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EPISODE 83:

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# Strategic Growth & Innovation

*with Vince Smith of the New Mexico  
State Investment Council*



**Robert Morier:** Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, and other important players in the industry who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and our Dakota Live content, please check out our website at [dakota.com](https://dakota.com) to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker, who is not affiliated with Dakota, not a solicitation, testimonial, or an endorsement by Dakota or its affiliates. Nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in one place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit [dakotamarketplace.com](https://dakotamarketplace.com) today. Well, I am thrilled to introduce our audience today to Vince Smith. Vince is the Chief Investment Officer and Deputy State Investment Officer at the New Mexico State Investment Council. Vince, welcome to our podcast.

**Robert "Vince" Smith:** Thanks, Rob. Thank you very much.

**Robert Morier:** Well, thank you for being here. We have a lot of questions to ask you. But before we do, I want to quickly share your background with our audience. Robert "Vince" Smith is one of the most experienced and long-serving public fund investment officers in the United States. Vince has been the deputy state investment officer and chief investment officer of the New Mexico State Investment Council for the past 14 years. SIC manages the investments for New Mexico's 12 permanent funds, valued at \$53.5 billion in assets as of June 2024. It invests the royalties and taxes that come from natural resources and income from sales and leases of public lands and minerals. For more than 37 years, Vince has served as an investment officer at four state-level public funds in Montana, Texas, Kansas, and New Mexico, including more than 18 years as chief investment officer in the latter two states. He carries both public pension and sovereign wealth CIO experience. Vince's investment teams employ a top-down investment process oriented around broad investment strategy, asset allocation, and strategic portfolio construction, which we look forward to discussing in more detail today. In the past, Vince has been named among the top 20 of Chief Investment Officer Magazine's Power 100 list, which

highlights the most influential asset owners globally, and in 2021, he won the Industry Innovation Award for Sovereign Wealth Funds from Chief Investment Officer Magazine. Vince, thank you so much for being here, and congratulations on all your success.

**Robert "Vince" Smith:** A pleasure, Rob. And thank you.

**Robert Morier:** Well, we're thrilled to have you here. As I mentioned before, over the past year or so, we've had the pleasure of interviewing several public pension and sovereign wealth fund allocators. So, we're honored to have you in that company. But we haven't interviewed anyone who was born and raised in Montana yet. So, we're very excited for you to give us some sense of your background. I have an inkling of a sense that you probably have a sense of resilience and adaptability growing up in those winters. So how did those experiences early on in life kind of help you guide towards where you are today?

**Robert "Vince" Smith:** Well, let me start by saying I'm not a native, but I got there as quick as I could. But I did grow up in Montana. Yeah. You know, I think that maybe the Montana comes out most in forming relationships with others, but particularly with my investment team, individually and collectively as a team, as well as my bosses and boards and overseers over time. I mean, a handshake is a thing to me. Your word means something to me. I place a high value on honesty, trust, candor, toughness, fairness, and want to work with others who take as much pride in their work as I do mine. I don't need excessive communication, and the best kind of communication to me is observable action. And we need people who will ride for the brand, which is Western speak for being a team player. So, I think that's where the Montana comes out in me most.

**Robert Morier:** That's helpful. I appreciate that. I'll be interested where that Montana comes out. When you're evaluating asset managers. A lot of those characteristics, a lot of those values that you hold as important being from that particular state can be equally important when you're evaluating managers, really trying to understand who they are.

**Robert "Vince" Smith:** Absolutely. Yeah. That's absolutely true.

**Robert Morier:** One of our recent guests had discussed that every asset owner brings their own personal biases and interests to the plan. Given your extensive experience in the industry, what were some of those biases that you've taken with you over your career as an asset owner?

**Robert "Vince" Smith:** You know, that was one of the episodes I watched in preparation for this, and I thought highly of that comment and the discussion, mainly from the standpoint that it showed introspection on the part of the guest. And introspection is just so critical, not just in our business but in life. Having the ability to review, proposed or executed actions that you've done is critical as a key skill. And to be able to take that to

the next step, understanding that the person on your team or someone sitting across the table from in a meeting or negotiation, they're also exposed to their own biases and self-interest. So, I think my take more would be on it that introspection is really important to control the biases, understand when they're coming into m and make sure that you're understanding that that's happening.

