ACTION SUMMARY  
STATE INVESTMENT COUNCIL  
June 23, 2015

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MINUTES OF THE
NEW MEXICO STATE INVESTMENT COUNCIL MEETING

Santa Fe, New Mexico
June 23, 2015

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 Peter Frank, Vice-Chair on this date at 9:00 a.m. in the Governor's Cabinet Room of the State Capitol Building, Santa Fe, New Mexico. A quorum was declared:

Members Present:
Mr. Peter Frank, Public Member
Ms. Linda Eitzen, Public Member
Mr. Harold Lavender, Public Member
The Honorable Tim Eichenberg, State Treasurer [leaving at 12:15 p.m.]
Dr. Thomas E. Clifford, Secretary of Finance & Administration
Mr. Leonard Lee Rawson, Public Member
Mr. Scott Smart, Public Member
Mr. John Young, Public Member
Mr. Tim Jennings, Public Member
The Honorable Aubrey Dunn, Commissioner of Public Lands

Members Absent:
The Honorable Governor Susana Martinez

Staff and Committee Members Present:
Mr. Steven K. Moise, State Investment Officer
Mr. Vince Smith, Deputy State Investment Officer
Mr. Evan Land, General Counsel
Mr. Brent Shipp, Chief Financial Officer
Mr. Charles Wollmann, Director of Communications
Mr. Wade Franks, Stable Value Director
Mr. Greg Kulka, Director of Private Equity
Ms. Starla Bennett, Director of Public Equity
Mr. Bruce Brown, Deputy General Counsel
Ms. Kerri Segell, Executive Assistant, Recorder

Guests Present:
[See Sign-in Sheet.]
b. **Approval of agenda**

Mr. Lavender moved approval of the agenda, as published. Mr. Rawson seconded the motion, which passed unanimously by voice vote.

c. **Approval of minutes: May 26, 2015**

Ms. Eitzen moved approval of the minutes of May 26, 2015, meeting, as submitted. Mr. Lavender seconded the motion, which passed unanimously by voice vote.

2. **INVESTMENT MATTERS: INVESTMENTS REQUIRING VOTE**

a. **Investment Committee Report (Harold Lavender)**

Mr. Lavender reported that the Investment Committee had met on June 11. Meeting notes had been distributed and he commented on the ongoing International Equity manager search. The search committee had met several times and the search, sourced through a RFP, had been narrowed to two firms. Manager recommendations will be presented to the Council in July.

Mr. Smith added that considerable time was spent by the Committee reviewing the Annual Investment Plan, which would be presented later in today's meeting.

b. **Vote: Invesco Asia Real Estate Fund (Vince Smith & Townsend)**

The Townsend Group recommended a commitment of $150 million to Invesco Asia Real Estate Fund (Invesco Asia) for the SIC's core real estate portfolio. Invesco Asia is a core open-ended fund which seeks to create a diversified portfolio of core real estate assets in the prime Asia Pacific markets of Japan, Australia, South Korea, China, Hong Kong and Singapore, with an initial emphasis on the office sector. Invesco Asia is managed by IRE, the real estate investment arm of Invesco Limited. Invesco Limited manages $798 billion of assets, and within that entity IRE has $65 billion assets under management.

Mr. Koch commented that at a strategy level, Invesco Asia is similar to other core real estate investments in the SIC's portfolio, except the focus of this fund will be on properties in the Asia Pacific markets. Invesco Asia targets returns of 9-11% gross with a strong income component of 4-5%. Invesco Asia is a broadly diversified strategy, investing in prime income-producing assets and will provide beta for the SIC real estate portfolio. Townsend believes that Invesco Asia presents a strong complement to the NMSIC real estate portfolio. Currently the SIC has only one other real estate investment uniquely targeting the Asia-Pacific region, Blackstone Asia.

