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STATE INVESTMENT COUNCIL

October 29,2024

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MINUTES OF THE

NEW MEXICO STATE INVESTMENT COUNCIL MEETING

October 29, 2024

Santa Fe, New Mexico

1. OPENING MATTERS

a. Roll call and introduction of guests: quorum present.

A regular meeting of the New Mexico State Investment Council was called to order by the Honorable Stephanie Garcia Richard, State Land Commissioner Chair, Vice Chair, on this date at 9:00 a.m. in the Governor's Cabinet Room, Santa Fe, New Mexico. Introductions were made, and a quorum was declared:

Members Present:
The Honorable Stephanie Garcia Richard, Land Commissioner
The Honorable Laura Montoya, State Treasurer
Mr. Nicolas Telles, Public Member
Mr. Allen Sánchez, Public Member
Mr. John Bingaman, Public Member
Ms. Kelly O'Donnell, Public Member
Ms. Catherine Allen, Public Member
Mr. Kurt Sommer, Public Member

Members Excused:
The Honorable Michelle Lujan Grisham, Governor
DFA Secretary Wayne Propst
Mr. Michael Messina, Public Member

Staff Present:
Mr. Jon Clark, State Investment Office
Mr. Vince Smith, Chief Investment Officer
Mr. Brent Shipp, Chief Financial Officer
Mr. Evan Land, Chief Counsel
Mr. Charles Wollmann, Director of Communications, Legislative & Client Relations
Ms. Helen Tindel, Investment Staff & Operations Manager
Ms. Amy Chavez-Romero, Deputy General Counsel & Compliance Officer
Mr. Tom Lofton, Director, Director of Debt Market Investments
Mr. Keith Sabol, Director, Real Estate and Real Assets
Mr. Chris Cassidy, Director, Director of Private Equity and Venture Capital
Ms. Dawn Iglesias, Chief Investment Operations Officer
Mr. Nino Carpenito, Risk & Performance Officer
Mr. Juan Treviso, Real Estate & Real Asset Analyst
Mr. Bruce Brown, Private Equity Portfolio Manager
Mr. Ryan Eustice, Investment Strategist
Ms. Francesca Moradi, Special Projects Coordinator

Guests Present:

Ms. Marcia Beard, RVK
Mr. Matthias Bauer, RVK
Mr. Rob Kochis, Townsend
Mr. Richard Pugmire, Mercer
Ms. Mary Bates, Meketa
Mr. David Michael, Anzu Partners
Mr. David Seldin, Anzu Partners
Dr. Lucy Darago, XGS Energy
Dr. Rachel Gomez, NTx Bio
Mr. Cash Allred, Antler
Mr. Ryan Sommerville, Antler
Mr. Richard Boynton, Fairfield
Mr. Trey Stafford, Fairfield
Ms. Margo Ragland, Fairfield
Mr. Wes Dickerson, Fairfield
Mr. John Young, Orchard Global
Mr. Michael Hidalgo, Orchard Global

b. Approval of agenda

At about 1:09 in the meeting agenda, Member John Bingaman moved to approve the agenda, and Treasurer Laura Montoya seconded the motion. Commissioner Richard Garcia asked the Council if there were any objections to the approval of the agenda. Hearing none, the motion passed.

c. Approval of minutes

At about 1:37 in the meeting, Member Bingaman moved to approve the meeting minutes from September 24, 2024. Treasurer Montoya seconded the motion. Commissioner Garcia Richard asked if there were any objections to approving the minutes. Hearing none, the motion passed by unanimous consent.

