

**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**PRIVATE EQUITY/REAL ESTATE INVESTMENT COMMITTEE**

January 9, 2008

**CALL TO ORDER**

A Regular Meeting of the New Mexico Educational Retirement Board Private Equity Investment Committee was called to order on this date at approximately 2:15 p.m. in the Educational Retirement Board Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

A quorum was present, as follows:

**Members Present:**

Mr. Bruce Malott, Chair  
Mr. James Lewis [teleconference]  
Mr. Jeffrey M. Riggs

**Members Excused:**

Mr. Gary Bland

**Other ERB Members Present:**

None.

**Legal Counsel Present:**

None.

**Staff Present:**

Mr. Mark Canavan, Real Estate Portfolio Manager  
Mr. Bob Jacksha, CIO  
Ms. LeAnne Larrañaga-Ruffy, Investment Officer  
Mr. Steve Neel, Portfolio Manager

**Others Present:**

Ms. Judith Beatty, Recorder  
Mr. Holland Gary, Aldus Equity  
Mr. Saul Meyer, Aldus Equity

## **APPROVAL OF AGENDA**

**Mr. Riggs moved approval of the Agenda, as published. Mr. Lewis seconded the motion, which passed by voice vote.**

## **APPROVAL OF MINUTES: December 12, 2007**

**Upon motion by Mr. Lewis, seconded by Mr. Riggs, the Minutes of the December 12 meeting were approved by voice vote, as submitted.**

## **FUNDING UPDATE: ERB STAFF**

Mr. Malott asked Aldus to remove the word "confidential" from their Allocation Plan reports because they are public documents.

Mr. Neel reviewed the contents of the Committee packet.

Mr. Neel reported that the current market value for the private equity portfolios is approximately \$45 million. He said there are currently 14 commitments totaling \$300 million; and today they will be looking at three commitments totaling \$80 million.

Mr. Neel also reported that staff is in contract negotiations with three GPs, all of them approved in December. He said everything else has been executed, and so things are on schedule.

Mr. Neel and Mr. Canavan briefed the Committee on today's private equity and real estate investment recommendations. Mr. Canavan also discussed all aspects of staff's due diligence process in choosing AMB Institutional Alliance REIT III/Europe Fund over other funds for recommended investments.

## **APPROVE PRIVATE EQUITY INVESTMENTS: ERB STAFF & ALDUS EQUITY**

Mr. Meyer reviewed the 2008 Allocation Plan and timeline.

### **1. Bridgepoint Europe IV**

Aldus Equity Associate Saul Meyer reviewed Aldus's recommendation of a commitment of 20 million euros to Bridgepoint Europe IV. He said Aldus has had a

longstanding relationship with Bridgepoint, and believes Bridgepoint to be the premier middle market buyout firm in Europe.

Mr. Meyer said Bridgepoint fills a unique position, which is going into the middle market below the larger firms like Apax and doing it on a pan-European basis. He commented that Aldus feels this pan-European approach is essential, given the amount of money the ERB has to allocate, and he wasn't sure it was a wise idea to allocate to the smaller single country funds.

Mr. Meyer said Bridgepoint's large and experienced team is composed of nearly 70 investment professionals operating in eight offices across Europe, and they are focused on building value in pan-European market-leading businesses through organic growth and acquisitions.

Mr. Meyer said Bridgepoint has a strong track record of success with a gross IRR of 23% and an investment multiple (gross) of 1.8x historically. He said that, like many of the older private equity firms in Europe, Bridgepoint was formed as part of the European banking group National Westminster Bank ("NatWest"). He said they have been around since 1984 and started their first institutional fund in 1998.

Mr. Meyer commented that Bridgepoint has a large platform and Aldus sees this as one of the critical components to investing in a pan-European fund, where there are people on the ground and in large groups, especially when looking at a larger number of smaller companies versus some of the larger funds in the market.

Addressing strategy, Mr. Meyer said their investment strategy is a pan-European strategy focused on the middle market, leveraging proprietary angles in investing across a diversified set of business sectors. He said Bridgepoint create value in the companies in a hands-on way.