**Robert Morier:** Did that introspection come naturally, or did you have to develop that skill over time?

**Robert "Vince" Smith:** Oh, that's a developed skill, for sure. It's not easy to look inside and be honest and fair with yourself when you really feel like you want something.

**Robert Morier:** Well, I had mentioned to you when we first were able to get you on the podcast that I'm a professor at Drexel University, and I require all my students to watch these podcasts. So, one of the questions I always like to ask is, taking yourself back to that seat, as an undergraduate, what were you looking for as it related to a career at that time? And what took you on this path?

**Robert "Vince" Smith:** Well, I very much wanted to be doing just what I'm doing today, and starting out where I needed to start, which was as a securities analyst in a public fund. I wrote a paper in my senior year on the US public fund system... retirement system, I didn't look at it in the sovereign wealth... but during the 1970s inflationary period, which really was pretty awful time for those folks, and how people responded, how portfolios responded, what actions did people take later after having that experience. It just covered a lot of those bases. And so, I really wanted to get into a public fund. I was just entirely fortunate that as I was graduating, a securities analyst position opened up at the Montana Board of Investments just as I was graduating from Montana State University. As I said, I'd been looking for positions in the public fund industry for the previous year and was able to get a feel for the market and was talking with anybody at any fund that would talk with me. So, in large part, luck. I managed to gain a position right out of college.

**Robert Morier:** Do you still have a copy of that paper?

**Robert "Vince" Smith:** I don't know. I can look around. It's probably pretty dusty by now.

**Robert Morier:** And it's probably in paper. It's probably not electronic, so—

**Robert "Vince" Smith:** Yeah, exactly.

**Robert Morier:** We might have to make a digital copy if we do track it down. So, after Montana, what precipitated that move to the Employee Retirement System of Texas?

**Robert "Vince" Smith:** So that was tough. Leaving home was tough. I actually had two board members and one of our local brokers say to me, gee, I thought you'd be running this place one day. That made it harder. But I just had sights on a broader experience and more ranging impact, and I knew that day would come, that I would be leaving. But it just had to be the right opportunity. And I felt like Texas ERS was the right one. And it turned out that it was. That move to Texas was probably the most impactful time on my development as a public fund investment officer, and from two perspectives. One, I went down as asset class director for international equity. I'd been portfolio manager for international equity in Montana the last few years there. So, I went down to direct the asset class in Texas, and the team down there traveled more than we did in Montana. In fact, we hardly traveled at all in Montana. But at one point, I was traveling six, eight weeks a year-- maybe closer to six weeks a year-- overseas, to visit companies and banks and brokerage firms and occasionally other funds overseas. And that development and getting a good understanding of how the global economy works, how the banking system works on a global basis, how governments get involved with regulation, and indeed, how corporations run in different cultures around the world was just so educational and gave me such a good grounding in what I do today as a CIO. The second was I was recognizing something in Montana that I saw playing out just the exact same way in Texas, and that was in both places, we were managing our money in-house. So virtually all the money in Montana. We had a small private equity portfolio that was externally done, of course. But in Texas, all the money was managed in-house. So very much stock and bond portfolios. Our investment team was focused on security selection and portfolio construction against benchmarks... broad-based public benchmarks. So, we ran our large-cap equities against the S&P 500, and so forth. What I noticed, both in Montana as the last few years, I was there and the very first year in Texas, was while we were beating benchmarks on a pretty regular basis... you know, doing a little bit better in the S&P or large-cap equities, and so forth, and on a pretty regular basis, beating those benchmarks... we weren't always in the top half of the public fund universe in terms of total fund performance. And the missing element, in both cases, was less emphasis on what I describe as the macro. So, less emphasis on developing a view of the economy and developing a view of the markets and coming to some conclusions about some investment themes that could play out over the next few years, developing an asset allocation from that, and developing structures for our asset classes... specific structures that could play into some of those macro themes. A lot of that work, we just weren't staffing and doing. So, I always tell the story that the consultants would show up once every three years with some new capital market assumptions. They'd look at our current allocation and say, well, take three percentage points out of here and put two over here and one over here, and we'll see you in three years. That's not exactly how it went. It was more rigorous than that, of course. But we just didn't have the infrastructure or the focus on anything above security selection and portfolio construction at the asset class level. And of course, managing all the money in-house was limiting us to pretty much just stocks and bonds, while a lot of our peers were diversifying... real estate, private equity, and so forth. So that led me to develop the

