ACTION SUMMARY

STATE INVESTMENT COUNCIL

August 27,2024

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MINUTES OF THE

NEW MEXICO STATE INVESTMENT COUNCIL MEETING

August 27, 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. Wayne Propst, Secretary, Department of Finance & Administration
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

Members Excused:
The Honorable Michelle Lujan Grisham, Governor
Mr. Kurt Sommer, Public Member
Mr. Michael Messina, Public Member

Staff Present:
Mr. Jon Clark, State Investment Office
Mr. Vince Smith, Chief Investment Officer
Mr. Brent Sharp, 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. Keith Sabol, Director, Real Estate and Real Assets
Mr. Chris Cassidy, Director, Private Equity and Venture Capital
Mr. Tom Lofton, Director, Fixed Income
Ms. Dawn Iglesias, Investment Strategist
Mr. Bruce Brown, Private Equity Portfolio Manager
Mr. Ryan McCauley, Investment Analyst
Mr. Ryan Eustice, Investment Strategist
Ms. Francesca Moradi, Special Projects Coordinator
Mr. Chris Rodriguez, Network Administrator

Guests Present:
Ms. Marcia Beard, RVK
Mr. Matthias Bauer, RVK

Mr. Matt Sturdivant, RVK
Mr. Ed Zablan, RVK

Mr. Richard Pugmire, Mercer
Ms. Amy Ridge, Mercer
Mr. Rob Kochis, Townsend
Mr. Seth Marcus, Townsend
Ms. Mary Bates, Meketa
Mr. Tad Fergusson, Meketa
Ms. Arundhati Bose, NM Mortgage Finance Authority
Mr. Ben Gulliver, Pemberton
Mr. Scott Hamilton, Pemberton
Ms. Sarah Wright, Hull Street Energy
Mr. James Dimitri, Veritas
Ms. Natasha Siegal, Veritas
Mr. Nader Naini, Fraizer Healthcare Partners
Mr. Ben Magnano, Fraizer Healthcare Partners
Hon. Gilman Louie, America's Frontier Fund
Mr. Adam Hammer, Roadrunner Venture Studios
Mr. Mike Metler, Roadrunner Venture Studios
Dr. Luis Chavez, Hydrosonics
Ms. Paige Craig, Outlander VC
Mr. Leura Craige, Outlander VC
Mr. Othman Ouenes, Fidari

b. Approval of agenda

At about 2:00 in the meeting agenda, Commissioner Garcia Richard asked the Council if there were any objections to the approval of the agenda, hearing none, the motion was approved by unanimous consent.

c. Approval of minutes

At about 1:30 in the meeting, Treasurer Montoya notified the Council and staff about some errors in the compressed PDF version of the meeting minutes. Charles Wollmann, the Director of Communications, explained that the large size of the materials required compression, which distorted the text. The staff apologized for this oversight. It was recommended that the Diligent version of the minutes be used, as it did not have these errors and is the preferred way for the Council to access the material. However, it was agreed that the errors were unacceptable, and the correct version of the minutes would be sent to the Council after the meeting. Following this, Land Commissioner Garcia Richard asked if there were any further objections from the Council, and upon hearing none, the motion passed unanimously.

2. INVESTMENT ACTIVITY & PERFORMANCE, CAPITAL MARKETS UPDATE

a. SIO Briefing (Jon Clark)

At about 3:50 in the meeting recording, State Investment Officer Jon Clark informed the Council that he would present a technical update for the Investment Policy Statement at the September council meeting for a vote. This version would not include any policy changes or anything the Council had not seen. Mr. Clark also mentioned that he would send out a redline version of the Investment Policy Statement to discuss at the upcoming Investment and Governance Committee meetings. There would not be a vote in the foreseeable future, so members will have plenty of time to provide feedback and for discussion. Mr. Clark encouraged any Council members who are not committee members but would like to participate in the debate to attend one of the meetings. There would be space for an additional Council member at the Governance Committee meeting and up to three additional members at the

Investment Committee meeting. He indicated he would review broad policy discussions on the Investment Policy Statement at the next Council meeting. Additionally, Mr. Clark said he would revise the draft to incorporate Council feedback and present the updated version at the subsequent committee meetings for further discussion. He would again report on continued policy discussions from the committee meetings and the development of the Investment Policy Statement at the October Council meeting. Mr. Clark stressed that there would be no vote on the Investment Policy Statement's policy revisions for the next couple of months and that this was the beginning of an iterative process.

b. CIO Briefing (Vince Smith)

