

NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT BOARD

INVESTMENTS COMMITTEE MEETING

August 31, 2017

This meeting of the Public Employees Retirement Board Investments Committee was called to order by Chair John Melia at approximately 10:17 a.m. on the above-cited date at the PERA Albuquerque Office, 2500 Louisiana Blvd., NE, Suite 400, Albuquerque, New Mexico.

1. The Pledge of Allegiance was followed by roll call confirming a quorum with the following members present:

Members Present:

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

Member(s) Absent:

None

Other Board Members Present:

Claudia Armijo
Dan Mayfield
Cathy Townes
Patty French

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Director
Dominic Garcia, Chief Investment Officer
Jude Pérez, Deputy CIO
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Dana David, Assistant General Counsel
Trish Winter, Executive Assistant
Joaquin Lujan, Director of Rates and Credit
LeAnne Larrañaga-Ruffy, Director of Equity
Karyn Lujan, Deferred Compensation Plan Manager
Christine Ortega, Portfolio Manager

Mark Montoya, Financial Analyst
Isaac Olaoye, Financial Analyst
Emily Lopez, Financial Specialist
Kristin Varela, Portfolio Manager of Real Returns
Marlena Riggs, Financial Budget Manager
Anna Murphy, Compliance Officer

Others Present:

Jennie Lusk, NM AG Office
Cholla Khoury, NM AG Office
Harvey Leiderman, Reed Smith, PERA Board Fiduciary Counsel
Tom Toth, Wilshire
Paul Cowie, Meketa,
Paul Lium, Nationwide
Andrew Hayward, Albourne
Mark White, Albourne
DL Heshley, FOP
Anna Hanika-Ortiz, LFC
Dianne Creser, Chapter 5
Isabel Clendenin, RPENM
Mike Clendenin, RPENM
John Rivers, RPENM
Steve Cogan, REDW
Jessica Bundy, REDW

2. APPROVAL OF AGENDA

Ms. Naranjo Lopez moved to approve the agenda as presented. Mr. Esquibel seconded and the motion passed by unanimous [5-0] voice vote. [Mr. Reynolds was not present for this action.]

3. APPROVAL OF CONSENT AGENDA

Chair Melia said he reviewed the minutes of the July meeting and found them to be complete and correct and moved to approve. Ms. Kohlasch seconded and the motion passed without opposition. [Mr. Reynolds was not present for this action and arrived shortly thereafter.]

4. CURRENT BUSINESS

Executive Director Wayne Propst introduced Dominic Garcia, the recently hired PERA Chief Investment Officer, who will officially begin next week. Mr. Garcia said he looked forward to returning to New Mexico and working for PERA.

A. Chief Investment Officer's Report

1. Investment Performance – July 2017

2. Cash Plan Update

With respect to the lengthy agendas before the Committee and Board, PERA Interim CIO Jude Pérez offered to skip items A.1 and 2 and stand for questions. He noted the fund finished July with an increase of 1.5 percent which equates to \$86 million.

3. Other Updates

Mr. Pérez provided the following updates:

RFPs:

- Real Assets Portfolio Completion Strategy: recommendation today
- Emerging Market Equity: the evaluation committee conducted onsite meetings with the finalists earlier in the month and a recommendation is expected in September
- Currency Hedging: action may begin with the new CFO

Other updates:

- PERA Wilshire account representative Eileen Neal has resigned and will be replaced with Rose Dean
- MLP manager Harvest Fund Advisers was recently acquired by the Blackstone Group. A full due diligence will be conducted on the manager to ascertain the new ownership structure and whether there is an impact on the Harvest investment team and PERA's portfolio

Mr. Maxon congratulated Mr. Pérez on his excellent service to PERA as interim CIO. In turn, Mr. Pérez thanked and lauded the Investment staff.

B. Action Items: Liquid Real Assets Completion Portfolio

Kristin Varela, Portfolio Manager of Real Returns, provided background on progress on the real asset portfolio. This portfolio now makes up 14 percent of the overall portfolio. She said the implementation plan that was approved last year is prudently and effectively executed. Almost \$1 billion of capital has been moved into active strategies within the strategy.

Ms. Varela said this recommendation is the final RFP on the implementation plan and she reviewed the RFP objectives. She reviewed the RFP process and identified the evaluation committee members.

Ms. Naranjo Lopez said she would like to see two Board members on RFP evaluation committees. In that way it will ensure that fiduciary responsibilities are met.

Ms. Varela reviewed the RFP evaluation timeline, selection of semi-finalists and interviews, and gave an overview of the four finalist interviews. She emphasized that the process was uniform and equitable to all managers.

Ms. Varela said it was typical that PERA presents a two-pronged recommendation which she read as follows: 1) Utilize the investment management services of Pacific Investment Management Company (PIMCO) for the Liquid Real Assets Completion Portfolio, equal to 2 percent of the total fund, or approximately \$300 million. 2) Approve Nuveen Asset Management as a secondary strategy, to remain on PERA's bench of approved investment managers, for possible utilization of services in the future, and as approved by the Board. This mandate will be utilized as a funding vehicle within the real assets portfolio for future commitments to illiquid real assets over an estimated three- to five-year time horizon.