Mr. Koch reviewed the differences in structure between an open-ended fund such as Invesco Asia, and closed-end funds and remarked that an open-ended fund offers attractive attributes. Invesco Asia held its initial close in February 2014 and has raised $556 million from eight investors as of May 2015, and an additional $100 million commitment was received in the past month. Since the first closing, Invesco Asia has closed four deals which are high quality assets consistent with its investment strategies.

Comparative advantages, as well as Townsend's observations of potential concerns, were covered in depth in the materials, and Mr. Koch offered to address any questions or concerns of the Council.

Invesco Real Estate representatives Max Swango and Graeme Torre appeared before the Council to make their presentation. Mr. Swango introduced the firm to the Council and described the strength of Invesco as being focused
solely on investment management, as well as having a global platform and footprint. He gave the Council an account of the organizational structure, and detailed Invesco’s real estate platform and global institutional processes.

Mr. Torre continued with fund specifics. He gave an overview of the Asian real estate markets, commenting on the current capital value cycle, and provided a synopsis of the fund’s strategy, emphasizing Invesco’s advantage of local country presence and expertise. Mr. Torre spoke about the preferred geographical allocation of capital forecasted for the fund, and reviewed further diversification by country and property type. Forecast returns and performance expectations were discussed. An independent survey of transparency in the Asia Pacific region was presented, which scores countries on transparency looking at the ease of execution and availability of data.

Secretary Clifford commented that there did not appear to be a sub-allocation target for international real estate in the SIC’s real estate portfolio, and he asked Mr. Koch for a recommended maximum international real estate allocation. Mr. Koch responded that Townsend generally advises a 25-40% allocation to international assets in a real estate portfolio, depending on goals and objectives. For the SIC, Townsend suggests that a 35% international allocation would be appropriate given the long-term nature of the permanent funds, and within this 35%, with approximately 10-12% allocated to Asia. Mr. Koch added that this commitment would bring the SIC close to Townsend’s recommended exposure to Asia.

Secretary Clifford observed that the NCREIF ODCE index does not contain international allocations, and questioned the implications to the SIC’s real estate portfolio of not matching its performance metrics. Mr. Koch explained that the ODCE is a U.S.-based benchmark and does not include international open-ended core real estate funds. The lack of an established benchmark in the international real estate market continues to be discussed among institutional real estate investors. Townsend will provide the SIC quartile rankings against other funds invested similarly. Secretary Clifford suggested a need for an appropriate benchmark, since a third of the real estate portfolio assets are international.

Secretary Clifford, referring to page 7 of the Townsend memo, questioned the posting of the Transparency and Disclosure statement on the SIC website. Mr. Land explained that under the Transparency Policy, the SIC publicly posts information it has requested from potential investment managers and contractors, at least two weeks prior to formally entering into any agreements with these entities. This disclosure relates to the use of placement agents.

Secretary Clifford concluded his comments by laying emphasis on the need for careful evaluation of international real estate assets and stated he was not reassured regarding transparency and the reliability of available valuation data.

Mr. Rawson asked for clarification on the length of time Invesco has managed an Asian fund. Mr. Swango replied that Invesco has been investing in Asia since 2006, first with a closed-ended opportunistic fund and then further with the purchase of the AIG Asia business in 2010, with approximately $5 billion under management currently. This will be Invesco Real Estate’s first core real estate fund.

Mr. Rawson inquired about exposure in China. Mr. Torre explained that there were currently no Chinese assets in the fund and the current model does not target Chinese investments for another two or three years. He also discussed land ownership structures in various countries in Asia.

The size of the SIC’s investment and other participants in the fund were reviewed. The Council also discussed other managers that were researched in the sourcing process, including those with opportunistic and value-add strategies. The Invesco representatives addressed issues of market cyclicalities, the relative pricing of assets, and yield spreads in the Asian real estate market. Sovereignty risk in the Asian markets was discussed in detail.

