STATE INVESTMENT COUNCIL MEETING AGENDA
GOVERNOR'S CABINET ROOM, STATE CAPITOL
SANTA FE, NEW MEXICO
TUESDAY, MARCH 26, 2024, 9:00 AM

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CLOSING MATTERS

Old or New Business 8

Next SIC meeting: Tuesday, April 23, 2024

PUBLIC COMMENT 8

None

ADJOURNMENT 8

1. OPENING MATTERS

a. Roll Call and Introductions – Commissioner Stephanie Garcia Richard, Vice-Chair

Commissioner of Public Lands, Stephanie Garcia Richard, serving as acting SIC Chair, called the meeting order at 9:00 a.m.

Members Present, in person or remotely:

A quorum was present. Joining the meeting:

Commissioner of Public Lands, Stephanie Garcia Richard, Vice-Chair

State Treasurer Laura Montoya

Wayne Propst, Secretary, Department of Finance & Administration

Nick Telles, Public Member

Catherine Allen, Public Member

John Bingaman, Public Member

Mike Messina, Public Member

Kelly O'Donnell, Public Member

Allen Sánchez, Public Member

Kurt Sommer, Public Member

A quorum was present

Members Excused:

Governor Michele Lujan Grisham

State Investment Office Staff Present, in-person & remotely:

Jon Clark, State Investment Officer

Vince Smith, Deputy SIO, Chief Investment Officer

Brent Shipp, Chief Financial Officer

Evan Land, Chief Counsel

Charles Wollmann, Dir. Comms, Legislative & Client Matters

Chris Cassidy, Private Equity Director

Bruce Brown, Private Equity Portfolio Manager

Tom Lofton, Fixed Income Director

Keith Sabol, Real Estate & Real Return Director

Dawn Iglesias, Investment Strategist

Nino Carpenito, Investment Strategist

Dave Jackson, Network Administrator

Chris Rodriguez, Network Administrator

Francesca Moradi, Legal & Compliance Analyst

Helen Tindel, Staff Manager

Guests Present, in person and remotely:

Marcia Beard, RVK

Matthias Bauer, RVK

Avni Ghandi, Ares Management

Aaron Montano, Alliance Berstein

Andrea Bollyky, Silver Rock

Vinay Kumar, Silver Rock

Warren de Haan, ACORE

Mike Romo, ACORE

Doug Diter, Ares

Matt Sturdivant, RVK

Mary Bates, Meketa

Following Council introductions, Mr. Sommer called for a vote on today's meeting agenda with a second from Mr. Telles.

b. **APPROVAL OF THE AGENDA**

ACTION ITEM I: The agenda was approved in an 8-0 vote, With Commissioner Garcia Richard, Treasurer Montoya, Secretary Propst, Nick Telles, Cathy Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, and Kurt Sommer voting in the affirmative.

Allen Sánchez made a motion to approve the meeting minutes from February 27, 2024, with a second from Mr. Sommer.

ACTION ITEM II: The meeting minutes were approved in a 9-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, Secretary Propst, Nick Telles, Cathy Allen, John Bingaman, Allen Sánchez, and Kurt Sommer voting in the affirmative.

2. STATE INVESTMENT OFFICER'S & CHIEF INVESTMENT OFFICER'S BRIEFINGS

a. SIO Briefing (Jon Clark)

Presenter: Jon Clark, State Investment Officer

At about 2:15 in the meeting recording, State Investment Officer Jon Clark updated the Council on current SIC holdings and recent activity, net asset value, and NM WTI price. He noted a significant increase from the previous year in distributions and projections for FY25. Mr. Clark informed the council about upcoming committee meetings, including the governance committee meeting which is not yet scheduled. The SIC is waiting for a report from an outside fiduciary council before scheduling the governance committee meeting. Notice will be sent out to all council members if they would like to attend. Mr. Clark announced a new hire, Helen Tindel, who will be the Staff Manager.

b. CIO Briefing (Smith)

Presenters: Vince Smith, Deputy SIO, Chief Investment Officer

At about 4:20 in the meeting recording, The Chief Investment Officer gave a progress report after working for several months with the Treasurer's office to manage some of the SIC's cash balance. Both offices have jointly developed a memorandum of understanding and the SIC will start investing with the Treasurer's office in April. Treasure Montoya discussed the importance of keeping this investment in New Mexico and her appreciation for the working relationship between SIC and the Treasurer's office. Mr. Smith mentioned that the Economy is in a fairly steady state and that the SIC staff are paying attention to forecasting in unemployment rates and GDP.

