NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT BOARD

INVESTMENTS COMMITTEE MEETING

June 29, 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 Taos Civic Center, Town council Chambers, 120 Civic Plaza Drive, Taos, 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
Dan Esquibel
Loretta Naranjo Lopez
Jackie Kohlasch
James Maxon

Member(s) Absent:
John Reynolds

Other Board Members Present:
Claudia Armijo
Tim Eichenberg
Patty French
Dan Mayfield
Maggie Toulouse Oliver
Cathy Townes

Staff Members Present:
Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Director
Jude Pérez, Interim CIO
Renada Peery-Galon, ASD Director
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, Senior Portfolio Manager of Real Returns

Others Present:
Mike Krems, TorreyCove

Jeffrey Goldberger, TorreyCove
Eileen Neill, Wilshire
Lisa Needle, Albourne
James Walsh, Albourne
Charlie Marquez, Lobbyist
Anne Hanika-Ortiz, LFC
Linda Butler
Teresa Mayfield

2. APPROVAL OF AGENDA

Ms. Kohlasch moved to approve the agenda as presented. Ms. Naranjo Lopez seconded and the motion passed by unanimous [5-0] voice vote.

3. APPROVAL OF CONSENT AGENDA

Chair Melia said he reviewed the minutes of the May meeting and found them to be complete and correct.

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

4. CURRENT BUSINESS

A. Chief Investment Officer's Report

1. Investment Performance – May 2017

PERA Interim CIO Jude Pérez said the fund finished April with a balance of $15.1 billion, a new high water mark. For the month, the fund was up 1.39 percent, net of fees, and the fund was up $153 million. For the one-year period, the fund is up 11.29 percent and fiscal year-to-date the fund is up 10.76 percent, net of fees, ahead of the actuarial target pacing. He reviewed the performance of asset categories.

2. Cash Plan Update

Mr. Pérez said the cash balance at BNYMellon was up approximately $5 million and the month finished with approximately $520 million in cash. He reminded the Committee that the cash is equitized through the overlay program. He reviewed the sources and uses of cash during May. Approximately $96 million was used to pay benefits and refunds, which may rise to $100 million next month following the implementation of the new COLA, $4 million for operational expenses, $25 million for illiquid asset capital calls and $174 million to fund the credit portfolio as part of the Strategic Asset Allocation Implementation Plan.

Mr. Pérez reviewed the asset allocations – actual versus target – and highlighted that there was an underweight in real assets. The variances are reduced on a monthly basis.

3. Other Updates

Mr. Pérez provided the following updates:

- There are four active RFPs:
    - Low-volatility: on-site visits were conducted and a recommendation will be forwarded to the Committee and Board in July
    - Currency Hedging: in process
    - Emerging Market Equity: in process
    - Real Assets Portfolio Completion Strategy: in process

Mr. Pérez announced that Kristin Varela has been named to the *CIO Magazine*'s Class of 2017 Forty-Under-Forty. Ms. Varela received a round of applause and Mr. Pérez said PERA was very fortunate to have Ms. Varela on their team.

B. <u>Action Items</u>: 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 $100 million to Eagle Point NMPERA Opportunistic CLO (Fund of One), LP

Joaquin Lujan, Director of Rates & Credit, said NM PERA and TorreyCove recommend the commitment of $100 million to Eagle Point, an opportunistic credit fund that will employ a multi-faceted collateralized loan obligation (CLO) strategy. The strategy will target a 15 percent gross IRR with a 4-year investment period, and a 10-year final term, including two optional 1-year extensions.

Mike Krems, TorreyCove, said that, fundamentally, the Eagle Point investment before the Committee is related to senior loans that are pulled together and structured in a collaterizaling method of obligation. Historically, the equity investors in CLO investments have been hedge funds or business development companies, but importantly they are generally minority owners of the equity security, which makes them "term-takers rather than term-makers" in these structures. Eagle Point has a different approach to its investments: it wants to be the majority owner in the equity tranche of CLOs. That matters because they can drive the terms to be more favorable to equity owners which TorreyCove believes has led to outperformance for Eagle Point.

