

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT BOARD
INVESTMENTS COMMITTEE MEETING

April 27, 2017

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Chair John Melia at approximately 9:00 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. The Pledge of Allegiance was followed by roll call which confirmed a quorum with the following members present:

Members Present:

John Melia, Chair
John Reynolds, Vice Chair
Loretta Naranjo Lopez
Dan Esquibel
Jackie Kohlasch

Member(s) Absent:

James Maxon [excused]

Other Board Members Present:

Claudia Armijo
Patricia French
Dan Mayfield
Cathy Townes
Maggie Toulouse Oliver

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Director
Jude Pérez, Interim CIO
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Misty Braswell, Assistant General Counsel
Dana David, Assistant General Counsel
Joaquin Lujan, Director of Rates and Credit
Trish Winter, Executive Assistant
LeAnne Larrañaga-Ruffy, Director of Equity
Karyn Lujan, Deferred Compensation Plan Manager
Kristin Varela, Portfolio Manager of Real Returns

Christine Ortega, Portfolio Manager
Mark Montoya, Investments Division
Anna Murphy, Compliance Officer
Isaac Olaoye, Financial Analyst

Others Present:

Thomas Toth, Wilshire
Mike Krems, TorreyCove
Jeffrey Goldberger, TorreyCove
James Walsh, Albourne
Andrew Hayward, Albourne
Lisa Needle, Albourne
Anne Hanika-Ortiz, LFC

2. APPROVAL OF AGENDA

Ms. Kohlasch moved to approve the agenda as presented. Mr. Esquibel seconded and the motion passed by unanimous voice vote.

3. APPROVAL OF CONSENT AGENDA

Chair Melia noted that the Consent Agenda listed the February 23, 2017 minutes rather than March 30, 2017 for approval. The February minutes were approved in March.

Chair Melia said he reviewed the minutes of the March meeting and they appeared complete and correct.

Mr. Reynolds moved to approve the corrected consent agenda. Ms. Kohlasch seconded and the motion passed without opposition.

4. CURRENT BUSINESS

A. Chief Investment Officer's Report

1. Investment Performance – March 2017

PERA Interim CIO Jude Pérez said the fund finished March with a balance of \$14.8 billion. The fund was up 82 basis points net of fees and the fund balance was up \$85 million. Fiscal year-to-date the fund is up 8.09 percent net of fees ahead of the actuarial target pace by 2.7 percent. He reviewed the asset classes by market values and allocation compared to target and directed the Committee to the Wilshire report for granular detail.

Mr. Esquibel said he would like to see the fund reach \$15 billion.

2. Cash Plan Update

Mr. Pérez said the cash balance at BNYMellon was down \$23 million and the month finished with \$564 million. He reviewed the sources and uses of cash during March. Affiliated with the cash plan is the rebalancing report that reflects Board approved actions associated with the implementation plan. He reviewed the asset classes and said staff was working to reduce the variances within the asset allocations and targets.

3. Other Updates

Mr. Pérez provided the following updates:

- The rebalancing is ongoing and consistent with the Board approved implementation plan
- The CFA primer regarding best practices was posted on the BoardPortal
- The securities lending program provided a quarterly profit of \$869,000
- The low-volatility equity RFP evaluation committee will meet this afternoon
- The currency hedging RFP received 13 responses and an evaluation committee meeting is planned for late May
- The portfolio's VAR (value at risk) continues to be reduced as the asset allocation targets are implemented
- Isaac Olaoye has joined the Investment Division as a financial analyst

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

LeAnne Larrañaga-Ruffy, Director of Equity, said staff was recommending two investments within PERA's private equity portfolio – representing two different aspects to benefit that portfolio. She reviewed the investment objectives and targets for the private equity portfolio: private equity has the target of 8.6 percent and it is currently at 4.6 percent.

1. Recommendation to Commit up to €100 million to CVC Capital Partners VII, LP

[Exhibit 1: Staff recommendation re: CVC; Exhibit 2: TorreyCove, investments operations due diligence report, re: CVC]

Ms. Larrañaga-Ruffy said this investment recommendation is a follow-on investment with PERA committed to CVC's Fund V. CVC is a large buy-out fund that has provided consistent returns for PERA's portfolio since 2008. CVC is a stable core component – a large diversified generalist firm typically investing in large buy-outs – in the core satellite approach that PERA has been implementing since 2014. The satellite component consists of a sector-focused, lower-middle market buy-out firms to further diversify the global equity portfolio.