c. CIO Briefing and Performance Report RVK)

Presenters: Matthias Bauer, Marcia Beard (RVK)

At about 7:17 in the meeting recording, Mr. Bauer discussed the SIC portfolio's mixed results in January which were more differentiated, but with resilient returns and indications. The Fed has more patience than expected in winding down some economic stimulus. Risk assets have been supported by easing interest rates. The economy has been in a steady state, but Mr. Bauer noted they are starting to see more volatility. The SIC's portfolio has a good position to withstand volatility. He noted differentiated returns in large and small cap public equity. The developed and emerged markets are exposed to currency movements. Inflation is trending down, so cash is not losing purchasing power. In summation, the SIC's portfolios and individual investment strategies outperformed substantially across the board. Ms. Beard discussed the January fund performance. She mentioned staff has done some rebalancing since January in the interim and long-term investments, which were not fully reflected in the January report. Treasurer Montoya brought up her desire to see more Diversity, Equality, and Inclusion (DEI) in SIC investment portfolios. She discussed her recent exposure to a significant number of managers who are more diverse, with greater numbers of People of Color (POC) and women, and she indicated her desire to see more diversity among SIC's managers. Ms. Montoya informed the SIC of her interest in visually seeing the management teams in the Diligent book material. There was further discussion between the Council and SIC staff about the SIC's current and future pursuit of DEI metrics and its commitment to seek out diversity while maintaining its fiduciary responsibilities.

d. Strategy: Inflows & Pacing Updated (Dawn Iglesias, Nino Carpenito)

At about 39:21 in the meeting recording, Ms. Iglesias presented an in-depth analysis of oil and gas revenues and other inflows into the permanent/endowment funds. Contributions to the funds under the Council's management reached a combined $14 billion in 2022 and 2023. Inflows currently appear poised to reach nearly $6.5 billion in 2024 and seem likely to remain high going forward, particularly relative to historical norms. Ms. Iglesias provided an overview of the outlook for oil and gas production in New Mexico along with scenario analysis regarding the energy transition. She highlighted the wide range of potential outcomes and noted staff's continual monitoring of the energy markets to adapt expectations as actual data is received and the market outlook evolves. Based on current information, funds under the Council's management could reach $100 billion by the early 2030s; and Ms. Iglesias reviewed scenarios of how the energy transition could affect that estimate.

Mr. Carpenito discussed how inflow estimates and the scenario analysis affect the pacing model for determining the annual level of commitment needed to achieve the current asset allocation targets for private asset classes. He noted that inflows are the primary reason for the increased level of commitments. Mr. Carpenito reviewed expected commitment levels for each asset class, and how these commitments are expected to affect cash flows from investments.

e. Strategy: Liquidity 3.0 – Portfolio-Level Leverage (Smith, Iglesias, RVK)

At about 2:15:20 in the meeting recording, Mr. Bauer and Ms. Beard gave a presentation on RVK's report in Diligent. Mr. Bauer gave an overview of the design and scope of the report. He explained that the report was the first part of a larger discussion as to the benefits and potential risks of taking on additional leverage at the full portfolio level. Additional discussions will be forthcoming, and will dive deeper into strategic, policy and governance matters, based on feedback staff receives from the Council.

3. Investment Matters: Investment Matters Requiring Discussion/Vote

a. Investment Committee Report (John Bingaman)

At about 3:03:30 in the meeting recording, Mr. Bingaman reported that the Investment Committee unanimously recommended all agenda items.

b. VOTE: NM Private Equity: DCVC Climate Select (Chris Cassidy, Mercer)

At about 3:11:00 in the meeting recording, Mr. Cassidy introduced DCVC, which would be a new investment relationship for the SIC. DCVC has New Mexico investments in companies that have partnered with NM before and DCVC would like to continue to scale those businesses in the state. Their strategic focus is deep tech with an emphasis on solving hard real-world problems computationally. The climate Select Fund has a large, experienced team with investment, technical, scientific and operating backgrounds. DCVC invests in middle stage venture capital, where companies have established their technology, but still needs assistance to show commercial viability and scalability as they move toward profitability. Mr. Cassidy explained that New Mexico is well positioned to combine its existing scientific and human resources with technical and entrepreneurial expertise to take advantage of these new opportunities.