Mr. Krems reviewed the players within a CLO structure to include the collateral manager, banks, and the equity provider, in this case Eagle Point. As the majority equity investor, Eagle Point negotiates the fee with the collateral manager, helps select the bank and helps negotiate the terms of the CLO vehicle. Eagle Point has been able to negotiate 20 percent to 25 percent rebates on the fees that the collateral manager typically gets, which is an economic advantage that other CLO equity investors don't get. Mr. Krems said they are able to achieve that rebate because they are a strong brand in the market. He provided examples of how Eagle Point employs more favorable structures to optimize equity returns. As the majority equity investor, Eagle Point can drive the process.

Mr. Krems said that ,at this time, PERA lacks exposure to a CLO with a dedicated manager, and this will serve as a complementary strategy to the portfolio. Eagle Point has flexibility that positions them to perform well across various market cycles. Eagle Point has an annualized gross return of 18.9 percent over the 61 deals that they have invested in with an annualized standard deviation of 9.1 percent.

In response to a question asked by Mr. Esquibel, Mr. Krems repeated that the structure of CLOs provides a unique exposure that is complementary to PERA's portfolio.

Mr. Lujan reminded the Committee that diversification is gained at the asset level, not the manager level. Eagle Point is a fund dedicated to just CLOs and PERA's other managers have been instructed not to participate in CLOs.

Mr. Esquibel asked about the time frame in which Eagle Point has to invest the $100 million and Mr. Lujan said they will be provided a four-year investment period.

There were no questions for Eagle Point.

Mr. Esquibel moved to approve and forward the recommendation to commit up to $100 million to Eagle Point, according to the cash plan and subject to legal review by General Counsel. Ms. Kohlasch seconded and the motion passed by unanimous [5-0] voice vote.

2. Recommendation to Commit up to $75 million to Meridiam Infrastructure North America III, LP

Kristin Varela, Senior Portfolio Manager, Real Assets, said the recommendation by staff and the consultant is to commit up to $75 million to Meridiam Infrastructure NA Fund III. This investment will be an illiquid partnership within our real assets portfolio, with a primary focus on infrastructure. Meridiam will employ a strategy of infrastructure investing through green-build public-private partnerships. Telephonically, Thierry Déau, founder and CEO of Meridiam and Matthieu Muzumdar, director of investor relations, were present to respond to any questions.

Ms. Varela reviewed the progress in investing in the real assets portfolio and noted that this is the one category that has not yet met its asset allocation range target. At this point, PERA has a high concentration to energy exposure and infrastructure has been a primary focus to reduce that concentration. Meridiam will be complementary in the core satellite approach within the portfolio and favorable to PERA in that it is a long-life (25 years) structure with liquidity provisions. Ms. Varela said this recommendation will help PERA to align its assets with long-term liabilities. She provided the firm's background, noted they are headquartered in Paris with offices across the world, and recognized as a leading partner in both public and private sectors. To date, they have approximately €5 billion in assets under management and are 100 percent employee owned. The firm will contribute to the fund with PERA.

Lisa Needle, Albourne, said that this will be a public-private partnership (PPPs) where the management firm works in concert with the government or municipality, and allows them to combine skill sets to access and improve social infrastructure, transportation and waste/water. Greenfield projects are built from the ground up, creating a much longer project lead time from development to procurement. She noted that the 25-year time life is reflected in that period and a public entity wants to see commitment through the life of a project, thus strengthening the bond. Meridiam has significant relationships to obtain competitive bids to improve the consortium.

Ms. Needle pointed out that there is liquidity available at the mid-term of the project. Meridiam has been very successful at offloading risks.