2. INVESTMENT ACTIVITY & PERFORMANCE, CAPITAL MARKETS UPDATE

a. SIO Briefing (Jon Clark)

At about 1:55 in the meeting recording, State Investment Officer Jon Clark informed the Council that, as of October 25, 2024, the State Investment Council's (SIC) net asset value (NAV) was just over $58 billion. He mentioned that the office was working to fill four positions, including a Marketing and Website Manager and an Analyst for the Risk and Performance Team. SIO Clark reported that the Legislative Finance Committee (LFC) budget hearing had gone well. The LFC staff noted that the assets under management (AUM) had nearly quadrupled over the past fifteen years. Staffing levels remained largely unchanged until 2024 when they increased by five positions. He highlighted that committee members supported the need for the agency to be adequately staffed and have the necessary resources to manage the $58 billion effectively. The discussion continued.

b. CIO Briefing (Vince Smith)

At about 4:50 in the meeting recording, Chief Investment Officer Vince Smith informed the Council that the economy typically remains stable during presidential election years, characterized by lower volatility, a strong stock market, and reduced interest rates. He noted that one of the primary factors supporting the economy is federal government deficit spending, which is 6% of GDP. Mr. Smith also referenced the Michigan Consumer Confidence survey, highlighting its findings that consumers currently feel as though they are in a recession. He concluded his report by stating that over all the SIC portfolio is well-positioned, with some extra cash and bonds on the balance sheet. Long-term concerns have been addressed in the Annual Investment Plan.

3. INVESTMENT MATTERS: PORTFOLIO RECCOMENDATIONS REQUIRING A VOTE

a. Investment Committee Report (John Bingaman)

At about 10:18 in the meeting recording, Council Member John Bingaman stated that the Investment Committee had a productive meeting with a quorum present, which unanimously recommended the agenda items. He mentioned that the committee discussed updates to the Investment Policy Statement and provided additional suggestions to the staff.

b. Performance Report: July 2024 (Smith, RVK)

At about 10:48 in the meeting recording, Mr. Matthias Bauer provided an overview of the August Performance Report. He indicated that it was a strong month, building on the positive performance of July. While the dollar remains relatively high from a historical perspective, it has weakened compared to other currencies, contributing to more robust market performance in non-U.S. markets. He noted that emerging markets are beginning to show signs of recovery, and that global equity exposure is yielding positive results. He emphasized the importance of having an appropriate and prudent diversified portfolio positioning. The current strategy should serve the portfolio well throughout the entire market cycle. Ms. Marcia Beard presented RVK's performance report. She discussed asset allocation and the interim and long-term targets for the Land Grant Permanent Fund and the Severance Tax Fund. Ms. Beard highlighted that it was remarkable that the SIC's Net Asset Value (NAV) started the year at $49 billion and has grown by over $8.2 billion in net cash inflows and returns year-to-date, reaching nearly $57.5 billion by the end of August. She reported on composite performance, excluding Real Assets, Private Equity, and Real Estate. Ms. Beard reminded the Council that the Fixed Income asset class has changed its benchmark and is undergoing a restructuring. She noted that the SIC's portfolio holds $5.56 billion in cash year-to-date. Ms. Beard concluded RVK's presentation by emphasizing that the primary driver of performance has been manager value added. CIO Smith then provided more detailed information about achieving the funds' interim targets, noting that seven of the SIC's 12 funds are now deployed to long-term asset allocation targets, while the Tobacco Settlement Permanent Fund is now nearly at target. Four other, larger SIC funds remain below long-term target levels due to substantial cash inflows which take time to invest in private markets. Treasurer Montoya asked how inflation could impact the current asset allocation and whether adjustments to the risk-return portfolio should be considered. CIO Smith referenced the Annual Investment Plan and indicated that the SIC should maintain its current position. The discussion continued to cover topics related to diversity, DEI (Diversity, Equity, and Inclusion), and emerging managers.