process that we use today. So just starting to think through and actually really kind of putting a business plan together on if we were to place more emphasis on, what would our objectives be? What would our activities need to be, and how should it be staffed? What resources would we need? Who should we be talking to? And so forth, so on. And over the course of a year... over the course of a couple or three years, probably... talking to literally hundreds of people in macro hedge funds and the big brokerage firms and the big broad money managers that pay attention to macro, particularly the big bond shops. PIMCO is one of my favorites. Got a great, great macro team, and have for decades. Talking with hundreds of people, literally, on how would we do this, how I be able to do this, developed the system today that I really just call macro, just to keep it short, but it entails a lot a lot of different things. So, from those two perspectives, just being really travel the world and be exposed to how business and investments are made, and how economies are run in different countries overseas, and then developing that macro piece to complement the security selection really was a big developmental time in my career.

**Robert Morier:** I'm curious. Two questions. One is, how did you distill all that information? And there is no shortage of macro-opinions, whether from a hedge fund or a traditional bond shop, like PIMCO. So, when you when you think about your process as it relates to taking all of this information, it's like drinking water out of a fire hose. How were you able to distill it for this process? Did it take time, kind of into the second question, while you were at Kansas Public Employees Retirement System? Did it evolve there?

**Robert "Vince" Smith:** Yes. Well, that's where I had a chance to implement it. Texas liked the way they were managing the money, and they were being successful, and didn't have as much interest. But when the CIO job in Kansas came up, the timing was good. It was really the next step in my career. I'd already sort of developed the macro side. And so, when I interviewed for that job, I was really clear with them that if you hire me, this is what you're getting. And they thought it was thought it was a step forward for them. So, it was... it was a good match for us. I didn't quite have enough time to get fully spooled up on it before the '08, '09 crisis happened. I came in the spring of 2006 into KPERS. So, we weren't quite fully spooled up on it. But we did well on a relative basis through the financial crisis. So, we performed well into the top quartile of peers over that full period, and the main takeaway from it was this macro stuff works.

**Robert Morier:** Well, I'm always curious. Your experience in Montana, Texas, Kansas... how did that opportunity in New Mexico come across your desk, whether it was a recruiter or a job posting? I'm always curious how and why, in some ways, a move is made.

**Robert "Vince" Smith:** So, we were very happy in Kansas. I had a great executive director that I was working for. We had a terrific board. My family really enjoyed living in... Lawrence was where we lived. It's where the University of Kansas is located. Just a



beautiful community, and only a 25-minute drive over to Topeka, where I was working, and way up the interstate. Our family just loved it there. But I started reading about problems in New Mexico, and there was a pay-to-play situation. Not horrible, but it was there. And they had some pretty rough returns through '08, '09. The portfolio had been managed quite aggressively and with publicly traded equities, and there were a few of the things that were going on in the portfolio that '08, '09 really exposed for these folks. And it just made me sick to my stomach to read these stories about what was happening to these folks. New Mexico's not the richest state in the United States, and this permanent fund money is extremely important to these folks. We're so fortunate here in New Mexico for the Southeast corner of the state to sit on the Permian Basin, and so leasing land for energy development and taking our royalties and rents and a little cut in taxes when it leaves the state and socking that away. It's the crown jewel of the state. And what had happened to it, I just couldn't stand. And so, I put in and was hired, really, on the same terms that I proposed to Kansas. It was here's what I'd like to do, and here's some evidence that it works. And they said, that's what we want. We want a clean slate. Let's go.

**Robert Morier:** So now you've got this clean slate. So how do you go about prioritizing the initiatives you want to put forward as the new CIO in New Mexico?

**Robert "Vince" Smith:** Yeah. So, I've got a very clear view and vision as to as to how to implement a top-down, macro-based investment program. I've practiced at communicating it to stakeholders and bosses and boards. And it works. It generates returns. We consistently perform above average here with permanent funds-- or above median-- in the database that our consultant uses to compare us.