At about 3:50 in the meeting recording, Chief Information Officer Vince Smith reported that the Market expected the Federal Reserve to cut rates at their September meeting, possibly 50 basis points. Mr. Smith presented slides supporting this assumption, including a slide of the yield curve's slope. He said that the slope was almost back to flat, or normal, which was another indication that Market thinks that the short-term interest rates would be coming down. He continued to provide an overview of market conditions and metrics that supported the assumption that the economy was starting to cool, and the Fed would lower interest rates. To conclude, Mr. Smith said that altogether, there was a picture of the markets voting for a rate cut; inflation was beginning to tame, including the CPI and some housing metrics, and there was evidence of a weakening labor market.

3. INVESTMENT MATTERS: PORTFOLIO RECCOMENDATIONS REQUIRING A VOTE

a. Investment Committee Report (John Bingaman)

At about 12:48 of the meeting recording, Council Member Bingaman reported that he and Member Telles attended the Investment Committee meeting on August 20th, 2024. They reviewed all of the investment voting items except for Private Equity: The Veritas Capital Fund IX, as Mr. Bingaman had a conflict of interest due to an investment in a fund affiliated with the manager. Mr. Bingaman stated that the committee was pleased with all of the investments and was enthusiastic about the opportunities presented by the Roadrunner Fund and the Frontier Fund to leverage federal funding.

b. VOTE: New Mexico Housing Trust Fund JPA (Amy Chavez-Romero, Dawn Iglesias, MFA)

At about 13:55 in the meeting recording, Deputy General Counsel Amy Chavez-Romero reviewed a Joint Powers Agreement that allowed the Mortgage Finance Authority (MFA) to transfer fifty million dollars ($50m) of its New Mexico Housing Trust Fund into the State Treasurer's local government investment pool or its short-term fund. In 2005, the New Mexico Legislature designated the State Investment Council as the investment agent for the New Mexico Housing Trust Fund, with the Mortgage Finance Authority named as the fund's trustee. Ms. Chavez-Romero reported that the State Investment Council staff reviewed the terms of the proposed investment and determined that the investment aligned with the purposes, terms, distribution requirements, and circumstances of the New Mexico Housing Trust Fund. They also found that the risk and return objectives were suitable for the fund. She highlighted some key provisions of the Joint Powers Agreement that were important for the State Investment Council. After the NMSIC invests the money in the fund, the Mortgage Finance Authority would pay the State Treasurer's Office (STO) monthly audit, administrative, and investment expenses as mandated by the statute. The fund could be liquidated with twenty-four hours' notice to the State Treasurer's Office under the LGIP policy. Additionally, the State Investment Council would have a limited role in the Joint Powers Agreement as it primarily serves as a pass-through entity, being named the investment agent for the fund. The State Investment Office would monitor the performance of the New Mexico Housing Trust Fund and the investment agent, consult with them, and make recommendations. Investment Strategist Dawn Iglesias continued the presentation, stating that the MFA is already a client with the SIC, with 5.8 million of the Housing Trust Fund invested in a client account. Ms. Iglesias delved into the language of the statute regarding the relationship between the MFA and SIC. She explained that MFA would like to keep the $5.8 million currently in the Housing Trust Fund in their client account with the SIC to meet their long-term client needs. MFA would like to invest the new fifty-million-dollar ($50m) appropriation into the LGIP with the State Treasurer's Office. Ms. Iglesias explained that the new, additional Joint Powers Agreement would include all three parties to the investment: MFA, NMSIC, and STO. Ms. Arundhati Bose, the Chief Financial Officer at the Mortgage Finance Authority, said that MFA had worked with SIO Clark and Deputy Counsel Chavez-Romero, and what they were requesting was a very short-term investment for the fifty million dollars ($50m) and a separate account so the

funds would not be commingled, as the money would be used within three (3) years at the most. Treasurer Montoya, as a member of the MFA Board who worked with the LGIP, said that she believed this collaboration between SIC, MFA, and the Treasurer's Office was excellent. Member Telles asked who would be responsible for the accounting and auditing and if there was a requirement for the NMSIC to be involved. Ms. Iglesias answered that the SIC would not be responsible for the accounting or auditing. Treasurer Montoya motioned to approve the resolution, which Member Telles seconded.