4. INVESTMENT MATTERS: Informational Items and Performance Updates

a. VOTE: Strategy: Private Debt: Orchard EleganTree Opportunities Master Fund III (Tom Lofton, Meketa**)**

At about 27:02 in the meeting recording, Mr. Lofton introduced the recommendation, along with Ms. Mary Bates from Meketa, Mr. John Young, and Mr. Michael Hidalgo from Orchard Global. He discussed the portfolio fit and mentioned that a key goal of the structural change was to create a portfolio that primarily achieves returns from income rather than price appreciation and ensures the ability to reinvest income. Mr. Lofton emphasized that this recommendation is a risk transfer arrangement, suggesting the Council think of it as insurance contracts or insurance arrangements. Ms. Bates continued the presentation, informing the Council that Orchard EleganTree is focused on regulatory capital relief. This strategy aims to provide capital relief to large, regulated banks and other financial institutions. She specified that the fund's strategy focuses on globally systemically important banks in the United States and Europe rather than on smaller regional banks. Regarding the underlying collateral, the manager emphasizes corporate credit, including corporate revolvers. Ms. Bates noted that Orchard EleganTree has been active in the Private Debt space since 2008 and has executed over $5.5 billion in capital across 60 transactions. She continued her presentation by discussing some potential concerns and risks identified by Meketa and the mitigating factors they believe are sufficient to support the recommendation. Mr. Young informed the Council that this fund is Orchard Global's fourth in this area. They have invested about $7 billion in capital across 80 transactions, the majority of which have experienced no defaults. He explained that they have a dedicated team for conducting due diligence on the banks, structuring transactions, and underwriting loans. Treasurer Montoya made the following motion, which Member Bingaman seconded.

Based on the recommendation of the Council Investment Committee, advisor Meketa, SIC staff and general fiduciary oversight from RVK, I move that the State Investment Council approve a commitment of up to $150 million to Orchard EleganTree Opportunities Master Fund III, subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

Commissioner Garcia, Treasurer Montoya, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez, and Member Sommer voted in favor of the motion. There were no votes in opposition. With a total of eight affirmative votes, the motion was duly approved.

b. <u>VOTE: Real Estate: Fairfield US Multifamily Value-Add Fund IV</u> (Keith Sabol, Townsend)

At about 38:57 in the meeting recording, Mr. Sabol presented the recommendation and introduced Fairfield to the Council, noting that this commitment would create a new relationship for the SIC. He explained that Fairfield is a San Diego-based real estate operating company that has been functioning in its current form since 1997 and currently manages approximately $10.3 billion in assets. Their strategy focuses on acquiring Class B and C properties in high-demand markets across the U.S., with new development activities included when market conditions permit. Mr. Sabol informed the Council that current market conditions suggest that the value-added component of this strategy would initially exclude development activities. Fairfield targets properties in markets with significant rent gaps between older Class B and C and more-recently built Class A properties. The objective is to engage in light value-added activities and make common area improvements to enhance the competitive positioning of these assets in the market. He noted that the co-investment program is a new initiative for Fairfield, and his team has invested considerable time in the due diligence process for the investments intended for this program. He underlined that the deals were underwritten at the high end of the strategy ranges. Mr. Sabol addressed potential concerns regarding meaningful headline risk associated with investments in this sector, explaining that since CalSTRS owns 99% of the manager and is Fairfield's largest investor, this alignment helps mitigate those concerns. Mr. Rob Kochis continued the presentation by stating that Townsend recommends that the SIC increase its multi-family exposure. He indicated that the opportunity aligns with its growth strategy, suggesting the SIC should add another $600 million in residential investments to its portfolio. Mr. Kochis emphasized that the SIC's portfolio is currently underexposed in real estate and that it should improve its exposure to sectors with more robust fundamentals. He stated that all residential strategies would be a beneficial addition to the portfolio. The Fairfield representatives concluded their presentation: Mr. Richard Boynton provided an overview of the firm, Ms. Margo Ragland discussed the value-added fund offering, and Mr. Wes Dickerson reviewed the market opportunities that support the investment strategy. Treasurer Montoya and Commissioner Garcia Richard continued the discussion by asking questions about the recommendations, including property types, rent prices, tenant turnover, potential investments in New Mexico, fund commitment amounts, and diversity, equity, and inclusion (DEI) considerations. A discussion followed. Member Bingaman proposed the following motion, later amended by Treasurer Montoya to include a condition for New Mexico opportunities to be part of the fund's markets under consideration for investment. Fairfield agreed to look at potential investments in New Mexico and include the state in its target markets. Treasurer Montoya seconded the amended motion.

