

NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT BOARD

INVESTMENTS COMMITTEE MEETING

September 29, 2016

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Chair Dan Esquibel at approximately 10:15 a.m. on the above-cited date in the Senator Fabian Chavez Jr. Board Room, PERA Building, 33 Plaza la Prensa, Santa Fe, New Mexico.

1. Roll call by Executive Director Wayne Propst indicated a quorum was established with the following members present:

Members Present:

Dan Esquibel, Chair
Dan Mayfield, Vice Chair
Paula Fisher
Patricia French
Loretta Naranjo Lopez
John Reynolds

Member(s) Excused:

None

Other Board Members Present:

Tim Eichenberg
Jackie Kohlasch
James Maxon
John Melia
Cathy Townes
Brad Winter

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director
Jude Perez, Deputy CIO
Renada Peery-Galon, ASD Director
Joaquin Lujan, Director of Rates and Credit
Trish Winter, Executive Assistant
David Dana, Assistant General Counsel
Natalie Cordova, Chief Financial Officer
LeAnne Larrañaga-Ruffy, Director of Equity

Misty Braswell, Assistant General Counsel
Lalleh Dayeny, Investments Division
Karyn Lujan, Deferred Compensation Plan Manager
Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Christine Ortega, Portfolio Manager
Mark Montoya, Investments Division

Others Present:

Jamie Feidler, Cliffwater
Tom Toth, Wilshire
Paul Lium, Nationwide
Mark Zenuk, Tillridge Global Agribusiness
Cameron Dunn, Tillridge Global Agribusiness

2. APPROVAL OF AGENDA

Ms. Naranjo Lopez moved to approve the agenda as presented. Her motion was seconded by Mr. Reynolds and passed by voice vote. [Ms. French and Mr. Mayfield were not present for this action.]

3. APPROVAL OF CONSENT AGENDA

Chair Mayfield said he reviewed the minutes and they appear to be in order. Ms. Naranjo Lopez moved to approve the consent agenda. Mr. Reynolds seconded and the motion passed without opposition. [Ms. French and Mr. Mayfield were not present for this action.]

4. CURRENT BUSINESS

A. Chief Investment Officer's Report

1. Investment Performance – August 2016

PERA CIO Jon Grabel said that August finished with a fund balance of \$14.4 billion, up 55 basis points, net of fees, for the month. The fund balance increased by \$33 million. FY 17 is off to an excellent start with the fund up 3.25 percent, net and ahead of the new actuarial pacing. He noted that comparing the fund results to benchmarks will reveal significant tracking errors until the strategic asset allocation is fully implemented. Referring to the risk report, Mr. Grabel said the value at risk remains elevated as a result of the over-allocation to equity.

Mr. Grabel reviewed the monthly asset category returns: global equities were up 52 basis points, risk mitigation was down 3 basis points, credit was up 1.65 percent, real assets 1.6 percent with positive performance in both illiquid and liquid real estate and real assets.

2. Cash Plan Update

The fund balance as stated increased by \$33 million and the month cash fund balance was about \$366 million, stated Mr. Grabel. He reviewed the sources of cash for the month which included \$330 million from the equity implementation plan, \$26 million inflow from illiquid asset distributions, and \$49 million employer/employee contributions. Uses of cash include \$94 million to pay benefits and refunds, \$1 million for operational expenses, \$35 million for illiquid asset capital calls – noting that capital calls outpaced distributions – and \$280 million for a real asset implementation.

Referring to the rebalancing report, Mr. Grabel highlighted by asset category the various changes, rebalancing ranges and notes. Global equity shows a net reduction; however, it was not solely negative. There were increases in the amount indexed as well as the development of PERA's low volatility equity position. The real assets include \$80 million allocated to MLPs and a \$2 million increase to listed infrastructure.

Mr. Grabel reminded the Committee that it takes time to implement the strategic asset allocation.

3. Other Updates

Mr. Grabel provided the following updates:

- RFP: Illiquid Investment Consultant Evaluation committee met on September 19th and meetings are being scheduled with six firms for two dates in October
- The monthly risk report indicates the volatility of June which affected PERA's performance in terms of the equity portfolio at the end of June, such that the VaR was elevated to over 7 percent and is now down to 5 percent
- TimesSquare, US smid-cap growth manager, triggered the watch list criteria. TimesSquare was hired by the PERA Board in 2005 and has had good long term performance with a 1.8 percent value add since the end of the last quarter. Active management has periods of under- and over-performance. The allocation was slated to be reduced per the asset allocation plan with a greater reliance on indexing. Staff will continue to monitor and report on their performance
- Pelican Value, small-cap US public equity mandate, currently managing \$112 million, slated to drop to \$75 million per the new strategic asset allocation. Pelican was hired in late 2010 via RFP. The Pelican team that managed PERA's portfolio left Wells Fargo, the parent entity, to start their own firm. PERA's capital is not at risk, and the relationship can be terminated with 30 days notice

In response to Chair Esquibel's question regarding Pelican, Mr. Grabel said that, since inception, they have generated about 11 percent compound compared to their benchmark return of 9.17 percent. Their fee is below the median for like-strategies.