> **Based on the resolution approved by the Mortgage Finance Authority on August 21, 2024 and upon consultation with SIC Staff,** I move that the New Mexico State Investment Council approve the resolution "authorizing the New Mexico State Investment Council's entry into a joint powers agreement to facilitate investment of a portion of the New Mexico Housing Trust Fund in the Local Government Investment Pool Short-Term Fund and the reinvestment of related earnings in that fund," as discussed by the Council today.

Commissioner Garcia Richard, Treasurer Montoya, Secretary Propst, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez voted in the affirmative. With eight votes in the affirmative, the motion passed.

c. VOTE: NM Private Equity: Roadrunner Fund I/ Frontier Fund Alpha (Chris Cassidy, Mercer)

At about 29:55 in the recording of the meeting, Director of private equity and venture capital, Chris Cassidy, informed the Council that the initial discussions would focus on the Roadrunner and Frontier Fund. He provided a brief background, stating that in November 2022, the SIC approved a commitment of up to $100 million to the Frontier Fund. The first investment in the fund led to the creation of Roadrunner Venture Studio, and Adam Hammer was hired to lead the initiative. Since then, progress has been made in developing companies. The NM Program, which is 35 years old, aims to promote tech transfer and commercialization. After the commitment from SIC, the Department of Defense approached the Frontier Fund to create a new SBA program to invest in critical technologies for National Defense. The DOD was approved as the first beneficiary of the program. Based on SBA rules, the NM Program recommended splitting the commitment into two entities to the Council. Commissioner Garcia Richard asked if it would be the same amount of money. Mr. Cassidy confirmed that the original commitment of $100 million would indeed be split into two entities. One entity would be the Roadrunner Fund, while the other would be the Frontier Fund Alpha. Roadrunner Fund would continue to hold the investment in Roadrunner Venture Studios, which serves as a company creation engine. Graduating companies from the studio will receive early-stage, seed, and pre-seed funding. On the other hand, Frontier Fund Alpha would accept money from the SBA and operate as an opportunity fund for companies in the Roadrunner ecosystem. Additionally, Mr. Cassidy mentioned that Frontier Fund Alpha already has a pipeline of companies interested in operating in New Mexico, some of which may have been started elsewhere. Further, Richard Pugmire from Mercer continued the presentation, emphasizing that this fund was a strong fit for the NM Program. One feedback item received from other managers in the program was the desire for more companies based in New Mexico. This fund addresses that issue by establishing a Venture Fund Studio in New Mexico, enabling individuals with technology to form companies. He elaborated on the fund's strengths. Adam Hammer, CEO of Roadrunner Venture Studios, introduced his partner at Roadrunner Fund, Mike Metler, Hon. Gilman Louie of America's Frontier Fund, and Dr. Luis Chavez of Hydrosonics. They shared that the mission of Roadrunner Fund and Frontier Fund was to create new companies critical to American security and competitiveness. They emphasized that they were creating a platform with a supply chain of capabilities, capital, and support to help fledgling ideas become scalable companies. Hon. Gilman Louie expressed gratitude to the Council for the state's support in creating the necessary infrastructure to build great companies, highlighting that it's more than just about providing capital—it's about creating a safe place to combine scientific knowledge with business expertise and support mechanisms for a company's success. Dr. Luis Chavez shared his story of partnering with Roadrunner Venture Studios to start his company, Hydrosonics. Adam Hammer invited the Council to the Roadrunner Tech Forum scheduled for September 4th. Member Allen congratulated Adam Hammer and Mike Metler on their work, highlighting that New Mexico faces challenges such as access to capital, brilliant founders, and business expertise. She asked how they are helping founders who may possess significant scientific backgrounds but lack business experience. Mr. Hammer explained Roadrunner's methodology and curriculum for assisting founders on the business side. Treasurer Montoya inquired about

the rate of return and funding venture capital with private equity, leading to a brief discussion about the nature of the NM Program. Member Jon Bingaman made a motion, which was seconded by Member Telles.

> **Based on the 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 authorize restructuring of the SIC's existing commitment to America's Frontier Fund, to Roadrunner Fund I & Frontier Fund I Alpha, as discussed by and memorialized for the Council today, 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.