Mr. Meyer commented that many large pan-European funds have separate offices and they are allocated carry or are compensated according to how well they do. He said Bridgepoint is unique in that the carry is actually distributed on a team and fund basis. For instance, he said the UK has been recently overheated and so Bridgepoint hasn't done a lot of deals in the UK, so the principals in those markets haven't suffered as a result.

Reviewing performance, Mr. Meyer noted remarkably consistent returns; on a realized basis, the average is 3.1x. Referring to the numbers of investments made in Funds I, II and III, Mr. Meyer said there were 65 investments in Fund I, and when Aldus was making recommendations for Fund III, the conversation was that Bridgepoint would be doing fewer and larger investments. He said the result was they ended up doing 11 deals and came back to market in less than two years, which was too brief a time; so the Fund is going from 2.5 billion euros to roughly 5

billion euros. He commented that Aldus is not concerned about this because the average size of a deal should stay about the same, and the result will be a more diversified and more typical portfolio of 20-25 deals.

Mr. Meyer pointed out that the 11 transactions in Fund I are realized, returning 45+%, with a large number of deals in Fund II performing at over 45%. He said Fund II, a 2006 fund, is too young to show demonstrable returns.

William Jackson, managing partner of Bridgepoint, was present with Guy Weldon, head of Bridgepoint's consumer group. He said Bridgepoint invests in businesses valued typically from between 200 million euros and 8 billion euros in the middle market, although most of what they do is probably in the 200-600 million euro range.

Mr. Jackson presented slides.

Mr. Neel noted that Bridgepoint will be going into new sectors, transport and technology specifically, and has also opened a new office in Warsaw. He asked Bridgepoint to discuss opportunities they see in these areas.

Mr. Weldon responded that the transport sector was recruited into the firm about three years ago by a new member of the team who specialized in that sector. He said Leeds Bradford Airport is a new transaction in that space (Fund III), which is a regional airport in the UK that was sold by the five local authorities that owned it. He said Bridgepoint plans to undertake an operational turnaround of the business, and five years ago did a very similar transaction in the UK and sold the business as an infrastructure investment.

Mr. Jackson said Bridgepoint likes to be on the leading edge of new trends; and in terms of central Europe, Bridgepoint is a European community fund, and that is its mandate. He commented that they looked at the market for a long time, and because they have a lot of capital in that space simply because many of their western European-based manufacturers have activities in the region, they decided to step into the market. He added that Bridgepoint is starting to see some very interesting businesses coming out of Poland and the Czech Republic; for Bridgepoint, central Europe consists of those countries on the edge of Austria-Germany as opposed to Russia and the Ukraine.

Mr. Neel asked what percentage of Bridgepoint's LPs re-upped between Funds III and IV, and Mr. Jackson responded at least 90%. He said it was 95% in the previous two funds.

Responding to other questioning from Mr. Neel, Mr. Jackson said their investment committee is based in London and they operate as a senior team. He

said the senior team meets physically together every week; so they centrally decide where the opportunities are, etc.

Mr. Neel noted that unrealized assets in Funds II and III are around 2.5 billion euros, and Bridgepoint is raising a fund of 4-5 billion euros. He asked how this is managed staff-wise.

Mr. Jackson responded that, when they were independent, they had 150 majority stakes and today have 35, and they have slightly more people than they did in 2000, so they have had a big piece dividend both from both the realizations they have had and this concentrated change in strategy. He said this has given them additional resources for new transactions. He said they have added 10-15 people since the last fundraise.

**Mr. Riggs moved that the PEIC approve a commitment of 20 million euros, plus any notional interest, to Bridgepoint Europe IV. The commitment shall not exceed 20% of the committed capital of the fund and is subject to New Mexico state law, Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork.**

**Mr. Lewis seconded the motion, which passed by voice vote.**

## **2. Platinum Equity Capital Partners II, L.P.**

Aldus Equity Associate Holland Gary reviewed Aldus's recommendation of a \$30 million commitment to Platinum Equity Capital Partners II, a \$1.5 billion buyout fund. He said the group is focused on operational improvement and, in some cases, even turnaround-type activities. He said that, from a strategic standpoint, Aldus saw it as most appropriate to be in the buyout bucket despite the heavy operational focus.