Based on the recommendations of the Council Investment Committee, advisor Townsend, SIC Staff and general fiduciary oversight from RVK, I move that the State Investment Council approve a commitment of up to $200 million to Fairfield US Multifamily Value-Add Fund IV, and an additional commitment of up to $100 million for a related co-investment vehicle, subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

Commissioner Garcia, Treasurer Montoya, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez, and Member Sommer voted in favor of the motion. There were no votes in opposition. With a total of eight affirmative votes, the motion was duly approved.

c. **VOTE: Private Equity: TCG Labs Opportunity I (Chris Cassidy)**

At about 1:14:58 in the meeting recording, Mr. Cassidy welcomed the Council and introduced the recommendation. He explained that TCG Labs is a fund being raised by the Column Group, an existing manager within the National Private Equity Program that the SIC committed to last year. TCG Labs invests in single antibody assets developed by Soliel Labs, a laboratory exclusive to the Column Group. Mr. Cassidy noted that contrary to original expectations, TCG Labs and Soliel Labs have proven to be much more productive in identifying potential drug targets than anticipated. Due to this early success, they are raising an opportunity fund similar to the early-stage fund to finance assets through relevant clinical trials. This presents a unique opportunity and, if successful, could yield significantly above-average returns given the capital efficiency of their disruptive model. Mr. Richard Pugmire continued the presentation by discussing Mercer's optimistic view of the opportunity. He emphasized that TCG Labs has extensive experience in the field, particularly in antibody therapies, a growing area within biotech. The fund is expected to invest in Series B or later stages. Typically, it will benefit from the same team and resources as TCG Labs. Mercer values the innovative approach, experienced team, and support from several scientific partners. He highlighted that the strategy aims to give additional support to select assets from TCG Labs that require further development before being sold to a pharmaceutical company. He also noted that the Column Group has a strong track record with their Flagship funds and has successfully incubated drug development companies, which aligns with TCG Labs' strategy. Mr. Peter Svennilson, Founder and Managing Partner of the Column Group, concluded the presentation by giving the Council an overview of the Column Group. Member Bingaman proposed a motion, which Member Sommer seconded.

Based on the recommendations of the Council Investment Committee, advisor Mercer, SIC Staff and general fiduciary oversight from RVK, I move that the State Investment Council approve a commitment of up to $50 million to TCG Labs Opportunity I, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

Treasurer Montoya, Members Telles, Member Allen, Member Bingaman, Member O'Donnell, and Member Sommer voted in favor of the motion. Member Sánchez indicated a potential conflict of interest and abstained from the vote. There were no votes against the motion. With a total of six affirmative votes, the motion was approved.