**Robert Morier:** And how about the personnel? How did you end up structuring the team?

**Robert "Vince" Smith:** We really operate in two different teams. You wouldn't know it if you walked in the office. Everybody works together. So, one is my strategy group, which is myself and four investment strategists. We do all the macro, generating the outlook. We use a 7 to 10-year time frame. One of your questions was, how do we deal with the information flow? Really, we just sort of bucket things and then pay attention to the buckets instead of the individual pieces. So, we developed the investment outlook. We used a 7 to 10-year investment horizon. The reasons for that are pretty straightforward. A lot of our private investments wrap up in that time frame. So, we're making an investment today. We know in 7 to 10 years, we're going to have to make another one, or at least get another fund going. 7 to 10 years is also roughly the shelf life of a council member, and it's also definitely a shelf life of a person on the investment team. So, it's really important to our decision-making process to know that when we're making an investment today, you're very likely to be around when that thing comes to fruition. So that brings a whole discipline to making individual investments. But anyway, so the strategy group does all the

work on setting our view over the next 7 to 10 years of both the economy and markets. From that, we usually try to put together three or four investment themes, and we write what we call our annual investment plan. And it describes all those things. It's up on our website. I think we'll publish our next one in August, freshen that up. I think that will be our 14th or 13th. That'll be our 13th annual plan. So, everything, all of our all of our thinking and our planning and our forward-looking, are in that. And then we do all the portfolio management... so risk management rebalancing, pacing on the private side, estimating inflows in terms of calculating future size, intergenerational equity, all the portfolio management stuff you can think of. And then the second team is our asset class directors and analysts. They work very closely with our external consultants to source in diligence and paper new investments.

**Robert Morier:** Can you share... who are the external consultants today, for our audience?

**Robert "Vince" Smith:** So, our general consultant is RVK. We've had them in place since 2011, and the same consultants at RVK service account. So, they're great. They've just been so helpful for us. We use Townsend Group for real estate. We use Mercer for real assets not including real estate and private equity, and we use Meketa on private debt.

**Robert Morier:** Sounds like a good suite of partners. We had the... we had the opportunity to go up to Portland, Oregon and speak with Joe Ledgerwood and the team at RVK as part of this show as well. So, I concur. A good group. And I can see the continuity being important in all of that. Well, the macro strategy has been described and awarded as innovative among public funds. So, you had mentioned having to distill that strategy to a number of council members and other folks over the years. Would you mind, for our audience, kind of taking us quickly through what those buckets look like, and how it differentiates itself relative to some of the other places you've worked and some of the peers that you know?

**Robert "Vince" Smith:** Sure. Well, let me start with the second part first. And the differentiation is there's a lot of funds whose focus is really is bottom-up. And they do run money in-house, and it's about security selection and portfolio construction. That's not to say they don't pay attention to the macro, but they generally don't have a program built out, people specifically there, to do that task, like our strategy group does. There're some very good performers in that group that manage to get their asset allocation done, as well as their security selection. You know, very good funds out there that we compete with. But that's the main differentiation is, we start at the top and say, this is what the world looks like to us. This is what the financial markets look like. Here are some things that would likely work in that kind of a scenario. Build our asset allocation, build the structures of our asset classes, and only then do we turn folks loose to fund managers and managers to select securities. So, to explain that the process to others, it's generally it's generally intuitive to most board members and council members that I speak with. There's really a



couple of important things in macro earnings and interest rates. So, if you can get a good idea of what earnings are going to be and you make your interest rate forecasts or assumptions fairly close, you're going to get a lot of stuff right. And so, we focus on those two things. And when I explain that to board members and others, it's intuitive for them. They understand. They say, yeah, we get it. We get why you're spending the time on that, and we're glad that we have that front end before we're going out and looking for managers who may or may... who, if we didn't have an idea of the macro, may be somebody that's going to fail.

**Robert Morier:** For folks listening in who are less familiar with sovereign wealth funds, I think it's difficult to appreciate the scale of growth that some of these states have experienced. We've interviewed Frank Mihail at North Dakota... very similar situation. And there's a symbiotic relationship there as well, as you know, in terms of his own experience in New Mexico. So, if it would be helpful, I think, for people listening in-- when you think about New Mexico's growth, we were talking about 12 permanent funds now up from 4, previously. Could you elaborate a bit for those listening in to better understand what that means in terms of what you've experienced in your role as CIO?