Mr. Gary said Platinum has a larger team than typically seen in U.S. domestic buyout funds, with more than 80 professionals. He said the principals' group has 150+ years of experience with Platinum and over 380 years of experience in the appropriate sectors. He added that the team has a lot of operational experience with a lot of senior executives, including company founders, who have operated in technology, consulting, academia and banking and other sectors.

Addressing strategy, Mr. Gary stated that, rather than simply having a partner assigned to a board or a given deal, Platinum creates an entire cross-functional team dedicated to that deal that includes people with finance backgrounds, legal backgrounds and so forth, and then they augment the team with more junior people depending on the needs of the deal. He added that Platinum is unique in that the teams work together on a repeat basis, so they will do multiple deals within

the same group, ensuring that all of their bases are covered from a skill-set perspective while developing effective working relationships as a group.

Mr. Gary stated that Aldus was also impressed with the discipline of the group in terms of what they will purchase and where they will focus. He commented that they don't look necessarily at fundamentally broken companies, but at companies where there are one or more operational issues that are preventing a company from realizing its true potential from financial and operational perspectives. He said examples of this are corporate orphans.

Mr. Gary said Platinum's addition of the "O" in what they call the "M&A&O" process refers to the operations component, because they feel that piece is part and parcel of every single transaction they do — not only are they able to add value within the first 30-120 days of a transaction, but they actually begin earlier in the diligence cycle, engaging deeply with the company. He said they have the ability to operate either from a board perspective or through infiltrating the company by adding Platinum professionals or finding the appropriate talent to supplement the existing management team.

Mr. Gary commented that the track record shows overall impressive returns. He said there is a Legacy portfolio, where there were a series of investments and transactions done outside of the fund structure. He noted remarkably strong IRRs in Fund I, in part due to the structuring of some of the deals by minimizing the amount of equity required where appropriate, thus taking on the operational risk without as much of the financial risk and balance those things effectively. He noted similar performance in the synthetic Fund II.

Mr. Gary noted that, although there are a number of unrealized investments in Fund I, which is not inappropriate given that it is a 2004 fund, there is fairly good distribution both in terms of cash-on-cash returns and IRRs. He pointed to very strong returns, both realized and potential, when compared to the peer group. In referring to the benchmark analysis, he cautioned that these are gross IRRs, not net — but even cut in half, they clearly outpace the top quartile across all the benchmarks available.

Principals Mark Barnhill and Bob Wentworth introduced themselves to the Committee and presented slides.

Mr. Wentworth stated that they are significant investors in this Fund, which creates tremendous alignment of interest; not only do they have a meaningful GP commitment of \$100 million, they are also a significant co-investor. He stated that the level of co-investment in 2008 is 20% — so with every transaction, they are a 20% co-investor ("no cherry-picking").

Responding to questioning from Mr. Neel, Mr. Wentworth said they do contemplate exits when they are making an investment, but their basic philosophy is that “if we take a long-term view on a business and fix the inherent problems in that business, the exit strategy will become self evident.” He said certainly they consider a potential exit on entrance, but that is not the overriding factor.

Mr. Wentworth stated that, in terms of governance of a business, Platinum has an operating committee that oversees the operations of each portfolio company—there are typically five members on that committee, with three PE resources plus the CEO and CFO— and they identify and focus on what opportunities there are for exits on a continuous basis. He added that the type of operational impact they have on a business is internal as opposed to external, and typically that happens in the first 12-18 months of the company being part of the portfolio. After that, he said, there is a period where the business proves its results, at which point Platinum takes it to exit. He commented that the average hold period is in the 3-4 year range, but sometimes it can be less than 2 years and other times it can be 5 years.

Mr. Barnhill added that Platinum is heavily focused on monetization of these businesses and recovery of invested capital and realized proceeds during the hold period.