Ms. Varela said PIMCO currently is PERA's bench for core fixed income mandate but is not managing any funds.

Mr. Esquibel moved to approve the recommendation as presented by staff. Her motion was seconded by Mr. Maxon and passed by unanimous [6-0] voice vote.

C. 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 \$75 Million to NGP Natural Resources XII, LP

Ms. Varela said this will be an illiquid real assets partnership seeking to execute a buy and build equity strategy through the backing of high quality management teams whose underlying assets are associated with the upstream and midstream energy section, primarily oil and gas. Investments with NGP will be across the USA and this will be a continued relationship for PERA. PERA's relationship with NGP started in 2007 with \$30 million. To date, PERA has received \$42 million from that investment. In 2012, PERA invested an additional \$25 million in Fund X and in 2014 \$50 million was invested in Fund XI. All of the funds are considered top quartile and have contributed to PERA's overall outperformance in the real assets portfolio.

Ms. Varela discussed how this investment will fit within the overall portfolio and how it fills the gap in an underallocation. She provided a summary of the firm stating NGP has successfully deployed their strategy since 1988.

Mark White, Albourne, said NGP is one of the older funds in the industry. Re-upping with a top quality manager is important for PERA. NGP's strategy is focused on finding upstream and midstream opportunities by backing high quality investment management teams, a strategy referred to as "deep winners." He discussed Albourne's key success strategies which includes controlling risk.

Ms. Varela said NGP is offering an 18-month fee discount for investors in the first closing.

Mr. Esquibel moved to approve the recommendation to commit up to \$75 million to NGP Nature Resources XII, LP, to be funded according to the cash plan and subject to legal review by General Counsel. Ms. Naranjo Lopez seconded and the motion passed by unanimous [6-0] voice vote.

On behalf of the Committee, Chair Melia thanked staff for their work.

D. Information Item: Q4 FY17 Performance Review

Tom Toth, Wilshire, reviewed data that Wilshire compiles on state pension plans that includes their investment standing and funding status. The average pension plan averages 70 percent funded. PERA is a bit above average at 73 percent to 75 percent funded. He noted that there has been a steady decline in the assets allocated to US equities and an increase in allocations to non-US equities and other alternative assets. He noted that private assets have more than doubled since 2006. The median plan has an expected return of 6.4 percent with a risk level of 12 percent. PERA has an expected return of 6.9 percent with a risk level at 11 percent.

In response to concern raised about hedge fund investments, Mr. Pérez suggested a study session on these funds.

As of the end of the quarter, Mr. Toth noted that the fund was at \$14.9 billion. He referred to the target and actual allocations and outlined how those mismatches impacted the performance of the portfolio relative to its target asset allocation. The moderate overweight to global equity has been beneficial for the fund. The risk reduction and mitigation which is primarily core fixed and global core fixed income is overweight and has been a detractor from total fund performance. The credit oriented portfolio is broadly in line with a slight underweight of its target and provided a bit of an advantage. The real assets portfolio is underweight and served as a headwind for the portfolio.

For the fiscal year 17, the fund was up 11.1 percent and outperformed the actuarial number, stated Mr. Toth. The outperformance was attributed to global equity.

E. Information Item: External Legal Services Relating to Investment RFI MQs and Timeline

Mr. Pérez said this RFI process will be conducted through PERA's Legal Department.

Dana David, Assistant General Counsel, said PERA has three contracts with external law firms that assist the General Counsel's office and the Investment Division to review contracts in private equity. The RFI process will ensure that PERA has the best law firms available. Rather than MQs, a questionnaire was developed to ascertain the responding firm's pertinent expertise.

Mr. David requested that the Committee Chair make recommendations to the Board Chair on people to serve on the evaluation committee as well the participation of investment staff and someone from the General Counsel's office. A recommendation is slated to come before the Board on November 30th.

Mr. David apologized that this item was not listed on today's Board Consent Agenda.

5. OTHER BUSINESS

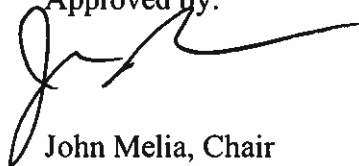
Responding to a comment offered earlier during the meeting by Ms. Naranjo Lopez that she preferred more Board representation on evaluation committees, Mr. Reynolds said for the record, that staff and the consultants do a great job and he preferred fewer Board members on those committees.

Mr. Esquibel agreed with Mr. Reynolds adding that the Board should maintain distance from the RFP and RFI process and recommendations.

6. ADJOURNMENT

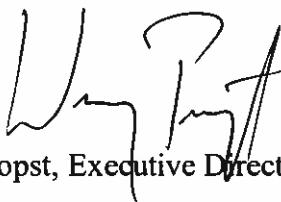
Having completed the agenda, and upon motion and second, Chair Melia declared this meeting adjourned at 11:35 a.m.

Approved by:



John Melia, Chair
Investments Committee

ATTEST:



Wayne Propst, Executive Director