**Robert "Vince" Smith:** When I first came in 2010, up through about 2017, 2018, the funds really only grew fairly slowly. So, our inflows were about 2/3 of our distribution. So, the first part of our earnings would go to make up the rest of the distribution, and only then the rest could be reinvested in portfolio to help it grow. There was starting to be a pickup in oil and gas production here in the state around that time frame. And in particular, that pickup happened in 2021. And so, we were getting between \$400 and \$700 million a month in inflows, and that jumped to \$8 billion for all of 2022, another \$8 billion in 2023. We'll do \$5 billion this year in 2024. So massive increase in inflows. And we're forecasting, of course, for that to slow down. But it won't go back to the level that it was before. For the next 10 years, our forecasts now are we'll hit \$100 billion in less than 10 years from now, if the inflow continues the way they do, and our returns come in the way we expect. So that kind of growth is hard to keep up with. One of the challenges we've had is our asset allocation is a little more than 50% private markets. So, getting that capital into those markets is difficult. You've got to invest in a fund, wait for capital to be drawn in that 3 or 4-year investment period before we can move on to the next fund, make a commitment, and start getting capital draws from it. So, it's been a little challenging in the last couple of years. We've had higher cash balances and higher balances in our bond portfolio than we'd really like. It's been very helpful... the Fed's been very helpful to us, having interest rates at 5%. If I can get 5% on my cash, pretty good. We were looking back... and we've been keeping track, anyway, since the stock market peaked at the very end of 2021. In fact, the last day of 2021 through the end of May, stocks have only compounded at less than 5%, and I'm getting 5% on my cash. So, it's been it's been fortunate that the markets haven't been just straight up over the last couple or three years since we've had excess cash and bond balances.

**Robert Morier:** How about deploying that capital in public equities outside of the United States? You started your career back in Texas looking at international equities. A lot of people have had love-hate relationships with non-US equities, emerging market equities over the last few years, particularly with the incredible run that the US markets have experienced. So just curious, when you think about this incredible amount of capital that's been coming in, having to deploy it in some active areas, what has that process looked like? And are you finding areas of opportunity outside of the US?

**Robert "Vince" Smith:** We are. I mean, valuations are literally half of what the US is in many, many large countries with large-cap global stocks in their stock markets. That's been frustrating. We have 40% allocation to public traded equity and split 50/50... 20% to US, 20% to international. You know, it'd be much better if it was 30% and 10% international over the last 6, 7, or 8 years. So that's been a little bit frustrating, to see these stocks that are literally valued at half of US levels and US stocks continue to outperform. Another frustration, therefore, has been the concentration in the market with 30-some percent of the S&P 500 was in seven stocks, and those seven stocks were accounting for 80% of the market performance. And those kind of are tough. They don't last, but they're tough to deal with. But on the opportunity side, Rob, we just keep our diversification into the international markets. There'll be a period where the dollar won't be strong, where valuations will come back more in line with each other. At the end of the day, as we were saying earlier, earnings are just so important. And when you can buy \$1 worth of earnings for half-price for all of the US, at some point, people are going to want to do that. So, we're hanging in there with those allocations.

**Robert Morier:** But what does the underwriting process look like for one of those managers? Let's say you do identify you either have to replace a manager, or there's a new manager you're interested in. Does that underwriting process start with you and your office, or are you relying on the consultants to generate some of those external manager ideas for you?

**Robert "Vince" Smith:** So, it starts here, with our asset class director. So, either they've identified, they've done a structure study... and we're talking about publicly traded space, here... they've identified through a structure study that they want to make a change that's going to require new managers and maybe moving away from a manager that doesn't fit the structure as well anymore. So, it generally starts there. Sometimes... occasionally, not often, we'll have a manager who just isn't meeting expectations, and we'll have to just do a straight replacement. But it always starts here. That decision starts here, that we need to... we need to do something, whatever the source of the impetus. And then we work with RVK.

In fact, we shifted the portfolio so much when I first got here that one of our main reasons for hiring was because they just had a terrific manager research operation, and we had a

long, long list of RFPs we needed to do. So, it starts with RVK. They help us screen using their manager databases. But then it really comes back to the office for our asset class director and analysts to sort through and see what managers may work for us. And then it's back with a combination of us and RVK to do-diligence, always on-site, of potential managers before we make any decisions. So, I guess left out, it always goes to RFP. Sometimes it'll be an invitation to bid, but we still receive new proposals.

**Robert Morier:** So, I'm hoping most of that is electronic these days. It's not like the good old days, where I would send the binders out at 9:00 at night, hoping to make the UPS or the FedEx truck.