Chair Esquibel asked whether there was risk associated with not terminating TimesSquare or Pelican at this point. Mr. Grabel said there is always market risk associated with an investment; however, there is no risk above that. He assured the Committee that the assets are custodied with PERA's custody bank, held in PERA's name and subject to a contract which articulates guidelines.

Chair Mayfield asked the Board chair to consider a special meeting to discuss Pelican issues. Chief Counsel Pittard suggested scheduling a special Board meeting at the October 11th committee meetings by which time staff will have a recommendation.

B. Action Items: Alternative Asset Recommendations for approval to be funded according to the cash plan and subject to legal review by General Counsel

1. Recommendation to Commit up to \$75 Million to Tillridge Global Agribusiness Partners II, LP

[Exhibit 1: Staff recommendation re: Tillridge; Exhibit 2: Cliffwater Report; Exhibit 3: Tillridge Report]

Chair Esquibel reminded staff that he had forwarded a series of questions regarding this recommendation to staff. Kristin Varela, portfolio manager, said she received those questions and was confident the presentation would address his concerns.

Ms. Varela said this recommendation is for an illiquid partnership within the agriculture sub-asset class. PERA currently has investment with two agricultural focus managers. Tillridge has a focus on mid-stream agri-sector investments which will complement the current portfolio. Tillridge will target a gross IRR of 25 percent across 8 to 15 portfolio companies over a five-year investment term.

Ms. Varela said this will be a continued relationship as PERA has committed \$25 million to a Tillridge affiliate, NGP Natural Resources X, an illiquid natural resources partnership in PERA's real assets portfolio.

Cameron Dunn, Tillridge, provided his background in finance, and reviewed the firm's midstream focus in the agribusiness which includes fertilizer, chemical, seed, farm equipment, elevators, ports, terminals, containers, cold storage and different processing. Over the past four plus years, Tillridge has invested about \$750 million into ten agribusiness portfolio companies. Their partnership with NGP continues with this next fund.

Mr. Dunn reviewed previous investments which included chicken processing, grain origination, organic growth, specialty crops with a company that cleans, processes and ships products to end-users, to mention a few.

Mark Zenuk, Tillridge, provided his background in agribusiness. He discussed the reasons they find agribusiness midstream market compelling: global population increases and consumption of proteins will grow which has an exponential effect on the agribusiness supply chain; new supply chains have to be built to meet the changes in consumer preferences; and, the fact there are few midsized companies in the sectors in which Tillridge is focused and a plethora of small family-owned operations that don't have access to capital, which Tillridge can supply.

Mr. Dunn reviewed the firm's strategy as value-oriented investors. He said they are able to acquire businesses at attractive valuations, and Tillridge invests across the

supply chain.

Jamie Feidler, Cliffwater, addressed term issues brought up by the chair, noting that, as part of Cliffwater's due diligence process on any private investment that comes before PERA, review of the investment side and the operational side of the business occurs. Cliffwater's legal team reviews all of the relevant fund documents, and the main governing document is the limited partnership agreement. There were a number of terms within that agreement which, when added together, did not meet industry standards for institutional investors. As a result of several conversations, Tillridge has agreed to make a number of changes to the terms, including both economic and structural, as well as additional governance provisions. The revised draft has not yet been released; however, the changes include a reduced management fee, changing the way the carried interest is paid out, changing key man provisions and additional changes to governance terms and other amendments.

Mr. Feidler reminded the Committee that every private investment recommended to PERA is subject to PERA's own legal review which typically involves a combination of internal legal resources and external legal counsel.

Ms. Varela said initial comments were received from PERA's legal counsel regarding terms, and staff is in agreement with Cliffwater's review. Mr. Grabel added that, from a macro-perspective; this is a low rate environment that corresponds to the low return environment, and in a low return environment there are PERA-like institutions changing asset allocations. As more money goes into private assets, the managers of those assets have more control/power over those terms. Terms on the industry as a whole have been changing to be somewhat less LP friendly, and PERA is confronting that to uphold PERA's principles.

Based on the discussion and staff recommendation, Mr. Mayfield moved to recommend approval of a commitment up to \$75 million to Tillridge Global Agribusiness Partners, II, LP, funded according to the cash plan, and subject to legal review by General Counsel. Ms. Naranjo Lopez seconded and the motion passed by unanimous voice vote.

2. Recommendation to Commit up to an Additional \$45 Million to Charterhouse Capital Partners X, LP

[Exhibit 4: Staff Recommendation re: Charterhouse; Exhibit 2: Cliffwater report]

Mr. Grabel said given that this is a follow-on investment with an existing manager, staff and Cliffwater will provide the presentation. Board leadership determined that a presentation from staff and the consultant was sufficient.

