

NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT BOARD

INVESTMENTS COMMITTEE MEETING

February 23, 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 by Executive Director Wayne Propst and indicated a quorum with the following members present:

Members Present:

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

Member(s) Absent:

John Reynolds, Vice Chair [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
Dana David, Assistant General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director
Jude Pérez, Deputy CIO
Renada Peery-Galon, ASD Director
Joaquin Lujan, Director of Rates and Credit
Trish Winter, Executive Assistant
Misty Braswell, Assistant General Counsel
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

Others Present:

Chris Rice-Shepherd, Cliffwater
Thomas Toth, Wilshire

2. APPROVAL OF AGENDA

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

3. APPROVAL OF CONSENT AGENDA

Ms. Naranjo Lopez moved to approve the consent agenda. Mr. Esquibel seconded and the motion passed without opposition.

4. CURRENT BUSINESS

A. Chief Investment Officer's Report

1. Investment Performance – January 2017

PERA CIO Grabel said as of the end of January 2017 the fund balance was \$14.5 billion. The fund was up 1.52 percent net of fees and the fund balance increased by \$166 million. As it relates to the FY17, the fund balance is up 5.24 percent and ahead of the updated 4.17 actuarial pace. As of this morning, the daily net asset value – an estimate of the fund balance – was \$14.65 billion.

Mr. Grabel reminded the Committee that the first six weeks of calendar year 2016 was tumultuous with the global equity markets down 10 percent and mid-February PERA's daily NAV (net asset value) was \$13 billion. Given that the net outflow exceeds member contributions, the fund balance is up over \$2 billion from where it was a year ago. This highlights, he said, that capital markets can be very volatile and it is important to be vigilant about liabilities.

Mr. Grabel highlighted that there was strong performance across all asset categories.

2. Cash Plan Update

Mr. Grabel said the change in the fund balance for the month was a positive \$166 million. The month finished with \$521 million in cash. Affiliated with the cash plan is the rebalancing report that reflects Board approved actions associated with the implementation plan.

3. Other Updates

Mr. Grabel provided the following RFP updates:

- A recommendation for the REITs mandate will be presented today
- The low-volatility equity RFP was issued and responses are expected next week
- A foreign currency hedging RFP will be presented today

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 Rockpoint Growth and Income Fund II, LP

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

Kristin Varela, Real Assets Portfolio Manager, said the recommendation is to commit up to \$175 million to Rockpoint Growth and Income Fund II. She reviewed the positioning of PERA's real asset portfolio which is currently funded at 11.7 percent representing approximately \$1.2 billion in underallocation to the real asset portfolio. Over half of the \$1.2 billion is within the illiquid real estate portfolio with a concentration in growth oriented opportunities. She reviewed a graph illustrating the sector over- and underweights in illiquid real estate compared to the Board approved policy index. Staff will continue to recommend more sector specific lower risk opportunities within the portfolio.

Ms. Varela said Rockpoint focuses on the office sector as well as a core-plus investment strategy which complements PERA's needs. She reviewed the firm's history and their 11 funds. They currently have \$11.8 billion under their management. The firm currently manages five opportunistic funds and one growth and income fund.

Chris Rice-Shepherd, Cliffwater, said Cliffwater has recommended Rockpoint for over a decade and this growth and income fund is a natural extension of the opportunistic strategy. The key to investing in core or core-plus assets features are stability of cash flows and the demand from the end user. Rockpoint is able to meet that key by having a focus on offices and multi-family which are property sectors that tend to have a higher rate of end user demand.

Mr. Rice-Shepherd said typically these assets stabilize in less than 24.

Ms. French asked how many of Cliffwater's clients were invested in Rockpoint. Mr. Rice-Shepherd said Cliffwater has four clients in the opportunistic series and two clients in the core-plus strategy.

Mr. Esquibel moved to recommend a commitment of up to \$75 million to Rockpoint Growth and Income Fund II, LP a private partnership focused on core-plus real estate investments in the US, to be funded according to PERA's cash plan, subject to approval of legal documentation by General Counsel. Mr. Maxon seconded and the motion passed by unanimous [5-0] voice vote.

**C. Information Item: Q2 FY17 Performance Review
*[Exhibit 4: Wilshire, Q2 Performance Review]***

Thomas Toth, Wilshire, pointed out that the quarter under review ended 12/31/2016. He reviewed the over- and underweights relative to the larger asset classes. He highlighted the risk adjusted return for the one-year period ending 2016 noting it was a good year on an absolute basis but did underperform the policy index. As the asset allocation targets are reached the volatility/beta will come down and the risk adjusted returns/Sharpe ratio will improve.

Mr. Toth said it is important to be cognizant of the risk level within the portfolio.

D. Information Item: Currency Hedging Services RFP MQs and Timeline

Christine Ortega, Portfolio Manager of Investment Operations, said with the current low return environment and the desire to mitigate risk within the portfolio the potential exists to hire one or more managers to passively hedge PERA's developed market currencies. An RFP has been developed for release on March 1, 2017. She reviewed the MQs and timeline. It is anticipated a new contract(s) will be in place by July 1, 2017.

Chair Melia asked whether issuing the RFP obligated PERA to move forward with a currency hedging service and Ms. Ortega said it did not. Mr. Grabel said foreign currency has been discussed for the past few months and recognized that over time it is not expected to generate returns; however, given that this is a low return environment anything to dampen volatility and protect the corpus is in the best interest of the fund. Pending prices and responses, the Board will determine whether to proceed or not.

5. OTHER BUSINESS

Mr. Esquibel asked whether BlackRock's acquisition of First Reserve Energy Infrastructure Funds (FREIF) would affect PERA. Ms. Varela said First Reserve experienced an equity crunch and looked for more liquidity to meet their debt payments. First Reserve's assets are still sound and the market is increasing: they just needed capital. PERA, as an investor, views the buyout as positive.

BlackRock is a very large institutional investment advisor and their liquidity, resources and platform are all positive. PERA's capital is "in the ground" in assets that are still high quality and generating cash flow.

With BlackRock – the largest asset manager in the world – behind First Reserve there is potential for PERA to recover its money.

6. ADJOURNMENT

Having completed the agenda, Mr. Maxon moved to adjourn and Ms. Kohlasch seconded. Chair Melia declared this meeting adjourned at 9:55 a.m.

Approved by:


John Melia, Chair
Investments Committee

ATTEST:


Wayne Propst, Executive Director

Attached Exhibits:

- Exhibit 1: Staff recommendation re: Rockpoint*
- Exhibit 2: Cliffwater Report*
- Exhibit 3: Rockpoint Report*
- Exhibit 4: Wilshire, Q2 Performance Review*