Real Estate Report]*

Jude Perez, Deputy CIO, reminded the Committee that PERA’s real estate portfolio has a target allocation of 5 percent and is currently at 3.4 percent and as of September 30, 2015 with a total market value of \$474 million. The portfolio is heavily weighted to North America and PW will provide exposure in Europe.

Leon Bressler, Managing Partner, PW Real Assets, a private investment vehicle investing in real estate and real estate related opportunities in Europe/mostly Western Europe, spoke about the successes of previous Funds I and II and the growth opportunities. Investments are made in large, complex projects or platforms to inject added value and transform secondary or semi-distressed assets into high quality assets. PW operates in what Mr. Bressler referred to as the very best countries, the best cities and the best locations within those cities. The fund concentrates on Western Europe with Fund I invested 50 percent in Germany and Fund II has a heavy concentration of investments in Berlin, London, Paris, Frankfurt, Barcelona, Amsterdam, i.e., key cities in the best locations. That strategy has been successful with PW’s professional, multi-cultural investment team. The same strategies for Funds I and II will be used for Fund III with an unchanged mandate and target.

Nathan Shike, Partner, PW Real Assets, said the firm focuses on investment opportunities where they can inject their significant real estate expertise to create value and transform the assets with the potential to become prime stable assets. He reviewed the firm's strategic approach of buying assets where they take over operating businesses, as well as distressed credit where there is a single asset security or limited portfolio.

Mr. Shike reviewed Funds I and II, the capital raised, the expected net IRR, and the risk profile, and emphasized that PW is not relying on the market to create returns but instead on their own business plan. He highlighted some of the investments noting no investments were made in 2008. Fund I is 97 percent realized. Stressed and distressed credit was an opportunity during Fund I and has been less so after 2012.

PW started to raise Fund III a few months ago and a target closure is late-November. Fund III will likely have a limited credit exposure but the focus on prime assets or projects in top locations in core countries remains the key driver of the investment process.

Mr. Bressler said Fund III investments will remain in core countries; however, there may be some in Italy which is recovering. The fundamental issue is to be extremely risk sensitive.

In response to Mr. Esquibel's concern regarding the keyman situation, Mr. Perez noted that Mr. Bressler is an "all star" in the European real estate market and has a significant personal financial commitment to Fund III.

Mr. Shike said the investors in Fund I were fairly limited to those who had had collaboration experience with Mr. Bressler through his previous experience as the CEO the largest listing property company in Europe. Investors in Fund I did include the New York Teachers Fund and some US Corporate plans. Fund II included additional US investors including corporate and public pension funds. He expected Fund III to have over one-third of its investment base from the US.

Mr. Grabel said PW is a Euro denominate fund. The foreign exchange is done through the custody bank.

Mr. Jimenez thanked staff, Cliffwater and PW stating he reviewed the information and found it quite complete.

Mr. Jimenez moved to approve the recommendation to approve up to \$70 million to PW Real Estate Fund III, LP, to be funded according to the cash plan and subject to legal review by General Counsel. Ms. French seconded and the motion passed by unanimous [5-0] voice vote.

**2. Recommendation to Commit up to \$50 Million to Madison Realty Capital Debt Fund III, L.P.**

*[Exhibit 4: Staff recommendation re: Madison Realty;  
Exhibit 2: Cliffwater report re: Madison Realty]*

Joaquin Lujan, Portfolio Manager, said staff is recommending a commitment of \$50 million to Madison Realty Capital Debt Fund III which will originate and acquire commercial real estate loans collateralized by US commercial properties. The general partners will underwrite investments and Madison has shown underwriting expertise, discipline, and prudence in their management.

Adam Tantleff, managing principal, investor relations of Madison provided a history of the firm founded 10 years ago. He said they have created a completely vertically integrated platform encompassing both debt and equity expertise. As of September 30, 2015 the firm has completed \$3.5 billion in transactions with \$2.5 billion via institutional vehicles. The firm has 50 employees with half working on the debt side and the other half in the property, asset and construction management teams.

Madison is a specialty lender that has clients with time-sensitive closings, repositioning and stabilization of asset issues, partnership disputes, tax issues, etc. and those issues are prohibiting them from accessing more conventional funds or banks. The solution provided by Madison, stated Mr. Tantleff is a market return within a short duration.