Based upon the recommendation of the Council Investment Committee, the Townsend Group, and SIC staff, Mr. Lavender moved that the SIC approve a commitment of $150 million to the core open-ended Invesco Asia Real State Investment Council Meeting: June 23, 2015
Estate Fund, subject to and contingent upon New Mexico state law, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork. Ms. Eitzen seconded the motion, which passed by voice vote, with Mr. Rawson and Treasurer Eichenberg voting against the motion.

c. **PEIAC Report (Linda Eitzen)**

Ms. Eitzen reported that the two private equity investments the Council is considering today were unanimously approved by PEIAC. She thanked Treasurer Eichenberg for his attendance at the recent PEIAC meeting.

d. **Vote: Coller International Partners VII, L.P. (Smith & LP Capital)**

Richard Pugmire reviewed LP Capital’s recommendation of a $75 million commitment to Coller International Partners VII, L.P. Coller is broadly recognized as a leader in the secondary private equity market and has one of the deepest track records among secondary investors, specifically as it pertains to complex transactions and deal structures. The SIC has an existing relationship with Coller, having committed $30 million to 2001 vintage Fund IV, which has generated a 12% return, and $75 million to 2011 vintage Fund VI, which has generated a 25% return.

Mr. Pugmire evaluated the merits of Coller, its team and experience, and their consistent investment strategy of acquiring private equity assets through secondary transactions. Performance over multiple market cycles and environments has been strong.

Mr. Pugmire reviewed the Fund’s terms which allow LPs to select between two management fee structures. LP Capital and staff recommend Class A which represents a higher management fee but lower carried interest, and Mr. Pugmire described the modeling undertaken and the rationale behind the fee selection.

Coller representative Sebastien Burdel led the Council through his prepared materials opening with remarks pertaining to Coller’s appreciation of the SIC’s continued support over the past decade. He described the illiquid private equity environment where there is no mechanism for an investor to exit an investment sooner than the life of the fund, other than through secondary markets.

Mr. Burdel outlined the advantageous attributes of the secondary markets as:

• Creating diversity within a portfolio;
• Allowing access to vintage years an investor may not have been exposed to;
• Providing a good risk return profile:
• Offering very little J-curve effect; and
• Providing quick cash proceeds.

Mr. Burdel continued with details on Coller’s unique position in secondaries, their strong performance across multiple market cycles, and the firm’s single focus on this particular sector. He stated that Coller has the largest investment team dedicated to secondaries, providing the critical expertise to manage the complex issues surrounding the strategy.

Mr. Burdel described the opportunities and types of transactions found in the secondary market, and he referred to materials in the presentation that illustrated Coller’s strategy, diversified fund positions, and market timing.

Fund VII had its first close in June on $3.1 billion, towards the fund target of $5.5 billion.

Mr. Young asked Mr. Burdel what percentage of Coller clients opt for the Class B fee structure. Mr. Burdel replied that historically 55-60% of clients choose the Class A structure, with the remaining 40% opting for Class B, typically because of fee sensitivity or regulatory considerations.
Mr. Young commented on the unusual ownership structure of the firm, with 100% owned by Jeremy Coller. Mr. Burdel responded by speaking to various economic and governance aspects of the firm, and other mechanisms used to incentivize the Coller team.

Mr. Rawson asked Mr. Pugmire for his comments on the 7% preferred return, which was slightly lower than industry standard. Mr. Pugmire replied that LP Capital was comfortable with the lower preferred percentage given the expected consistent return over multiple economic cycles of the fund.

Mr. Rawson asked for clarification on the value of the discount and the asset value increase, in terms of drivers of return. Mr. Burdel replied that Coller has looked historically at aggregate returns and has determined that 60% of value creation comes from the discount, and 40% from asset value increase.

Mr. Rawson inquired about the United Nations Principles for Responsible Investing referenced in LP Capital’s report. Mr. Pugmire responded that recently there has been more emphasis on ESG policies within the investment world and the UN has put together a document that investment firms can adopt agreeing to adhere to the environmental, social and governance principles set forth in the document. Mr. Rawson requested a copy of the U.N. document. Mr. Burdel added that in practice, as a secondaries investor, ESG matters do not materially impact investment decisions.