Ms. Varela confirmed that, if approved, this would be the longest investment term PERA has. A typical infrastructure fund has a 15 year term life. The money will be put to work within the first five years.

There were no questions for Meridiam.

Mr. Esquibel moved to approve and forward the recommendation to commit up to $75 million to Meridiam Infrastructure North America III, LP, according to the cash plan and subject to legal review by General Counsel. Ms. Kohlasch seconded and the motion passed by unanimous [5-0] voice vote.

Chair Melia said upon the Board Chairman's request, the IC would recess.

Ms. Kohlasch moved to recess and Mr. Maxon seconded. The motion passed by unanimous voice vote.

[The Investments committee recessed from 9:55 to 10:25]

Chair Melia called the meeting back to order and attendance of Investment Committee members remained the same as shown on page one.

3. Recommendation to Commit up to $75 million to Onex Partners Fund V, LP

LeAnne Larrañaga-Ruffy, Director of Equity, identified the Onex representatives available telephonically. Ms. Larrañaga-Ruffy said that this is a follow-on investment with Onex. PERA committed $25 million to Fund III in 2008 and $45 million to Fund IV in 2014. Onex has a long-established track record and a disciplined approach to private equity investing. The Onex investment team will commit up to 10 percent to the fund, has provided a 1.3x multiple since inception, and has distributed back $24 million to PERA's members. She reviewed the core component to the PERA's core satellite structure.

Jeffrey Goldberger, TorreyCove, said that this is Onex's fifth fund to pursue largely the same strategy they have pursued for many years. This fund will be $6.5 billion. From a high level the strategy is to pursue control-oriented leveraged buyouts. From a geographic standpoint, Onex will provide primarily North American exposure with some exposure in Western Europe. Onex has investment professionals in Europe. Onex will provide exposure in a number of sectors to include industrial, transportational logistics, aerospace, defense, chemicals – sectors that fit well within PERA's portfolio, which at this point has a heavy growth, technology bent.

Responding to Mr. Esquibel's question regarding implementation of the strategy, Mr. Goldberger stated that approximately 75 percent of the portfolio is expected to be allocated to buyout investments, where PERA is currently underweight. There is a five-year investment period.

Mr. Esquibel moved to recommend a commitment of up to $75 million to Onex Partners Fund V, LP, according to the cash plan and subject to legal review by General Counsel. Mr. Maxon seconded and the motion passed by unanimous [5-0] voice vote.

C. <u>Action Item</u>: Global Low Volatility Equity passive recommendation

Ms. Larrañaga-Ruffy said that this recommendation is to continue utilizing BlackRock as the passive global low volatility manager within the global equity portfolio. In April 2016, global low volatility equity was added to the global equity allocation at 4.4 percent of the portfolio. In 2016, the Board approved implementing the allocation as part of the nine step transition that was managed by BlackRock. In January 2017, the Board approved the recommendation to allocate the mandate 70 percent passive and 30 percent active. A recommendation for the active portion of the mandate is expected in July 2017.

Ms. Larrañaga-Ruffy said BlackRock has successfully built and implemented the passive strategy and staff has negotiated a lower fee to continue the management. According to the procurement policy, the Board can approve a current manager in good standing with a super majority vote for an eight-year contract, and staff and Wilshire recommend that be accomplished.

Mr. Esquibel moved to approve the global low volatility equity passive recommendation. His motion was seconded by Mr. Maxon and passed by unanimous voice vote.

Mr. Pérez acknowledged Ms. Larrañaga-Ruffy's successful negotiations in obtaining a reduced fee, and added that she is called the "Velvet Hammer" for reason.

Mr. Esquibel commended the entire staff.

5. <u>OTHER BUSINESS</u>

None was offered.

6. ADJOURNMENT

Having completed the agenda, Chair Melia declared this meeting adjourned at 10:30 a.m.

Approved by:

John Melia, Chair
Investments Committee

ATTEST:

Wayne Propst, Executive Director