Mr. Tantleff said the loans are typically one to three years in a senior position with a rate of 8 to 12 percent. Moderate leverage is used typically at the deal level not the fund level. When a loan repays, the profits are distributed and the principal recycled. The investor receives an equity-like return with debt risk.

Mr. Tantleff said when Madison purchases non-performing debt it does so to get to the assets and use its platform. The platform is lending, buying debt and buying buildings. Over the course of cycles – 2005-2008 the market was hot, 2010-2011 the market was down – Madison's rates don't change but the needs of their borrowers do change. Their average deal size is \$20 million to \$25 million and located within the Tri-State (New York, New Jersey and Connecticut) and east coast metro areas.

Fund raising for Fund III began over a year ago and the target is \$600 million with a \$750 million hard cap on the fund. Mr. Tantleff said investors include the State of Oregon, New York State Teachers Retirement System, Texas Teachers and at this point the Fund has \$335 million committed. He spoke about the benefit of PERA joining now because the bulk of the commitment will be drawn down quickly and thus start earning quickly. As a later stage investor, PERA would also have a gain.

Ms. French asked staff how long they have been monitoring the company and Mr. Lujan responded approximately three years. He noted that staff begins researching funds many times when the fund is not actively fundraising.

Joshua Zegen, managing principal, co-founder of Madison, said they work within

major metro-markets and have done business in south Florida, Boston, Texas, and Chicago. However, the NY metro area is their main focus.

Mr. Esquibel asked about the number/percentage of loans where they eventually take over the asset. Mr. Zegen said less than 10 percent and that would be done when there is a default with the borrower. Traditionally, over the course of the firm's existence they have made incremental income where the borrower defaulted and the deal is restructured.

Mr. Logan moved to approve the recommendation to commit up to \$50 million to Madison Realty Capital Debt Fund III, L.P. to be funded according to the cash plan and subject to legal review by General Counsel. Mr. Jimenez seconded and the motion passed by unanimous [5-0] voice vote.

**C.     Action Item: Recommendation to make a full redemption from Och Ziff/OZ Domestic Partners II, LP in the Absolute Return Portfolio, subject to liquidity provisions**  
*[Exhibit 2: Cliffwater Report]*

Mr. Perez said the redemption recommendation is not due to a single issue but instead a combination of four different things: 1) the absolute return portfolio is overweight by 1.4 percent; 2) OZ has a liquidity window that this redemption addresses; 3) the OZ Fund II has increased its volatility/equity exposure; and 4) OZ is under DOJ and SEC investigation in relation to the Foreign Corrupt Practice Act. Cliffwater agrees with the recommendation for a full redemption.

Mr. Jimenez moved to approve the recommendation as proposed. Mr. Esquibel seconded and the motion passed by unanimous [4-0] voice vote. [Mr. Logan was not present for this action.]

**D.     Information Items: Rebalancing Procedures**  
*[Exhibit 5: Rebalancing Procedures]*

Mr. Grabel said this item is follow-up from the Board retreat. The Investment Policy Statement (IPS) underscores the importance of rebalancing. Staff has developed procedures to address that. He reviewed the definition of rebalancing from the IPS, current rebalancing ranges, and rebalancing per the IPS. Staff with consultants have developed rebalancing procedures. He offered the following methodology for rebalancing:

- Assets category ranges reviewed monthly
- Fixed date for monthly rebalancing
- Sequence of rebalancing defined
- Rebalance target defined as 50 percent back to target (where possible)
- Reports on rebalancing activities

Mr. Grabel noted that staff has been working on the procedures since the retreat.

Ms. French requested that this item be placed on a future IC agenda for further review.

**5. OTHER BUSINESS**

None was presented.

**6. ADJOURNMENT**

Having completed the agenda, and with no further business to come before this Committee, Chair Mayfield declared this meeting adjourned at 10:50 a.m.

Approved by:

  
Dan Mayfield, Chair  
Investments Committee

ATTEST:

  
Wayne Propst, Executive Director

**Attached Exhibits:**

*Exhibit 1: Staff recommendation re: PW Real Estate Report*

*Exhibit 2: Cliffwater report re: PW Real Estate*

*Exhibit 3: PW Real Estate Report*

*Exhibit 4: Staff recommendation re: Madison Realty*

*Exhibit 5: Rebalancing Procedures*