# MINUTES OF THE

# NEW MEXICO EDUCATIONAL RETIREMENT BOARD

# PRIVATE EQUITY INVESTMENT COMMITTEE

**February 13, 2008**

## ROLL CALL — NO QUORUM

A Regular Meeting of the New Mexico Educational Retirement Board Private Equity Investment Committee commenced on this date at approximately 2:00 p.m. in the Educational Retirement Board Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

A quorum was not present:

**Members Present:**
Mr. Bruce Malott, Chair
Mr. Jeffrey M. Riggs

**Members Excused:**
Mr. Gary Bland
Mr. James Lewis

**Other ERB Members Present:**
None.

**Legal Counsel Present:**
None.

**Staff Present:**
Mr. Mark Canavan, Portfolio Manager
Mr. Robert Cardon, Internal Auditor
Mr. Bob Jacksha, CIO
Ms. Linda Kissko, Executive Administrative Asst.
Mr. Steve Neel, Portfolio Manager
Ms. LeAnne Larrañaga-Ruffy, Investment Officer

**Others Present:**
Ms. Judith Beatty, Recorder
Mr. Holland Gary, Aldus Equity

[Because a quorum was not present, the Committee proceeded with non-action items.]

## FUNDING UPDATE: ERB STAFF

Mr. Neel reported that the value of the private equity portfolio was now at about $51 million.

Mr. Neel reported that staff is in contract negotiations with Bridgepoint, Ares and Apollo. He added that Stony Lane Partners decided not to move forward with the $30 million commitment made by the PEIC at the December meeting, so Aldus and staff are looking for a replacement to fill the distressed strategy bucket.

Mr. Jacksha reported that staff has been in touch with NEPC about beginning the due diligence process on a couple of co-investment funds.

## APPROVE PRIVATE EQUITY INVESTMENTS: ERB STAFF AND ALDUS EQUITY

### 1. Fletcher Spaght Ventures II

Holland Gary, associate with Aldus Equity, reviewed Aldus' recommendation of a $15 million commitment to Fletcher Spaght Ventures II, L.P., a $100 million venture fund targeting the healthcare and technology space as well as the space that converges between those areas. He said this Boston-based group began as a consulting firm targeting high tech, healthcare and some corporate clients, 10%-20% of which ultimately required venture funding, so this group has been in the early stage arena since the early 1980s.

Mr. Gary stated that the Venture Fund comes out of the consulting platform, but this is a distinct team. He commented that Aldus finds particularly compelling the synergies of the team as well as the ability of the Venture Fund to leverage the consulting group.

Mr. Gary stated that in order to avoid any conflict relating to the portfolio companies, the firm is very careful about providing consulting services to portfolio companies. He said that, if the service is small, often the firm will simply provide the consulting service for free; if it is for a larger assignment, the firm will not bid unless at least one other firm also provides a competing bid to ensure that the portfolio company receives the best deal for its services.

Mr. Gary said another key component is that the consulting group is highly incented and highly aligned with the Fund in that a substantial portion of the carry is reserved for the consulting group. He added that individual consultants can be incented based on the amount of time they are able to spend supporting some of the portfolio companies. He said the team overall has significant operating experience, top tier consulting experience, expertise in the healthcare space, and expertise at the entrepreneurial end both in consulting, but also within the healthcare space in terms of founding and developing companies and taking them public. He commented that this degree of expertise is exceedingly valuable for venture investing, so this group is uniquely positioned to be able to add a lot of value to portfolio companies.

Mr. Gary said the team members have an average of 17 years of working together. In addition, he said, the group has been able to invest alongside some of the venture investors, so this longevity within the space that Fund II plans to invest has given them tremendous expertise and strong relationships both with portfolio companies and with potential strategic acquirers and potential industry leaders that can provide insight into the market and potential support or exits for portfolio companies.

Addressing strategy, Mr. Gary said one concern with first- or second-time venture funds is sourcing; however, the sourcing approach in this case is quite strong because the team members are able to leverage the extensive relationships they have developed from the consulting business. He pointed out that they can identify unique deals prior to a requirement for funding, but also potential investment opportunities early on where they can then leverage relationships with other venture firms, when necessary, in order to raise additional funding.

Reviewing the Fund I track record, Mr. Gary noted a little bit of volatility in the portfolio — not uncommon for venture — with two very strong exits and a number of unrealized investments that have hit substantial milestones. Mr. Gary also reviewed a histogram reflecting two unrealized investments that also looked very strong along with several expected realizations in 2008. He said the benchmark analysis reflects comfortable top quartile performance not only in venture but also across all private equity.

Mr. Gary noted that Fund II isn't strictly a blind pool — there are already four investments sitting in the portfolio that are highly consistent with the strategy that has been outlined; additionally, a couple of them have begun to show some degree of promise.

John Fletcher and Peary Spaght, two of the three partners managing this Fund, presented slides to the Committee.

Mr. Spaght stated that the portfolio in FSV I is poised for at least a 3x return, and they have plans on a 4x and 5x return in the future.

Mr. Neel noted that their first close was in November 2006, and the last close will be at the end of March — about an 18-month timeframe. He asked if this was anticipated.

Mr. Fletcher responded that they thought they would have their final close in November 2007, but several institutions interested in investing asked if they could wait until Q1 of 2008, so they decided to extend it until March 31. He stated that they have no plans to raise money after that date and expect the final close at $100-$120 million.

Mr. Spaght pointed out that Fletcher Spaght I was ranked 11th in venture capital fund performance for its vintage, based on a compendium of hundreds of venture funds invested by CalPERS, University of Texas, Grove Street Advisors and other public funds, and in 2001 was rated second-highest.

Mr. Canavan commented that the 2.5% management fee seemed onerous, notwithstanding Aldus's point that this fee is consistent with $100 million venture funds.

Mr. Fletcher responded that a 2.5% management fee is usually charged by funds below $300 million and often charged by funds below $500 million, at least in the short term. He said these higher fees give them the horsepower they need to create net positive returns in the short term while also giving them the ability to raise another fund in the future.

## CONCLUSION OF SESSION

Its business completed, the Private Equity Investment Committee concluded its session at 2:40 p.m.

Accepted by:

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Bruce Malott, Chair