**Mr. Riggs moved that the PEIC approve a commitment of \$30 million, plus any notional interest, to Platinum Equity Capital Partners II, L.P. The commitment shall not exceed 20% of the committed capital of the fund and is subject to New Mexico state law, Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork.**

**Mr. Lewis seconded the motion, which passed by voice vote.**

### **3. Leeds Equity Partners V, L.P.**

Aldus Equity Associate Holland Gary reviewed Aldus's recommended commitment of \$20 million to Leeds Equity Associates V, a \$1 billion buyout fund focused in the Knowledge Industries space. He said they have been investing in this space consistently since 1993.

Mr. Gary stated that the entire Leeds team has an impressive level of tenure within the firm along with exceptional experience in the Knowledge Industries, and the firm's 11 primary investment professionals have 68 years collectively with the firm and 97 years of experience in the target sector.

Mr. Gary also stated that the Leeds advisory board includes a number of luminaries who are more or less involved, but in the Knowledge Management

space, particularly in education, having relationships such as these can certainly put the group at a strategic advantage.

Mr. Gary said the Knowledge Industries market goes across education, information management, business services and information services, so it is a large diverse space that is defined fairly broadly, and overall market opportunity can exceed \$1 billion depending on what measurements are used. He stated that, despite the laser focus of the group, there should be sufficient diversification opportunity within the space to build an effective portfolio.

Mr. Gary stated that Leeds employs a control-oriented strategy with very active management. He said they leverage the experience of the team in the knowledge management space to drive the initiatives and make the appropriate acquisitions while helping to drive fundamental increases in EBITDA to drive value.

Addressing the overall track record, Mr. Gary noted fairly consistent performance, with a number of funds in the top quartile. He commented that Fund II was a single deal opportunity to acquire an educational-oriented business outside of the structure of Fund I. He pointed out that, in addition to consistent strength across funds in terms of gross IRRs (59.8%) and investment multiples, Fund IV has invested exclusively in the Knowledge Industries and is currently generating an unrealized 49.1% gross IRR and 1.9x investment multiple, and Fund IV's strategy is most representative of that which will be employed in Fund V.

Representing Leeds Equity Partners at this meeting were senior investment professionals Jeffrey Leeds and Peter Lyons, CFO, who presented slides.

**Mr. Riggs moved that the PEIC approve a commitment of \$20 million, plus any notional interest, to Leeds Equity Partners, L.P. The commitment shall not exceed 20% of the committed capital of the fund and is subject to New Mexico state law, Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork.**

**Mr. Lewis seconded the motion, which passed by voice vote.**

#### **APPROVE REAL ESTATE INVESTMENT: ERB STAFF & ORG**

##### **1. AMB Institutional Alliance REIT III/Europe Fund I**

ORG Portfolio Management representatives Steve Gruber and Jonathan Berns were present with AMB Capital Partners president John T. Roberts and vice present Robert Bransfield.

Mr. Gruber told the Committee that ORG has an investment plan in place for the ERB, and is averaging in its exposure over a set period of time; however, that doesn't mean they are obligated to make investments every year, but to strategically invest the money as opportunities arise. He said ORG likes the industrial investment space for a number of reasons, one of which is the wide variety of tenants that are captured in the portfolio, creating a very diversified income stream. Additionally, he said, NCREIF data show industrials as one of the least volatile property types for investment.

Mr. Gruber said AMB is a leader in high throughput airport- and seaport-related logistics facilities. He commented that industrial properties in the past were held to store goods in, but AMB's business is actually in the breaking up of bulk and getting it out quickly — their strategy focuses on providing properties to customers who are willing to pay higher rents associated with premier locations near the world's busiest distribution markets.

Mr. Gruber said AMB has an open end fund in the U.S. (AMB III) and an open end fund in Europe, the latter of which provides liquidity and the ability to exit three years out. He commented that the U.S. portfolio is \$1.7 billion of assets, consisting of 70 assets, and AMB focuses exclusively on global trade markets. He said some of the ERB's peers in this Fund include AT&T, Teacher Retirement System of Texas, and all four New York public funds. He added there is no placement agent involved with this Fund; AMB markets its fund on its own behalf, and ORG has not been contacted by any placement agents.

Mr. Roberts and Mr. Bransfield presented slides on AMB Capital Partners, LLC.