LeAnne Larrañaga-Ruffy, Director of Equity, said that this request is to add an additional \$45 million to a commitment made in June 2015, when the amount approved was \$70 million. She reviewed the reasons to invest: increased allocation to private equity in the strategic asset allocation; staff and Cliffwater have a high conviction in Charterhouse, PERA has received distribution of \$26 million and the fund has returned 17 percent net IRR; and, investments are primarily in western Europe increasing PERA's

exposure to non-US private equity.

Mr. Feidler reviewed the firm's strategy, noting that Charterhouse is a well-established firm with deep roots and a strong reputation in Europe. The firm has raised €30 billion in assets in previous funds. The firm is fully owned by employees.

The fund will be €3 billion and they have already closed on €2 billion. The focus is high quality mature businesses whose management, market position, historical performance and future prospects mark them as attractive investment opportunities within Western Europe.

Mr. Mayfield moved to recommend approval of a commitment of up to an additional \$45 million to Charterhouse Capital Partners X, LP, funded according to the cash plan and subject to legal review by General Counsel. Ms. French seconded and the motion passed by unanimous voice vote.

3. Recommendation to Commit up to an Additional \$75 Million to IFM Global Infrastructure, LP

[Exhibit 5: Staff Recommendation re: IFM Global; Exhibit 2: Cliffwater report]

Mr. Grabel said, given that this is a follow-on investment with an existing manager, staff and consultant will provide the presentation. Board leadership determined that a presentation from staff and the consultant was sufficient.

Ms. Varela stated that this is a high quality core illiquid real assets partnership with a focus on investment in high quality core infrastructure assets. This fund was originally approved by the Board in December 2012 with an initial commitment of \$25 million. This fund was particularly efficient and called 100 percent of PERA's committed capital. The fund is structured as open-ended, meaning the term never ends, and they invest in long duration assets which is favorable to PERA with its long multi-generational liability. PERA has begun receiving cash distributions and conservative returns. IFM will target a three year net IRR of 8 percent to 12 percent.

Mr. Feidler discussed the firm and its strategy. He said that infrastructure currently has a 10 percent target of the total real assets allocation. Infrastructure in this investment comprises physical assets that provide essential services to communities. Typically, these are very stable assets. This fund is open-ended, giving PERA the opportunity to add more to the investment, and it offers better liquidity than closed end private equity structure.

Mr. Mayfield moved to recommend approval of a commitment of up to an additional \$75 million to IFM Global Infrastructure, Charterhouse Capital Partners X, LP, funded according to the cash plan and subject to legal review by General Counsel. Ms. Fisher seconded and the motion passed by unanimous [6-0] voice vote.

C. Action and Information Items: Strategic Asset Allocation (SAA) Implementation

1. Information Item: Update on SAA Implementation

Since the Board's adoption of the new strategic asset allocation staff has provided monthly implementation updates, stated Mr. Grabel.

Joaquin Lujan, Director of Rates and Credit, said staff and consultant recommend that four previously-approved and upsized credit investment mandates utilize the fund of one vehicle. The new SAA created credit as an asset category and increased the funds allocation from 6.5 percent to 15 percent. A nine step action plan to achieve the new SAA was approved during the retreat. There are no changes or departures from the plan except to house the assets that the PERA fund will own through the strategies in a fund of one vehicle instead of a dedicated managed account. This recommendation replaces a previously dedicated managed account structure.

Staff and Wilshire recommend that the credit mandates with CVC, \$100 million; Lazard Emerging Market Debt, \$420 million; Napier Park Complex Credit, \$300 million; and, Ellington Structured Product, \$100 million – all previously approved by the Board – utilize Fund of One structure.

2. Action Item: Credit Oriented Fixed Income Implementation Plan

Mr. Grabel said the action by the Board in July for the credit implementation steps 2 through 5 was within a dedicated managed account vehicle. The action will adjust that to be in a fund of one vehicle.

Mr. Mayfield moved to approve the credit-oriented fixed income implementation plan as updated. Ms. Fisher seconded and the motion passed by unanimous [6-0] voice vote.

D. Information Item: Hedge Fund Review

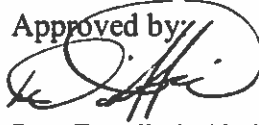
Mr. Grabel said annually, in addition to discussing strategic asset allocation and monthly performance, all asset categories are reviewed at a higher level. This is the final hedge fund review, given that, within the new asset allocation, they are no longer a discrete asset category.

5. OTHER BUSINESS

None was presented.

6. **ADJOURNMENT**

Ms. Naranjo Lopez moved to adjourn, Ms. French seconded and Chair Esquibel declared this meeting adjourned at 11:25 a.m.

Approved by:

Dan Esquibel, Chair
Investments Committee

ATTEST:


Wayne Prppst, Executive Director

Attached Exhibits:

Exhibit 1: Staff recommendation re: Tillridge

Exhibit 2: Cliffwater Report

Exhibit 3: Tillridge Report

Exhibit 4: Staff Recommendation re: Charterhouse

Exhibit 5: Staff Recommendation re: IFM Global