Land Commissioner Garcia Richard, Treasurer Laura Montoya, Secretary Propst, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez voted in the affirmative. With eight votes in the affirmative, the motion passed.

d. <u>VOTE: NM Private Equity: Outlander 3 Magellan</u> (Cassidy, Mercer)

At about in the 1:09:17 meeting recording, Mr. Cassidy informed the Council that he was recommending a commitment of up to thirty million dollars ($30m). He stated that by investing in early-stage companies, one is essentially betting on the people and that the journey could have been more straightforward. He identified the lack of support for risky early-stage pre-seed, pre-revenue, pre-product capital as one of the gaps in the ecosystem and emphasized the importance of identifying capable founders and guiding them through the process of company creation. Mr. Pugmire continued by stating that this commitment was in line with the Roadrunner theme of fostering more companies in New Mexico. Outlander VC, a group willing to lead pre-seed rounds in often overlooked ecosystems, was highlighted as a key player. Their strength in evaluating founders was underscored, and it was mentioned that they already made an investment in a New Mexico-based company. Founders Paige Craig and Leura Craig, who both have strong reputations in the industry, were introduced. Mercer emphasized that the founder framework was a key differentiator and outlined the firm's post-investment support in terms of strategy, operations, talent recruitment, and fundraising assistance for companies. Leura Craig shared a brief personal background, including military service, work in the intelligence community, and overseas experience, expressing a passion for building and investing in companies. Paige Craig elaborated on her transition from being a founder to a venture capitalist, emphasizing Outlander's unique approach to evaluating founders using a 38-point framework rather than traditional pattern matching. The Council was presented with an overview of Outlander's process, and the State Treasurer noted the emphasis on selecting people based on their work rather than their connections or educational backgrounds, with an impressive fifty percent (50%) women-led portfolio, five times the industry average. This led to a discussion of the positive impact of diversity within the fund. Member Bingaman made the following motion, seconded by Treasurer Montoya.

> **Based on the 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 $30 million to Outlander 3 Magellan, 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 Richard, Treasurer Montoya, Secretary Propst, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez voted in the affirmative. With eight votes in the affirmative, the motion passed.

e. <u>VOTE: Private Equity: Fraizer Healthcare Growth Buyout Fund XI</u> (Cassidy, Mercer)

At about 1:33:20 in the meeting recording, Mr. Cassidy introduced the recommendation by saying that the two next investments were both buyout funds; one was a middle-market Healthcare buyout fund, and the other was a large-cap fund in the bio space that invested in the intersection of government and technology. The National Private Equity program planned to incorporate co-investments into the portfolio through various ways. One was the SMA with Mercer, which the SIC staff recommended last year, as well as a plan to set up, where it makes sense, where there would be sufficient co-invest flow, to set up individual SMAs alongside the funds to co-invest in deals. In both cases, with Fraizer and Veritas, there was a fund commitment as well as a side-by-side co-investment SMA that would co-invest within a

selection of deals within the fund. Richard Pugmire reminded the Council that they had seen a Fraizer recommendation in June and that it has strong brand recognition in healthcare investing and private equity. Mercer was excited for Fraizer to be part of the buyout portfolio in the National Private Equity Program. The strategy has been executed since 1993 and focused on middle market companies in healthcare. Co-Managing Partners Mr. Nader Naini and Mr. Ben Magnano presented additional background around Fraizer Healthcare and the firm's evolution over the last thirty-two years. He said they were a dedicated healthcare private equity firm focusing on the middle market. They have a long track record in the healthcare industry and ecosystem, which they have leveraged consistently. They focus on control-oriented investments across the healthcare spectrum. Their approach is more proactive than reactive, and they identify themes or areas of healthcare that they think have a long-term tailwind and pair those themes with proven executives in the market. They take that group and Fraizer's team to look for assets to acquire to build a platform to build and market, leaving a dominant player in that space. An operation team focuses on value creation before and after the investment. Mr. Ben Magnano continued the presentation by discussing what they believe makes Fraizer unique in their investment strategy. Their history spanned over three decades through different geopolitical and macroeconomic cycles. The tenure gave Fraizer an exceptional level of healthcare industry-specific knowledge and further insights into where the best opportunities are for investment, where they will reside, and what they avoid for the next decade, which guides their unique investing framework. They also have a strong network where the source executive and management teams place into their businesses to drive transformation and investment outperformance. The approach minimized execution risk once the company owned the business and optimized it for urgency around immediate value creation inside of their companies. They look for businesses that help improve patient access and patient outcomes and, through technology transformation, reduce providers' cost to serve and, or make them more efficient, essentially bending the healthcare cost curve in this country. Member Sánchez informed the Council that he had a potential conflict of interest and would abstain from the vote. Treasurer Montoya asked if they had invested in other Fraizer funds. Mr. Cassidy clarified that Fraizer Life Sciences was a technically different fund than Fraizer Healthcare but part of the same family. Additionally, they were separate funds. Member Bingaman made the following motion, which Treasurer Montoya seconded.