Mr. Roberts stated that AMB Property Corporation is a 140.8 million square foot platform serving 2,800 customers in 44 markets in 13 countries, and it was founded as an investment management firm in 1983, becoming a public REIT in 1997.

In discussion with Mr. Malott, Mr. Roberts said AMB's goal is to be the dominant owner in this market, and one of the benefits of being in the infill locations is that there is not much supply around, so by definition no one can really come in. He said that, once AMB establishes a position, they are almost guaranteed to keep it. He added that another advantage is that industrial land use is pretty low down on the food chain in real estate – below it is agricultural land and self storage – but very often their industrial buildings will be taken out at some point for a higher and better use.

Mr. Roberts said AMB underwrites and revalues its portfolio every year, and to the extent they think a property is going to under-perform in the future for some

reason, they will sell it. He said returns are in the low double-digit range, and about 50% of that will be appreciation and 50% will be income.

Mr. Jacksha clarified that, unlike a closed end fund, on an ongoing basis the ERB will not be getting a distribution — periodically, the ERB's money is essentially recycled until the ERB decides to make a withdrawal. He said that, given that this is relatively new for the ERB, it would make sense to recycle the capital.

Mr. Malott concurred.

Mr. Bransfield, portfolio manager, presented an overview of AMB Alliance Fund III. He said the portfolio has 156 buildings on almost 19 million square feet in 13 U.S. markets (Atlanta, Austin, Baltimore, Boston, Dallas, Seattle, Southern California and others) with 400 tenants and 93% leased. He said the fund is leveraged about 50% at this point, and their target leverage is 60%.

Mr. Bransfield said this fund has access to AMB's development pipeline, so as AMB develops projects in the target markets, the fund has the exclusive right to acquire those. He said the projects would first need to be completed and stabilized to at least 90% occupancy, at which point they would be valued by an independent third party appraiser to determine the contribution value to the fund.

Mr. Roberts presented an overview of AMB Europe Fund I. He commented that this is the Europe version of Alliance Fund III, with many seaports and airports. He said this fund started just six months ago, although AMB has been in Europe for almost five years and has been building up a portfolio to get the fund going during that time.

Responding to questioning from Mr. Malott on differences between the U.S. in how AMB has to deal with laws, acquisition processes, etc., Mr. Roberts said the only noticeable difference, which doesn't impact them much, is that leases are structured slightly differently. He said the creation of the euro zone has been helpful because there are fewer tax and currency types of impacts. Mr. Malott asked Mr. Roberts if he would argue, then, that the level of sophistication of the investment community for European properties is very similar to that of the U.S., and Mr. Roberts responded yes. He said the two big differences in Europe are that there is the emergence of central Europe and Eastern Europe ("the Mexico of Europe") where there is a lot of the manufacturing and the chance for yield enhancement there. He said AMB plans to expand to these areas in the future with a portion of the fund. He stated that the other difference in Europe is that, since the formation of the euro zone, there is a reconfiguration of the distribution network to regional rather than locally based distribution.

Mr. Canavan stated that all of his questions, which were posed prior to this meeting, were answered satisfactorily, and he was comfortable with ORG's recommendations.

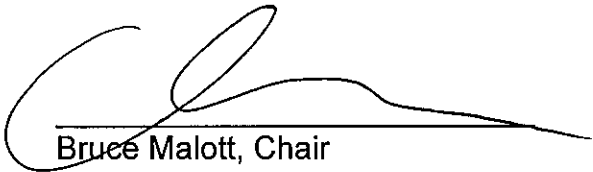
**Mr. Riggs moved that the REIC approve: 1) a commitment of \$20 million to AMB Alliance Fund III, and 2) a commitment of 6.8 million euros (approximately \$10 million) to AMB Europe Fund I, both commitments subject to New Mexico state law, Educational Retirement Board policies, and negotiation of final terms and conditions and completion of appropriate paperwork**

**Mr. Lewis seconded the motion, which passed by voice vote.**

**ADJOURN**

Its business completed, the Private Equity Investment Committee adjourned at approximately 4:40 p.m.

Accepted by:



Bruce Malott, Chair