d. **VOTE: NM Private Equity: Antler U.S. New Mexico (Cassidy)**

At about 1:29:30 in the meeting recording, Mr. Cassidy introduced the first of two recommendations for the New Mexico Program today: Antler U.S. New Mexico. This is a Separately Managed Account (SMA) that will primarily invest at the seed stage in companies that either participate in the Antler Pre-Seed Program and relocate to New Mexico or in other startups interested in moving to New Mexico, even if they have not gone through the Antler Program. Antler plans to establish a physical office from which all of its portfolio companies can operate to create a dense talent pool and ecosystem that will facilitate easier development for founders in New Mexico. Mr. Pugmire continued the presentation by providing an overview of the fund and highlighting its key differentiators. Antler conducts a six to eight-week program for entrepreneurs, focusing on team formation, product development, and market validation. This timeframe allows them to assess which entrepreneurs they wish to invest in and support. He emphasized that this fund would concentrate on seed investments in New Mexico-based companies or those where the founders are willing to relocate and establish their companies in the state. He noted that the team managing the fund is the same as that of the U.S. fund, and the fund terms will largely remain consistent. Mr. Pugmire pointed out one differentiator compared to the U.S. Fund 2: this fund will have a more concentrated focus, targeting approximately seventeen New Mexico companies. Mr. Cash Allred and Mr. Ryan Sommerville from Antler continued the presentation by providing further details about Antler and the fund. Treasurer Montoya asked the Antler representatives for more information regarding their selection process and goals. Member Allen inquired about how Antler helps to develop and educate founders within their program. A discussion followed. Member Bingaman then proposed a motion, which Treasurer Montoya seconded.

Based on the recommendations of the Council Investment Committee, advisor Mercer, SIC Staff and general fiduciary oversight from RVK, I move that the State Investment Council approve a commitment of up to $15 million to Antler U.S. New Mexico, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

Commissioner Garcia, Treasurer Montoya, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez, and Member Sommer voted in favor of the motion. There were no votes in opposition. With a total of eight affirmative votes, the motion was duly approved.

e. <u>VOTE: NM Private Equity: Anzu North America Tech Leaders Fund</u> (Cassidy)

At about 1:50:10 in the meeting recording, Mr. Cassidy introduced the recommendation, stating that there was an established relationship between the SIC and Anzu. He highlighted NTX Bio as a case study illustrating the successes achieved with Anzu and what the New Mexico Program aims to foster in its ecosystem. He mentioned that the fund is intended to provide follow-up capital for companies at a later stage, specifically when they have established market fit and are looking to scale. Recently, most investments made through the New Mexico Program have been at the inception or early stage. Mr. Pugmire continued the presentation, stating that NTX Bio exemplifies what the New Mexico Program aspires to achieve—a manager leading in the Series A round, helping the company launch, and attracting outside capital to the state that multiplies the SIC's initial commitment. He elaborated on the fund's focus, emphasizing its commitment to later-stage investments. While most capital is expected to go to Anzu's portfolio companies, they may also consider later-stage companies with which they are familiar. Mr. David Michael gave the Council a high-level overview of Anzu, explaining that the fund would invest in technology-intensive companies often derived from major research institutions, national labs, and public universities. These companies have typically proven their viability through development processes and have generally benefited from engagement with corporate investors and partners among the co-investors that Anzu normally recruits. He mentioned that part of their commitment to New Mexico through the fund involves continuing to support existing New Mexico companies, like NTX Bio, while also working to bring innovations from other companies and regions into the state's economy. Mr. David Seldin briefly overviewed Anzu's programs in New Mexico. Dr. Lucy Darago from XGS Energy and Dr. Rachel Gomez from NTX Bio concluded by sharing comments about their companies and their positive working relationship with Anzu. Member Telles informed the Council of his insights into the growth and development of both XGS Energy and NTX Bio, noting their collaboration with Santa Fe Community College to provide student learning opportunities. He reiterated that this collaboration is a prime example of how significant successes can emerge from small initial investments, leading to long-lasting impacts in the state. Land Commissioner Garcia Richard and Treasurer Montoya expressed their enthusiasm for the fund. Member Telles then proposed a motion, which Member Bingaman seconded.

Based on the recommendations of the Council Investment Committee, advisor Mercer, SIC Staff and general fiduciary oversight from RVK, I move that the State Investment Council approve a commitment of up to $20 million to Anzu North America Tech Leaders Fund, L.P., subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

Commissioner Garcia, Treasurer Montoya, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez, and Member Sommer voted in favor of the motion. There were no votes in opposition. With a total of eight affirmative votes, the motion was duly approved.

f. VOTE: NM Private Equity: Builders VC III (Cassidy)

At about 2:11:35 in the meeting recording, Mr. Cassidy informed the Council that the recommendation was a clarification on a voting item from the September meeting. An incorrect amount made it into the motion, it said $60 million instead of $65 million. Member Bingaman then proposed a motion, which Treasurer Montoya seconded.