> **Based on the 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 $150 million to Frazier Healthcare Growth Buyout Fund XI, L.P., and an additional side-by-side co-investment commitment of up to $150 million, 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 Richard, Treasurer Montoya, Secretary Propst, Member Telles, Member Allen, Member Bingaman, Member O'Donnell voted in the affirmative. With seven votes in the affirmative, the motion passed.

f. <u>VOTE: Private Equity: The Veritas Capital Fund IX</u> (Cassidy, Mercer)

At approximately 1:48:00 in the meeting recording, Mr. Cassidy informed the Council about a new investment opportunity with Veritas. The SIC staff recommended a commitment of up to $100 million, with an additional $100 million in a side-by-side co-investment commitment. Amy Ridge from Mercer reiterated that Veritas would be a new addition to the SIC's National Private Equity Program in the buyout category. She highlighted Veritas' strategy, which focuses on government-related sectors such as national defense, education, sustainability and infrastructure, and healthcare. Ms. Ridge also emphasized that Veritas is an established firm, founded in 1992, and has strategically expanded into different sectors over time. Mr. James Dimitri, co-head of the Flagship Private Equity Fund, discussed Veritas' focus on investing in the intersection of government and technology, specifically in the areas of national security, healthcare IT, education IT, and sustainability. He highlighted Veritas' entrepreneurial approach to creating value for their investors, which includes sourcing and differentiated diligence. Treasurer Montoya expressed concern about the size of the commitment to a new relationship, to which Mr. Cassidy explained that larger commitments would be seen moving forward due to the portfolio's net asset value (NAV) and the need for scaling commitments accordingly as the portfolio grows. After a discussion, DFA Secretary Propst made a motion, which was seconded by Member Telles.

> **Based on the recommendations of 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 $100 million to The Veritas Capital Fund IX, L.P., and an additional side-by-side co-investment commitment of up $100 million, 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 Richard, Secretary Propst, Member Telles, Member Sánchez, Member Allen, Member O'Donnell voted in the affirmative. Treasurer Montoya voted in the negative. Member Bingaman abstained due to a potential conflict of interest. With six votes in the affirmative, the motion passed.

g. <u>VOTE: Real Assets: Hull Street Energy Partners III</u> (Keith Sabol, Mercer)

At about 2:07:07 in the recording of the meeting, Mr. Keith Sabol, the Director of Real Estate and Real Asset, presented a recommendation from SIC staff and Mercer to allocate up to $150 million to a new partner for the SIC, Hull Street Energy Partners. This US-based asset manager specializes in investments in North American operating power, renewable development, and energy services opportunities. Sabol explained that the fund follows a data-driven approach to investing in mid-market North American power investments. Their main focus is on acquiring operating power plants that are considered to be undermanaged or possessing attractive attributes. In contrast to previous investment opportunities, there is now an increased focus on renewable development in this vintage. Sabol highlighted that what attracted the SIC to this opportunity was Hull's extensive database covering assets and markets across the United States, as well as their proprietary analytics suite that informs investment target identification, asset valuation, and business optimizations. These tools also make Hull well-equipped to navigate the complexity of the mid-market for power and utility assets. Amy Ridge from Mercer also spoke at the meeting and emphasized that Mercer supports the strategy as it targets decarbonization in a unique way, focusing on acquiring, operating, and improving power assets to improve grid stability, making it possible to bring more renewables and options online. They also opportunistically invest in renewable energy development projects and service companies that aid in decarbonization. Hull Street Energy Partners specializes in operationally intensive assets. Sarah Wright continued the presentation, providing an overview of what Hull Street Energy does, its history, and the team. She noted their team's expertise in operating grid-offs and how they work. They aim to decarbonize the North American power grid by integrating intermittent power, while also acknowledging the tradeoff between carbon intensity and reliability. The electricity generated would be used to decarbonize sectors like transportation, leading to an increase in demand. This understanding prompted the development of their investment thesis. Ms. Wright mentioned that there are a limited number of entities working on this type of effort, particularly on the supply side, and only a few firms targeting middle-market power assets on the buy side. After the presentation, Member Bingaman made a motion, which was seconded by Treasurer Montoya.