Secretary Clifford expressed his concerns about the Coller strategy and approach, and stated that it illustrates the weaknesses in the private equity markets. He does not support the Council’s overall strategic move to increase participation in private equity markets.

Based upon the recommendation of the Private Equity Investment Advisory Committee, LP Capital Advisors, and SIC Staff, Ms. Eitzen moved that the SIC approve a commitment of $75 million to Coller International Partners VII, L.P., subject to and contingent upon New Mexico state law, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork. Mr. Young seconded the motion, which passed by voice vote, with Secretary Clifford voting against the motion.

[At this point in the meeting, Ms. Eitzen recognized Michelle Coons for her commendable service to PEIAC and reviewed the Committee’s history and functions. Since 2010 there have been twenty-nine private equity funds recommended by PEIAC to the Council, worth a commitment total of over $2 billion. Ms. Eitzen remarked on Ms. Coons’ expertise and background in banking, and that her knowledge of venture capital was extremely helpful to the Committee. A certificate of appreciation from the Governor for Ms. Coons’ service was presented. Ms. Eitzen recognized and thanked the other PEIAC members Stephen Feinberg and Gerald Burke, as well as staff and consultants.]

e. **Vote: EQT VII, L.P. (V. Smith & LP Capital)**

Mr. Pugmire presented LP Capital’s recommendation of a $75 million commitment to EQT VII, L.P. EQT is targeting $5.25 billion in commitments, pursuing a similar strategy as predecessor funds, seeking-out control equity positions in mid to large size companies in the Nordic region.

Among the merits of the firm discussed by Mr. Pugmire was EQT’s strong market position as the largest dedicated European private equity platform. EQT has a twenty year history in this sector and a stable and cohesive investment team that is supplemented by a network of over 250 independent Industrial Advisors. Mr. Pugmire reviewed the performance metrics of previous EQT funds. One of the risk factors identified by LP Capital was the fund’s denomination in Euros, with performance possibly being impacted by currency fluctuations. Mr. Pugmire referred to Europe’s dynamic investment environment, and the essential need for a firm with European experience.

EQT is offering investors two types of interests for the Fund: Series A and Series B. Series A has an all-contributions-plus-preferred-return first distribution waterfall and Series B offers a deal-by-deal waterfall and a 5%

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discount on management fees. LP Capital recommends Series A. In addition the SIC will receive a first close discount of 5% on management fees.

Fredrik Åtting and Darlene de la Rosa Sammon were in attendance on behalf of EQT to make their presentation to the Council. Mr. Åtting began by providing the Council with background on EQT, sponsored in 1994 by the Wallenberg family of Sweden. EQT is focused on building and developing businesses in the most attractive European markets. He described distinctive aspects of the firm such as their resource of 250 industrial advisors and the utilization if a local team model complemented with a global platform.

Mr. Åtting reviewed the performance of EQT’s prior funds which realized a 2.8x MOIC on average, with a net IRR of 21%, with no write-offs. EQT only does control deals, does not do turn-arounds, and offers consistent return. Mr. Åtting further described EQT’s selection process targeting high quality companies in particular sectors that can be further developed under EQT ownership. He reviewed annual EBITDA and value creation of businesses sold.

Mr. Rawson asked about the benchmark comparisons referenced in the materials and Mr. Pugmire explained that private equity benchmarking for European funds is not particularly good because of the small sample size, and it is only one of many firm attributes that are considered. Another factor is that benchmarks are US dollar based and returns are impacted by the strengthening dollar against the value of the Euro.

Based upon the recommendation of the Private Equity Investment Advisory Committee, LP Capital Advisors, and SIC Staff, Ms. Eitzen moved that the SIC approve a commitment of $75 million to EQTVII, L.P., subject to and contingent upon New Mexico state law, New Mexico State Investment Council policies, negotiation of final terms and conditions, and completion of appropriate paperwork. Mr. Lavender seconded the motion, which passed by voice vote, with Secretary Clifford voting against the motion.

f. Vote: 2016 Annual Investment Plan (V. Smith)

Mr. Smith prefaced his annual investment plan presentation by commenting that this was the third year he has presented an annual investment plan to the Council; the plan delineates long-term goals and outlines the asset allocation and asset class strategies designed to achieve these goals. The plan was divided into three sections; a review of macroeconomic and market environment, individual asset class plans, and a section on special topics.