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

The motion was made by Chairman Bingaman and seconded by Kurt Sommer. The motion was approved in a 9-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchezs, and Kurt Sommer voting in the affirmative.

c. VOTE: Private Debt: Ares Specialty Healthcare (Tom Lofton, Meketa)

At about 3:35:06 in the meeting recording, Mr. Lofton presented Ares Specialty Healthcare, which is a sector focused, private lending fund with material investment into companies that are not yet cash flow positive. All businesses are in the commercial stage, so there are no FDA-approval related risks involved for the companies seeking growth capital. Primarily they are heavily investing in research and development, and marketing, and would otherwise be cash-flow positive. Ares Specialty Healthcare first-time fund for the SIC. Mr. Bates, with Meketa, expressed confidence and informed the Council that Ares is the largest private credit manager in the industry. They have a dedicated team of highly educated, accomplished healthcare professionals on the fund team which manages the largest direct lending strategy in the market. Additionally, their position at the top of the capital structure allows for investment across the capital structure. Ms. Bates discussed the breadth of diversity within the single strategy of healthcare, which includes development in fauna, biotech, medical strategies, medical services, healthcare IT, tech-enabled services and specialty services including IT diagnostics. Ares will also use their broader platform to help identify deal flow and good opportunities.

Based on the recommendations of the Council Investment Committee, consultant Meketa, SIC Staff and general fiduciary oversight of RVK, I move that the State Investment Council approve a commitment of up to $200 Million to Ares Specialty Healthcare Fund, subject and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork.

The motion was made by Chairman Bingaman, with a second by Kurt Sommer. The motion was approved in a 9-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, and Kurt Sommer voting in the affirmative.

d. VOTE: Private Debt: Silver Rock Lobo (Lofton, Meketa)

At about 4:00:15 in the meeting recording, Mr. Lofton and Meketa presented the Council information on the proposed "add-on" or "top-off" commitment to the SIC's existing investment with Silver Rock. The current commitment has been reduced by half so far, and results are thus far in line with expectations. Mr. Lofton highlighted that this is a diverse fund with 55% of the team consisting of women and people of color.

Treasurer Montoya made the following motion, which was seconded by Councilor Telles:

Based on the recommendations of the Council Investment Committee, consultant Meketa, SIC Staff and general fiduciary oversight of RVK, I move that the State Investment Council approve a commitment of an additional $150 million to Silver Rock Lobo Fund Series '23 Tactical Allocation Strategy, subject and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork.

The motion was approved in a 10-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, Mike Messina and Kurt Sommer voting in the affirmative.

e. **Vote: Private Debt: ACORE Credit Partners II (Lofton, Meketa)**

At about 4:13:40 in the meeting recording, Mr. Lofton discussed the proposed additional commitment and total exposure of the ACORE fund, noting that Meketa would have a full underwriting of the commitment. He was supportive of the strategy and team.

Treasurer Montoya asked about a potential conflict of interest of a fund manager with multiple investment accounts. Meketa responded that they had fully investigated the manager's rotation policy to ensure the SIC would receive fair investment opportunities.

Based on the recommendations of the Council Investment Committee, consultant Meketa, SIC Staff and general fiduciary oversight of RVK, I move that the State Investment Council approve a commitment of an additional $100 Million to ACORE Credit Partners II, subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork.

Treasurer Montoya made a motion to approve the investment and was seconded by Nick Telles. The motion was approved in a 10-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, Mike Messina and Kurt Sommer voting in the affirmative.

f. VOTE: Public Debt: Benchmark Change: AB Low Volatility High Yield and Shenkman Short Duration Credit (Lofton, RVK)

At about 4:19:15 in the meeting recording, Mr. Lofton informed the Council about the need to subscribe to a different benchmark provider for these strategies as part of a cost-savings effort. This change would be cost effective since the SIC must subscribe to an entire family of indices. The change would only adjust the family of indices, which are comparable to the existing indices and do not change the profile of the benchmark. Treasurer Montoya made the motion to approve the change, which was seconded by member Telles.

Based on the recommendations of the Council Investment Committee, consultant RVK, and SIC Staff, I move that the State Investment Council approve changing the benchmark providers for the Shenkman Short Duration Credit Strategy and the Alliance Bernstein High Liquidity Short Duration High Yield Strategy, to new Bloomberg benchmarks, as detailed and memorialized in today's meeting materials and as discussed by the Council today.

The motion was approved in a 10-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, Mike Messina and Kurt Sommer voting in the affirmative.

g. **VOTE: Real Assets: Consultant Realignment (Keith Sabol, Townsend/Mercer)**

At about 4:22:45 in the meeting recording, Mr. Sabol informed the Council about the staff's request to restructure the current advisor coverage for the SIC's real return portfolio. Currently those duties are shared by the Townsend Group and Mercer. Both staff and consultants are in agreement that a change consolidating these efforts under Mercer will help streamline and simplify the Council's process. There is to be no net financial impact on the SIC due to this change.