Based on last month's recommendations of the Council Investment Committee, Private Equity Consultant Mercer, SIC Staff and general fiduciary oversight from RVK, I move that the State Investment Council approve a commitment of up to **$65 million** to Builders VC Fund III, L.P., as stated in the original September meeting materials, subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiations of final terms and conditions and completion of appropriate paperwork.

Commissioner Garcia, Treasurer Montoya, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez, and Member Sommer voted in favor of the motion. There were no votes in opposition. With a total of eight affirmative votes, the motion was duly approved.

g. VOTE: Real Estate Investment Policy Statement Update to include approved structure study revisions (Dawn Iglesias)

At about 2:13:10 in the meeting recording, Ms. Iglesias informed the Council that the Real Estate Structure Study, approved in September, required subsequent changes to be incorporated into the Investment Policy Statement. Treasurer Montoya requested clarification on some of the language used. Discussion continued. Member Bingaman proposed a motion, which was seconded by Member Telles.

Based on the recommendations of the Council Investment Committee, SIC Staff and general fiduciary oversight from RVK, I move that the State Investment Council incorporate into its Real Estate Investment Policy Statement the updates previously approved by the Council, reflecting last month's Real Estate Structure Study, as memorialized and discussed by the Council today.

Commissioner Garcia, Treasurer Montoya, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez, and Member Sommer voted in favor of the motion. There were no votes in opposition. With a total of eight affirmative votes, the motion was duly approved.

5. GOVERNANCE MATTERS: Informational Reports Requiring Discussion/Vote

a. Governance Committee Report (Cathy Allen)

At about 2:23:48 in the meeting recording, Governance Committee Chair Catherine Allen updated the Council on the most recent committee meeting. She noted that there had been positive feedback about the breadth and depth of the Council's educational interests, and she mentioned that a list of educational items would be shared soon. Member Allen also stated that she would meet with Risk Performance Officer Nino Carpenito and SIO Clark to discuss incorporating risk into more Council discussions and develop a risk matrix. Additionally, she indicated that the committee had been reviewing the Investment Policy Statement. She looked forward to continuing discussions in November, with the possibility of voting on it during the retreat in December. SIO Clark clarified that while there was still work based on member feedback, the internal deadline for finalizing everything was December. However, he noted that this deadline might need to be adjusted, as he did not want the Council to vote on anything they were uncomfortable with. Member Telles mentioned his understanding that the Council would be working on the strategic plan, and discussion continued.

6. **FINANCE MATTERS: Informational Reports Requiring Discussion/Vote**

   a. **CFO Report (Brent Shipp)**

At about 2:43:18 in the meeting recording, Mr. Shipp informed the Council that a Budget Request Adjustment (BAR) had been submitted to the Department of Finance and Administration (DFA) to accommodate funding for six additional positions and for additional management fees associated with total asset growth. He emphasized that the September Investment Holdings Report included monthly and quarterly information. Mr. Shipp reported that the audit was progressing well, and that the Accounting Team was working on drafting financial statements. Mr. Shipp noted that pursuant to new reporting requirements approved by the Council, there were two contracts signed in the last quarter that exceeded the $250 thousand threshold for reporting, and that summary information regarding those contracts would be included in next month's materials.

7. **CLOSING MATTERS**

   a. **Old or new business:**

None.

   b. **Next SIC meeting date: Tuesday, November 26, 9:00 a.m., Santa Fe, NM.**

8. **PUBLIC COMMENT PERIOD**

None.

9. **ADJOURNMENT**

   a. The meeting was adjourned at 12:05 p.m.