Mr. Smith spoke briefly on the investment environment outlook, and expectations of GDP growth and inflation for the next seven to ten years. Distribution models and fund value models for the LGPF and STPF were included in the plan.

Asset class plans were laid out in detail, with new investments to be brought to the Council to fit within the plan in terms of strategy and exposure.

Mr. Lavender stated that in his forty years as an investment professional this was one of the most comprehensive investment plans he had seen, and commended Mr. Smith on his efforts. He remarked that the analysis that had been done was thorough and he referred to the plan as the Council’s blueprint.

Mr. Young added that in his experience there were very few funds that had an investment plan developed in this depth, and he too praised Mr. Smith’s work.

Ms. Eitzen remarked that the plan is an important document and clearly shows that the investments considered by the Council are founded on forecasts of where market growth will likely be, and plainly outlines which asset classes the SIC should consider in order to achieve its return goals.
Based upon the recommendation of the Council Investment Committee and SIC staff, Mr. Lavender moved that the SIC endorse the 2016 Annual Investment Plan, as presented in today's meeting materials, and reviewed and discussed by the Council today. Ms. Eitzen seconded the motion.

Secretary Clifford expressed his concerns with the plan. He stated that the macroeconomic assumptions outlined in the plan were unpredictable and likely incorrect, and that the Council should not place their absolute confidence in this set of assumptions. Secretary Clifford further stated that he was not in favor of moving away from the regulated publicly-traded domestic markets to less regulated, less transparent, less liquid private assets, particularly in the international sector. He alluded to increased risks built into the current strategy of moving away from public assets, but conceded that there was consensus from other funds, including another New Mexico fund, to engage in the same strategy.

Chairman Frank pointed out that the plan endeavors to balance risk, and undoubtedly some asset categories expose the SIC to more risk than others. He also responded to Secretary Clifford's remarks about the inaccuracy of the macroeconomic assumptions, acknowledging that while future long-term assumptions are forward-looking estimates, and may not come to fruition, nevertheless the Council must have a strategy. He suggested that if Secretary Clifford knew of specific errors in the capital markets assumptions he should advise Mr. Smith.

Ms. Eitzen agreed with comments made on illiquidity risk and the risk premium that must be assumed to achieve the SIC's targeted return goal, but remarked that this risk is mitigated by the long-term horizon of the permanent funds.

Mr. Smart commented that an important factor driving the allocation is the amount of money that is required to flow to the State budget. If that amount could be lessened, so could the SIC's risk exposure, but as long as the State needs to draw 5-6% out of the funds annually, an asset allocation taking on more risk is necessary.

Mr. Smith addressed the Council and reviewed for them institutional investment history, beginning in the 1950s, of funds such as the SIC. He spoke about the bond markets, shifts to diversified multi-asset portfolios, equity market risks, volatility of returns, historical market fluctuations, and the need for the SIC to be invested in these additional asset classes in order to achieve the 7.5% return goal. The return goal will be reviewed at the Council's August meeting.

The Council continued their discussions on public versus private assets, liquid assets, and the structure of the SIC's asset classes. Treasurer Eichenberg had questions regarding the annual plan, including the long-run historical time frame, the objectives of the staff strategy group, how expectations are determined, and the effects of external management versus internal and active versus passive management. Mr. Smith stated that in the hierarchy of return generation it is more important to concentrate on asset allocation and portfolio structure than choosing stocks. He also commented that the LGPF policy index, a direct reflection of the Council's asset allocation, ranged in the top 14% of the TUCS universe over the last five years. Treasurer Eichenberg requested more time to review the plan, displayed two pages of potential questions for Mr. Smith, and asked for time for more discussion.