> **Based on the recommendations of the Council Investment Committee, Real Assets Advisor Mercer, SIC Staff and general fiduciary oversight of RVK,** I move that the State Investment Council approve a commitment of up to $150 million to Hull Street Energy Partners III, 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 Richard, Treasurer Montoya, Secretary Propst, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez voted in the affirmative. With eight votes in the affirmative, the motion passed.

h. <u>VOTE: Pemberton Strategic Credit Fund IV</u> (Tom Lofton, Meketa)

At about 2:39:06 in the meeting recording, Mr. Tom Lofton, Director of Debt Market Investments, provided the Council with an overview of the recommended portfolio fit. He emphasized that the private credit allocation goals include diversity, strategy, geography, and manager recycling. Lofton highlighted that yield is a primary driver of returns, providing the opportunity to take advantage of market anomalies. He also discussed the portfolio's exposure, noting that SIC has only one manager in Europe for corporate cash flow, and that Pemberton would add depth in Europe. Following this, Mary Bates gave the Council a brief overview of the strategy and Meketa's opinions on the strengths of the offerings, along with some potential concerns and associated mitigants. She explained that Pemberton Strategic Credit Fund IV continues the manager's strategic credit fund strategy of originating senior capital solutions to performing middle markets with complexity outside the traditional credit box of middle market direct lenders. Bates highlighted that the complexity is driven by a more complex capital structure, different use of proceeds not necessarily related to leveraged buyouts, and a time constraint or some other borrower-specific issue. She also mentioned that the fund can opportunistically invest in strategies outside of traditional corporate cash flow-based lending, including risk transfer strategies and financing. Meketa expects the portfolio to be diversified at a position level and in terms of geography in Europe.

> **Based on the recommendations of the Council Investment Committee, Private Debt advisor Meketa, SIC Staff and general fiduciary oversight of RVK,** I move that the State Investment Council approve a commitment of up to $150 million to Pemberton Strategic Credit Fund IV, 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 Richard, Treasurer Montoya, Secretary Propst, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez voted in the affirmative. With eight votes in the affirmative, the motion passed.

i. Public Debt: Liquid Multi-Asset Credit RFP (Lofton)

At about 2:56:21 in the meeting recording, Mr. Lofton updated the Council on the plans for issuing a Request for Proposal (RFP) for one or more active investment managers to handle a multiple credit debt strategy or portion of the credit plus pool. He introduced Debt Market Investments Analyst Ryan McCauley and recognized his role in overseeing the public allocation, which has been steadily increasing. Mr. Lofton explained that the Public Allocation consists of three main pools: the corporation cash pool, the core pool (which includes investment treasuries), and the credit plus pool (which involves credit risk). While there are two managers in Core Plus, there is only one manager in the short-term multi-asset credit. Mr. Lofton expressed his preference for having more than one manager in any strategy for added depth. The plan is for the SIC to release the RFP, allow one month for proposals, followed by another month for review, and then return to the Council with a recommendation.

j. VOTE: Strategy: Parametric Contract Renewal

At about 3:00:21 in the recording of the meeting, CIO Vince Smith recommended renewing a contract with Parametric Portfolio Associates. The firm has been assisting the SIC for almost ten years, managing rebalancing and overlay management, and providing exposure in domestic equity, international equity, and treasury bonds via REITS. Parametric has the ability to access smaller markets in the rebalancing process, making it faster, cheaper, and more efficient than transferring cash back and forth from SIC's managers on a monthly basis. The staff uses Parametric to achieve the desired exposures in a rebalance. When Commissioner Garcia Richard asked about potential changes in terms, Mr. Smith clarified that the terms remained the same and provided further details. Treasurer Montoya inquired about the circumstances that would require releasing a Request for Proposal (RFP) as opposed to renewing a contract, to which Mr. Smith explained the SIC's use of Parametric and why renewing their contract was the preferred option. Member Bingaman then made a motion, which was seconded by Treasurer Montoya.

> **Based on the recommendations of the Council Investment Committee, SIC Staff and general fiduciary oversight of RVK,** I move that the State Investment Council approve the contract for Parametric, which provides non-discretionary advisory services for portfolio rebalancing, as memorialized for and discussed by the Council today.

Commissioner Garcia Richard, Treasurer Montoya, Secretary Propst, Member Telles, Member Allen, Member Bingaman, Member O'Donnell, Member Sánchez voted in the affirmative. With eight votes in the affirmative, the motion passed.