The recommendation staff and TorreyCove are presenting, stated Ms. Larrañaga-Ruffy, is for a non-US buy-outs primarily focused in Europe. The fund will provide PERA with greater geographic exposure. Currently, PERA's private equity portfolio is slightly overallocated to IT via venture capital. CVC has focused sector groups in healthcare, financial services and TMT (technology, media, and telecom). PERA is underweight in its non-US buy-outs and this commitment will diminish that underweight.

Ms. Larrañaga-Ruffy provided a review of CVC Capital Partners who have been investing since 1996 and noted that this is their seventh pan-European private equity fund and PERA's second investment with them. The firm has over \$38 billion in assets under management in the private equity strategies.

Jeff Goldberger, TorreyCove, said CVC is seeking to raise €12.5 billion with 30 to 40 investments within Fund VII. These will be large leveraged buy-outs and all of the deals will be control/co-control. He discussed the enterprise values that will be between \$500 million to \$5 billion. These are large, mature businesses. Geographically, Mr. Goldberger said approximately 75 percent of the fund will be within Europe and approximately 25 percent in the US. The firm recently opened an office in Brazil and he expected an investment to be between 0 and 10 percent of the fund.

Mr. Goldberger confirmed Mr. Esquibel's observation that Brazil has a challenging environment. CVC has been very thoughtful in its Brazil expansion. Mr. Pérez noted that market volatility can be a good thing for private equity in which the assets are held for a long period of time.

Ms. French said she was disappointed CVC did not send a representative to today's meeting.

Regarding the expected investments in Fund VII, Mr. Goldberger said CVC wants to remain opportunistic and does not have specific targets. They are considered a "generalist" investor with dedicated teams in TMT, financial services and healthcare. He expected more exposure within those three sectors.

Ms. French restated her disappointment that the manager was not present because neither staff nor the consultant could identify the sectors that Fund VII would focus on to her satisfaction. Mr. Pérez said these are blind pool investments and CVC would not offer greater details. Ms. French said she understood that but wanted that on the record from the manager.

A discussion ensued regarding last month's Investment Committee meeting when the Board leadership's decision not to have the managers present was discussed at length. Chair Melia said if there are specific questions for the manager, staff has offered to facilitate whatever communications necessary for the Board's comfort. Ms. French spoke in opposition to the decision of not having the managers present.

Mr. Reynolds observed that the private equity portfolio is underallocated in Asia

and CVC will not serve to correct that underallocation. Ms. Larrañaga-Ruffy said PERA has increased its exposure in Asia; in 2014 it was roughly 2 percent and is currently at 5.7 percent.

Regarding the IT exposure, Ms. Larrañaga-Ruffy said as the portfolio is further diversified, staff's focus on venture and IT-focused funds will reduce and focus on consumer staples, healthcare and industrials will expand. Mr. Reynolds requested additional sub-allocation graphs be provided to better illustrate the sector diversification.

Mr. Reynolds moved to forward the recommendation to commit up to €100 million to CVC Capital Partners VII, LP according to the cash plan and subject to legal review by General Counsel. Ms. Kohlasch seconded and the motion passed by majority [4-1] voice vote with Ms. Naranjo Lopez voting against.

2. Recommendation to Commit up to \$75 million to Altaris Health Partners IV, LP and Altaris Constellation Partners IV, LP [*Exhibit 3: Staff recommendation re: Altaris; Exhibit 4: TorreyCove, investments operations due diligence report, re: Altaris*]

Ms. Larrañaga-Ruffy said she has been tracking this firm for over two years and was very excited to be presenting a recommendation. Altaris is sector-focused in healthcare and healthcare-related services which fulfills the satellite component of the private equities core satellite approach which consists of sector-focused, sub-billion dollar, private equity funds. This part of the US buy-out market is very hard to find due to the oversubscription in funds that no longer accept new limited partners. This is the second sector-focused fund that PERA has recommended.

Ms. Larrañaga-Ruffy described the relationship she developed with Altaris as a cold caller a couple of years ago. PERA is one of three or four new relationships that Altaris is including within Fund IV and the fund will have one close at the end of June. She described the 4 to 1 slip to Altaris Health Partners and Altaris Constellation Partners with the majority of the allocation going to the Health Partners which has a target of \$800 million. PERA's allocation is meaningful to the small fund of Constellation. Constellation is expected to enable Altaris to access larger transactions without the need for third-party capital partners while allowing for greater control of companies. With PERA's commitment to both funds it will create a consequential allocation in the middle market space, further diversify the portfolio and develop a long-term relationship with a new general partner.