Treasurer Eichenberg moved to defer the motion to endorse the investment plan until July. Land Commissioner Dunn seconded the motion, which passed by voice vote, with Mr. Lavender voting against deferment.

Chairman Frank asked that Council Members direct any questions they may have on the investment plan to Mr. Moise and Mr. Smith.

Treasurer Eichenberg requested a list of managers and their investments as mentioned at the recent IPOC meeting. Mr. Smith commented that all public managers are included in reports found in today's materials and that Invent produces a list of private managers and their underlying investments that can be provided to the Treasurer.

g. **Vote: Investment Consulting: The Townsend Group (V. Smith & John Young)**
Mr. Young, as a member of the evaluation committee, presented the evaluation and recommendation of contract renewal to the Council. He reported that a committee comprised of Gene Sanger, Vince Smith, Geraldine Barlow, and himself had met to evaluate Townsend's performance. Secretary Clifford was also involved. The Evaluation Committee addressed each of the evaluation criteria, as requested by the Council, which are set out in summary form in the materials provided. Mr. Young emphasized four aspects of Townsend's review:

- Townsend fulfilled the obligations of their contract and furthermore took on the real asset allocation with no additional compensation;
- Jack Koch, as the SIC’s key consultant is a valuable Townsend representative, with access to all Townsend’s resources and Townsend is regarded as a premier real estate consultant;
- The SIC now has a better structured, more diversified and well-performing real estate portfolio with a 14.2% return, and although it is early in the real asset program, returns for this asset class are at 13.7%;
- For the past four years Townsend was paid $350,000 for their services without requesting additional fees. Their fee for consulting for the real estate portfolio remains $350,000; an additional $200,000 has been requested to cover the real asset program. Townsend also has saved the SIC approximately $900,000 by being able to aggregate SIC investments with their other clients.

The evaluation committee unanimously recommended the renewal of Townsend's contract. Mr. Sanger offered additional comments to the Council saying he had a great deal of respect for Mr. Koch, Seth Marcus and the entire Townsend firm. He reiterated Mr. Young's comments on the improved investment fee structures generated through them and highly recommended the renewal of the contract.

In answer to a question by Treasurer Eichenberg regarding the procurement code, Mr. Land cited the exemption the SIC operates under, 13-1-98 NMSA 1978 CC, which states that contracts for investment advisory, investment management or other investment-related services are exempt from the state procurement code.

Secretary Clifford had questions regarding billing, deliverables, scope of work etc. A copy of the contract will be sent to Secretary Clifford that clearly outlines deliverables and the scope of work.

Based upon the recommendation of the Evaluation Committee, and the Council Investment Committee, Mr. Young moved that the SIC approve a contract with the Townsend Group to serve as the SIC’s real estate and real return consultant, under terms and conditions detailed in today’s meeting materials, and as reviewed and discussed by the Council today. Ms. Eitzen seconded the motion.

There was a brief discussion on the fee proposal, with Ms. Barlow indicating the pricing on the real asset consulting services was done on a “bundled” basis.

The motion passed unanimously by voice vote.

[Treasurer Eichenberg left the proceedings.]

3. Investment Matters: Reporting, Investment Performance & Market Updates

   SIC Performance Report & Monthly Activity Summary

A preliminary RVK May flash report had been distributed to the Council today. Mr. Smith commented that the SIC’s 1 year return, at the fund composite level, was 6.24%, and as he had discussed previously with the Council, explained that the current market environment is one of low returns and performance numbers are declining on an absolute basis.
Vice-Chair Frank commented that these, and the following reports on the agenda, are informational stewardship reports, lengthy and detailed as required by their content that must be studied, but in view of the time, rather than review in depth the reports, he asked for the Council’s questions.

b. **Real Estate/Real Return Q4 2014 Performance Report**

Mr. Rawson asked for clarification on the bell curve graph that appears on the individual fund review pages. Mr. Marcus explained that it is a standard distribution bell curve graph that represents a comparison of performance between funds of the same vintage year and strategy.