Nick Telles made the following motion, which was seconded by Kelly O'Donnell.

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 consolidating responsibility for the Real Assets portfolio with Mercer, subject to and contingent upon New Mexico legal requirements, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork.

The motion was approved in a 9-1 vote, with Commissioner Garcia Richard, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, Mike Messina and Kurt Sommer voting in the affirmative and Treasurer Montoya voting against.

h. **VOTE: Contract Delegation & Reporting Resolution (Amy Chavez-Romero)**

At about 4:27:50 in the meeting recording, Ms. Chavez-Romero presented the Council with a proposal for the State Investment Office staff to approve all contracts, with additional reporting to be provided to the Council above a certain monetary threshold. She explained that the Council would retain the authority to approve contracts for which authority is otherwise reserved to the SIC by law or policy. This resolution would also require the CFO to provide quarterly reports to the Council for all contracts exceeding $250,000. There was discussion about what approvals would be impacted by this change, what authority would be delegated by the Council to staff, and related transparency concerns. Mr. Clark clarified that this resolution would only affect day-to-day operations of the State Investment Office and would not relate to investment or advisor contracts. Mr. Clark also indicated that if there was anything below the $250,000 reporting threshold that also was worthy of Council review, that it would also be brought to the SIC's attention.

Based on the recommendations of the Council Investment Committee and SIC Staff, I move that the State Investment Council approve the resolution for staff contract approval authority and related reporting as memorialized in today's meeting materials and as discussed by the Council today.

Department of Finance and Administration Secretary Wayne Propst made the motion, which was seconded by Kelly O'Donnell and Kurt Sommer. The motion was approved in a 10-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, Mike Messina and Kurt Sommer voting in the affirmative.

i. 2024 Legislative Review (Iglesias)

At about 4:42:26 in the meeting recording, Ms. Iglesias referred to the legislative review published in the Diligent meeting materials and asked if there were any questions about the summary. There was a brief discussion about the Tribal Education Trust Fund that was presented in the most recent Legislative session but did not pass.

j. Council Committee Appointments

At about 4:43:26 in the meeting recording, Mr. Clark spoke about the Audit, Governance and Investment committees that operate within the Council, and listed their current members. He informed the Council that each committee can have up to five Council Members. Mr. Clark encouraged the newest members to choose which committee they would like to serve on.

Following additional discussion, Secretary Propst made the following motion, seconded by Mr. Sommer.

I move that the State Investment Council approve the appointments of Mr. Sánchez and Treasurer Montoya to the Governance Committee, Secretary Propst to the Audit Committee and Ms. O'Donnell to the committee of her choice.

The motion was approved in a 9-0 vote, with Commissioner Garcia Richard, Treasurer Montoya, DFA Secretary Prost, Nick Telles, Catherine Allen, John Bingaman, Kelly O'Donnell, Allen Sánchez, Mike Messina and Kurt Sommer voting in the affirmative.

4. **Finance Matters: Informational Reports Requiring Discussion/Vote**

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

At about 4:47:42 in the meeting recording, Mr. Shipp informed the Council that the Agreed Upon Procedures Report would be finalized and sent out at the end of the month. He indicated he is still looking into changes in the budget template that have been requested previously, as the document originated with the Department of Finance, not the SIC. Mr. Shipp touched on previous conversation in the meeting and informed the Council that information on client activity can be found in Investment Holdings

Report, and fees and carried interest from public and private assets are disclosed in the back of the Audit Report. He mentioned a previously scheduled Audit Rule change that would have impacted SIC processes have been reconsidered and have been cancelled by the State Auditor. Finally, Mr. Shipp notified the Council that the April Audit committee meeting will be postponed because they are working on an RFP for a two-year period, which will be issued in April.

5. **Closing Matters**

a. **Old or New Business:**

At about 4:51:10 in the meeting recording, Mr. Sánchez highlighted the importance of the SIC's work and longevity, then requested Mr. Clark do a thorough review and have a good understanding of staff's compensation. Council discussions about staff compensation, recruitment and retention challenges continued. The Council decided there was a need for further exploration, and the issue should be addressed in more depth in future meetings.

b. **Next SIC meeting: Tuesday, April 23, 2024, Santa Fe, NM**

It was noted that the next regularly scheduled Council meeting will be at the State Capitol on April 23rd.

6. **Public Comment Period**

There were no in-person or previously submitted public comments.

7. **Adjournment**

As SIC business was completed, the meeting adjourned at about 2:10 pm.