Ms. Larrañaga-Ruffy provided a firm overview noting they have \$2 billion in assets under management and this will be their fourth healthcare fund. The GP's commitment of 5 percent is significant relative to industry standards.

Mike Kerns, TorreyCove, said Altaris invests in the healthcare space which is very broad and includes devices, diagnostics, pharmaceuticals, insurance and provider

services. Altaris is investing in the arena that reduces reimbursement risk. He said they focus on corporate carve-outs or corporate partnerships. Altaris will enhance the business strategy and execute merger and acquisition transactions. They have completed 30 platform companies and 70 add-on acquisitions to those companies. They focus on proprietary sourcing and small companies of \$30 million to \$300 million. The firm focuses on North America and is open to opportunities in Western Europe. Historically, they pursue majority ownership.

Mr. Kerns said there is a great deal of demand for this fund and rather than raising a large main fund the GP has created an “overage” fund for greater options. There is no management fee on capital invested through the overage fund.

Ms. Larrañaga-Ruffly said the 4 to 1 split provides that the larger portion will go to Altaris IV while Constellation will get the smaller portion. She confirmed this is a comingled fund with several investors. This fund will provide PERA exposure to US buy-outs.

Ms. Larrañaga-Ruffly said she has been speaking with Altaris since 2015.

Mr. Reynolds moved to forward the recommendation to commit up to \$75 million to Altaris Health Partners IV, LP and Altaris Constellation Partners IV, LP, funded according to the cash plan and subject to approval by general counsel. Mr. Esquibel seconded and the motion passed by unanimous voice vote.

C Information Item: Emerging Market Public Equity RFP MQs and Timeline

Ms. Larrañaga-Ruffly said this RFP is being issued due to the expiration of Aberdeen’s eight year contract with PERA. Aberdeen is one of the two managers in the emerging market equity space and since inception their return is 6.16 percent versus the benchmark of 3.04 percent. This RFP will enable staff to review the managers within the sector and determine whether two managers are necessary. The RFP is slated for release on May 1, 2017. She reviewed the RFP’s scope of work, MQs, timeline and stated that staff anticipates the contract will be awarded and funded by November 1, 2017.

The evaluation committee has not yet been identified.

D. Information Item: Real Assets Completion Portfolio RFP MQs and Timeline

Kristin Varela, Real Returns Portfolio Manager, reviewed the progress of the real assets portfolio and implementation plan. In April 2016, the Board approved an increase to the real asset target from 13 percent to 20 percent. The asset class was already underweight the 13 percent at that time, and in August 2016 staff presented an implementation plan to reach target within 12 months. At this point, the real assets market value has increased from under 8 percent to 15 percent of the total fund.

Ms. Varela reviewed the draft RFP for the liquid real assets portfolio completion strategy's scope of work, MQs, and procurement schedule. A recommendation to the Board is expected in August with funding in October 2017.

Mr. Reynolds asked for further information regarding the required participation in the Albourne Open Protocol database. Ms. Varela said this is Albourne's quantitative database that collects data regarding performance, and position and firm level information. With that information, Albourne can run risk analytics on the products being proposed.

Mr. Pérez said Albourne is a leader in the industry's technology platform and this tool is a great resource for PERA.

Ms. Varela said PERA is requesting a highly customized and diversified portfolio across different platforms and typically those resources are within large managers.

Ms. French said she advocates for emerging minority managers and she hoped staff will present RFPs which invite their response.

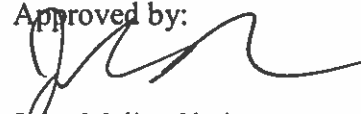
5. **OTHER BUSINESS**

Mr. Esquibel mentioned to management that the Board computer screens are very difficult to read because of the small font size. He suggested a digital rather than analog platform may address the issue.

6. **ADJOURNMENT**

Having completed the agenda, Mr. Esquibel moved to adjourn and Ms. Kohlasch seconded. Chair Melia declared this meeting adjourned at 10:10 a.m.

Approved by:



John Melia, Chair
Investments Committee

ATTEST:


Wayne Propst, Executive Director

Attached Exhibits:

Exhibit 1: Staff recommendation re: CVC

Exhibit 2: TorreyCove, investments operations due diligence report, re: CVC

Exhibit 3: Staff recommendation re: Altaris

Exhibit 4: TorreyCove, investments operations due diligence report, re: Altaris