Secretary Clifford brought the Council’s attention to the portfolio highlight bullet point, stating that the portfolios short-term performance was affected by the decrease in energy prices. He reminded the Council of his position on the correlation of energy prices and performance and the sensitivity of the SIC’s portfolio to energy prices. Mr. Smith replied that these are short-term performance consequences and over the life of the investment there should be little correlation to commodity prices. Staff has undertaken a research paper that is expected to confirm this concept.

c. **Q4 2014 National Private Equity Performance Report**

[Informational item]

d. **Q4 2014 NM Co-Investment Fund Review**

[Informational item]

e. **National Private Equity Reporting Items**

[Informational item]

f. **Q4 2014 New Mexico Private Equity Program Performance Report**

Mr. Jennings suggested that Sun Mountain communicate to the Council any positive narrative and/or outcomes regarding investments made through the NM private equity program. Mr. Birk informed the Council about a positive story to appear in the press the following day concerning a company in which the SIC has invested. There had also been a favorable news story of restaurant ordering software developed by a firm that is part of an Epic Ventures Fund.

Secretary Clifford discussed the metrics of job creation and the cost per job surrounding NM private equity investments. He also spoke about the act of balancing financial returns, job creation, economic development, and the mandate of the program.

Mr. Rawson expressed his frustrations with the credibility of reported job creation numbers that are reported. Verification through Workforce Solutions was again recommended by Mr. Rawson.

g. **New Mexico PE Program Reporting Items**

[Informational item]

4. **STATE INVESTMENT OFFICER’S REPORT (Steve Moise)**

Investment Matters: The current NAV, as reported by JPMorgan, is $20.72B. Distributions to the State over the past twelve months from LGPF and STPF have been $779M.
Having discussed performance previously, Mr. Moise merely added that the next phase of the internal audit will examine the many aspects and metrics of the reporting of investment performance.

A comprehensive overview of investment fees will be made to the Council in July. The presentation will include LP Capital’s report on private equity fees, RVKs report on public fees, and Townsend will report on both real estate and real asset investment fees.

RVKs’ contract renewal will be brought to the Council in July for review and approval.

Mr. Moise thanked Ms. Eitzen for her comments regarding PEIAC, for her service as its chair and for her thorough review of the Committee’s achievements.

**Council Matters:** The July meeting schedule had been included in the Council’s materials. Mr. Moise noted the change in the CIC meeting date to Tuesday, July 14.

The Legislative Working Group will convene this summer to discuss 2016 legislative priorities and agenda.

Staff met with the Public School Capital Outlay Oversight Task Force on June 2 and with IPOC on June 16. Two presentations were made to IPOC, which had been included in the Council’s electronic weekly communication from Mr. Wollmann last week. Mr. Moise commented that these two presentations were the most thorough of any staff has made legislatively, and he encouraged the Council to review the presentations. Mr. Moise thanked Members Lavender and Frank, who had attended the IPOC meeting. IPOC has recently published their full interim work plan and schedule, and Mr. Wollmann will include it in his weekly email.

The Open Meetings Resolution will be discussed during the Governance Committee Report. Mr. Moise corrected the title of Motion 6b. The correct title for the motion should be Open Meetings Resolution.

An update on the implementation of recommendations from the 2010 EnnisKnuppf fiduciary review and the 2014 strategic plan will be provided to the Council in July.

**Office Administration:** Mr. Moise remarked that a candidate for the real return investment analyst position has been selected and the offer is pending SPO approval. He commended Asset Class Director Geraldine Barlow for her diligent sourcing work in filling the position. Mr. Smith announced that strategist Paul Heine would be retiring at the end of the month, and Mr. Smith thanked him for his valuable contributions to the office.

**External relations:** Mr. Moise spoke about the continuing efforts of staff to develop stakeholder awareness of and appreciation for the permanent funds. The next scheduled speaking engagement is this fall to NMOGA.