4. INVESTMENT MATTERS: Informational Items and Performance Updates

a. Performance Report: May & June 2024 (Smith, RVK)

At about 3:04:35 in the meeting recording, Mr. Matthias Bauer provided an overview of RVK's Executive Summary: Performance Review for May and June 2024 to the Council. He began by discussing the Capital Markets review before delving into the performance review. Mr. Bauer noted that the second quarter showed more mixed results compared to the first quarter, which saw an increase in all metrics. He mentioned the domestic leadership within the S&P 500 and highlighted the continued prominence of large mega-cap growth-oriented stocks, as well as the potential impact of broad AI adoption on companies. The emerging markets performed well in the second quarter, contributing to positive absolute returns. Lastly, he mentioned that the SIC has a significant amount of cash on the balance sheet. Following Mr. Bauer, Ms. Marcia Beard continued the presentation by reviewing asset allocation. She pointed out that the staff has been working to align the SIC's portfolio with target allocations. The changes in target allocation included an increased focus on private assets across the board, which will take some time to achieve. She also expressed gratitude to the Council for considering technical changes to the Investment Policy Statement next month. Treasurer Montoya requested RVK to provide an overview of the SIC's cash position and total commitments at the next meeting. Mr. Smith suggested providing a projection for capital calls over the next six months or year, also known as encumbered cash, as the most useful information for the Council, to which Treasurer Montoya agreed. She also suggested a comprehensive review of fees and different asset classes in the portfolio by the Council and staff. She emphasized the importance of Diversity, Equity, and Inclusion, stating that the majority of the population in New Mexico is minority and that less than 1% of the SIC's portfolio is invested with veterans, people of color, or women. She requested a better understanding of the manager selection process. Commissioner Garcia Richard inquired about the difference between the state's private equity and ETI (economically target investments). Mr. Cassidy and Mr. Smith clarified that the New Mexico Program comprises only private equity and venture capital, whereas the ETIs like the SBIC and State Recovery Loans do not include private equity.

b. Q1 2024 National Private Equity Fund Summary & PMR (Cassidy, Mercer)

At about 3:26:40 in the meeting recording, Mr. Cassidy mentioned that the SIC has finally seen more money coming in than going out, indicating that the SIC has been investing heavily and is now seeing returns on those investments. The portfolio was already well-established, so previously more money was going out than coming in. In order to grow the portfolio, we need to see more money coming in than going out. Mr. Pugmire provided an overview of the essential points to help us understand what happened during the quarter. There was little activity in the National Program. The overall net IRR increased by 1.1%, resulting in a gain of around $42 million. The one-year return was 5% higher than the Burgiss Global Private Equity Benchmark. Since the beginning, there has been little change due to minimal activity in the past quarter. The SIC has been actively making new commitments; before the meeting, there were six commitments in 2024 and an additional two at the August 27th meeting. Mr. Pugmire also discussed benchmarking and noted that there hadn't been much change in that area.

c. Q1 2024 New Mexico Private Equity Fund Summary & PMR (Cassidy, Mercer)

At about 3:30:19 in the meeting recording, Mr. Pugmire noted that there has been significant volatility in the recent performance reports. Despite movements in the underlying funds, the performance was relatively stable in the first quarter. He highlighted that the previously reported volatility had a negative impact on the program's performance last year, with a one-year return of just over -20%, leading to an overall return since inception of -1.1%, equal to a loss of over $50 million. He also emphasized the progress made in diversifying the portfolio, which was quite concentrated when they first started working with the program. Mr. Pugmire mentioned that the New Mexico Program has seen significant contributions compared to distributions, leading to an increase in net contributions to over $70 million through mid-August. Additionally, he noted that there were no substantial changes in the economic impact numbers.

d. Q1 2024 Real Return PMR (Sabol, Mercer)

At about 3:33:38 in the meeting recording, Mr. Sabol discussed the primary driver of performance over the last quarter, which was the Master Limited Partnerships (MLP) position invested in public MLPs. This investment provided a 6.5% boost to the overall pool. Mr. Sabol cautioned that it could be fairly volatile due to its public nature, but this time it worked in the SIC's favor. The longer-term performance was supported by the infrastructure component of the real assets, which had strong performance in both the long and short run. Following Mr. Sabol's report, Ms. Amy Ridge provided the performance report, stating that there was an overall gain of 2.6%, equaling approximately an $83 million gain for the quarter from the actual return portfolio. The since inception IRR was 6.5%, which led to a gain of almost $1.3 billion. Ms. Ridge informed the Council that the portfolio includes MLP, agriculture, infrastructure, and timber, and highlighted year-over-year changes within each of the strategies, noting that they are all generating positive returns. Furthermore, she explained that contributions outpaced, and net gains drove the net asset value.