Two new clients have asked the SIC to manage their endowments, Clovis Library’s Carver Trust and Clovis Community College. Both entities are reviewing a JPA.

A conference call is scheduled for the Sovereign Wealth Fund group next week. Risk management and governance will be among the topics discussed.

5. **FINANCE MATTERS: DISCUSSION**

a. **Audit Committee report** (Peter Frank)

Mr. Frank reported that the Audit Committee had met the previous day. The majority of the meeting was focused on a presentation by the SBIC, updating the Committee on its programs and progress. The SBIC is funded by 1% of the STPF, and Mr. Frank reminded the Council that the SIC has no specific oversight role regarding the SBIC. The SBIC
report was comprehensive and SBIC's performance had been much improved since the change of focus to small business/micro loans, de-emphasizing the private equity investment approach.

The Audit Committee was satisfied with the report and believed that the SBIC was operating in a much more effective manner for the State. SBIC's report will be distributed to the Council.

In response to a question regarding the SBIC's 1% STPF funding, Mr. Frank explained that funding is based on 1% of the high water mark of the Fund. A brief discussion ensued on the subject of return of excess funds and a recent legal opinion concerning how that is calculated. Mr. Rawson suggested a formal interpretation of the statute to determine the proper return of profits. He also asked Mr. Shipp for a schedule of distributions made to the SBIC since its inception. Mr. Frank requested that staff review the legal opinion.

b. CFO report (Brent Shipp)

Mr. Shipp reported that in addition to the matters that Mr. Frank reported on from the Audit Committee, the SBIC expressed an interest at the meeting about possibly becoming a SIC client and placing a portion of their liquid assets in SIC investment pools.

The third quarter AUP report by CLA has been completed and Mr. Shipp will distribute the report to the Council.

6. GOVERNANCE MATTERS: DISCUSSION & VOTE

a. Governance Committee report (Scott Smart)

Mr. Smart reported that the Governance Committee had met and discussed various matters including the dissolution of PEIAC and member recognition, the SIC 2016 draft meeting calendar, the open meetings resolution, and increasing efficiencies of Council meetings, including electronic delivery of Council materials. The Committee has also been evaluating the need for continuous improvement of the orientation process, particularly as it relates to new Council Members. Mr. Scott solicited Council input on the topic.

Secretary Clifford requested that when planning the 2016 meeting calendar consideration be given to waiving a Council Meeting during the legislative session.

b. 2015 Open Meetings Resolution

An open meetings resolution had been distributed to the Council for their vote of approval. As part of an annual compliance requirement of the NM Open Meetings Act, each public body must establish in writing its own procedures for notifying the public of its meetings. The resolution had not changed substantively since its last endorsement. The most notable change is that now all committee meetings will be noticed publicly. Telephonic participation is permissible in the resolution and the Governance Committee recommends a secure telephone line for Executive Sessions. As a matter of form, all those participating by phone will be asked to identify themselves. A second, private conference call phone number will be used for Executive Sessions.

In response to a question by Mr. Rawson, it was explained that the requirement for publishing meeting notices in newspapers remains in statute.

Based upon the recommendation of the Council Governance Committee, and SIC staff, Mr. Smart moved that the State Investment Council approve the Council 2015 Open Meetings Resolution, as presented in today's meeting materials, and as reviewed and discussed by the Council today. Mr. Lavender seconded the motion, which passed unanimously by voice vote.
7. **CLOSING MATTERS**

   a. *Old or new business*

   Commissioner Dunn requested a copy of the Vanderbilt court ruling.

   None.

   b. *Next SIC meeting date: Tuesday, July 28, 9:00 am, Santa Fe, NM*

8. **PUBLIC COMMENT PERIOD**

   None.

9. **ADJOURNMENT**

   As SIC business was completed, Mr. Lavender moved to adjourn. Mr. Young seconded the motion and the meeting was adjourned at 1:12 p.m.

   Approved:

   [Signature]

   Peter Frank, Vice-Chair