e. Q1 2024 Real Estate PMR (Sabol, Townsend)

At about 3:37:52 into the recording, Mr. Sabol mentioned that it had been another down quarter, though the portfolio still outperformed the benchmark. Rob Kochis from Townsend then continued the presentation. He stated that we are currently in the midst of a long and slow market correction, which has been ongoing for the past two years as real estate prices are adjusting to higher interest rates. Mr. Kochis informed the council that the market is currently characterized as stalled, especially with the anticipated September rate cut. He also mentioned that if the Fed does cut rates, it would signify the bottom of this market cycle in terms of declining valuation. Additionally, Mr. Kochis reviewed the size and scale of the program, noting that $5.4 billion is allocated to real estate with a market value of $3.6 billion. He pointed out that the Portfolio is under the allocation target, which is somewhat of a positive when the market is correcting, and real estate is losing value. Furthermore, the Portfolio's underweight position in the asset class that is losing value is seen as a good thing. Mr. Kochis also highlighted that the program has been ramping up in the last few years, with over $2 billion of commitments made in the last two years, including the commitment earlier in the meeting. The real-estate program is well diversified across the county, primary property types and niche property types. Mr. Kochis said the portfolio benefited from the diversification. Treasurer Montoya asked if the SIC should be concerned about the issue with Jamestown. Mr. Kochis answered yes, the SIC should be concerned about it, but the position was small relative to the overall size of the portfolio. Discussion continued.

f. Q1 2024 Private Debt PMR (Lofton, Meketa)

At about 3:46:00 in the meeting recording, Mr. Lofton mentioned two issues. The SIC has not met its commitment target for the year due to a large commitment that didn't work out earlier in the year. The portfolio has been evolving since Mr. Lofton started at the SIC, prompting a decision to liquidate approximately one billion dollars and redirect the portfolio's direction. Many of the commitments made over the last year may take years to materialize. Although the portfolio has not yet met its benchmarks, Mr. Lofton believes it is moving in the right direction. Ms. Bates added that the portfolio has a strong pipeline. Mr. Fergusson then explained that the program consists of fifty-seven partnerships with a market value of about four billion dollars. He echoed Mr. Lofton and Ms. Bates, noting progress since the end of the year, particularly due to strong activity in the first quarter and the inclusion of some real asset partnerships into the private credit portfolio. Mr. Fergusson acknowledged missed opportunities but emphasized significant year-to-date activity, including larger commitments and new relationships.

5. GOVERNANCE MATTERS: Informational Reports Requiring Discussion/Vote

a. Governance Committee Report (Cathy Allen)

At about 3:52:54 in the meeting recording, Member Allen provided the Council with a brief report on the Governance Committee's recent meetings held in June and July. She introduced Treasurer Montoya and Member Sánchez as new members and expressed gratitude to former Council Member Messina for his service. Member Allen mentioned that they had several discussions in preparation for the upcoming Council Retreat scheduled for December. These discussions included a review of the charter, the necessary capabilities for Council and committee members, DEI statistics of public manager consultants, and engagement with a

salary consultant. She also noted that the Investment Policy Statement was discussed and informed the Council that they would receive more information about the IPS in the future.

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

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

At about 3:57:00 in the meeting recording, CFO Brent Shipp provided an update on the ongoing agreed-upon procedures for the fourth quarter of the fiscal year. He mentioned that the deadline for these procedures is in September and assured that he would distribute the reports as soon as they are available. Mr. Shipp also discussed the busy schedule of the accounting team, who are currently handling the FY24 audit, as well as the new FY25 and FY26 appropriation requests. He highlighted that the encumbrances were high due to the issuance of new purchase orders. Additionally, Mr. Shipp brought attention to changes in the Investment Holdings Report, noting the addition of the new Capital Development Fund and an internal transfer to the Higher Education Trust Fund. He expressed gratitude to the Audit Committee for their efforts in meeting with Moss Adams regarding the FY24 audit. Mr. Shipp briefly outlined the management fees modeling and pointed out the anticipated increase in fees from FY25 to FY26, driven by inflows. Finally, he mentioned that there is full funding for 37 positions and informed that SIO Clark is focusing on the hiring process.

7. **CLOSING MATTERS**

    a. **Old or new business:**

None.

    b. **Next SIC meeting date: Tuesday, September 24th, 9:00 a.m., Santa Fe, NM.**

8. **PUBLIC COMMENT PERIOD**

None.

9. **ADJOURNMENT**

    a. The meeting was adjourned at 1:07 p.m.