**Robert "Vince" Smith:** Right. Yeah. Yeah.

**Robert Morier:** On the private side, you mentioned that 50% of the portfolio in private markets... and as of earlier this year, you were still increasing private equity exposure, if I read that correctly, specifically in growth equity and your private credit portfolio. So, thinking about that same underwriting process, can you expand on what you're seeing in the growth equity space and what that process has looked like for you all?

**Robert "Vince" Smith:** So, growth equity... it really it was a matter of we were under underweight there relative to what's available, really. There's no real good benchmark. But to what we were seeing in the markets, we were a little bit underweight in that area. Same thing on venture capital. Previously, we just hadn't focused on venture capital, but we sort of woke up to it with a change in asset class director and just being more aggressive about getting out and meeting rich capitalists and talking more about, particularly, the advantage that we have as a sovereign wealth fund. We generally are seeing stronger hands than the pensions, in terms of being a partner and having capital to re-up on the next fund, even in a market decline. We're growing both. The opportunities out there, I think, were something that we were out there learning about. We didn't necessarily already have a review and had rejected it. It was just an area that we wanted to open up more.

**Robert Morier:** On the venture capital side, I'm just curious... did you start with more of a blue-chip approach, or were you interested in potentially diversifying the manager pool, the GP pool, into maybe some more early-stage types of opportunities?

**Robert "Vince" Smith:** It was more or less just looking at everything we could. You know, honestly, Rob, it was more of a process of us making ourselves known to the community. Community just didn't know us, not of their own fault... of ours. And once we got out on the road, doors started to open for us.

**Robert Morier:** That's interesting, because now you have to get to a relatively newer segment of the market, at least for the plan. So, when you think about those criteria that you talked about in the very beginning, about what makes someone from Montana from Montana, when you were looking and introducing yourselves to these new GPs, these new VC managers, what were some of the criteria you were looking for in those managers, in those portfolio managers, that were running those businesses?

**Robert "Vince" Smith:** Yeah. Much of that was on was on our asset class director. He did all the work on that. And really, it was just quality of previous returns. He likes to know who the other investors are and who were in those other funds, to the degree that we could, to see, are there quality LPs in the stack? So, criteria such as that. I was more of a sales tool from, OK, our CIO's got 35 years of experience. We're not messing around here.

**Robert Morier:** Yeah, that's good. Yeah. You brought a lot brought a little bit of weight into the room. That makes a lot of sense. Any co-investments going on in the portfolio?

**Robert "Vince" Smith:** We have... not as much as I think we'd like. We're still spooling up our legal capabilities. We do most of our contract negotiations in-house. We've got an excellent, excellent lawyer and negotiator for those. But to a degree, he's a one-man show. We do use some external resources. So, we're still spooling up on the legal side. And I think once that happens, which will be in the near term, I believe, we'll be able to do more.

**Robert Morier:** We've talked a little bit about portfolio construction from the top down, but how do you go about sizing your managers in the portfolio as it relates... maybe for just the continuity of conversation... on the private market side? So, when you're introduced to one of these new GPs, how do you go about sizing that allocation?

**Robert "Vince" Smith:** So, two ways internally and then one way externally. First, internally, we do what we call a structure study on all of our asset classes. We update it every three years. So, when we build the structure of the private equity portfolio, for example, we know the various buckets, then, we're looking for, and what those sizes should be. The second way is we've got a very sophisticated pacing model that we use. So, if we have a 15% target on private equity, we've got a pacing model that tells us how much in commitments we need to make in each of the next five years to earn in each of the next few years to get us to that target in five years. I've got a guy internally who does that. He's just does such a great job on it. So those two ways feed into what the size is. But honestly, with our asset growth, Rob, most of the time, the strength comes from just finding quality GPs that, for some reason or another, [INAUDIBLE] market [INAUDIBLE] or re-upping. So, we're right there. We can do it. Or sometimes, the constraints on the GP side, where I've only got \$50 here, or I only got \$75 million that we can let you in on.

**Robert Morier:** You had mentioned a few themes that you were working on that are going to be published in August. Could you give us a little bit of a preview as to what some of those themes may be? One of the questions that our audience loves me to ask is, what are you working on today? Where are some of the areas of opportunity to help them better understand if they should be calling on someone like yourself and your staff, or whether it's not the right time?

**Robert "Vince" Smith:** Yeah. So, I think one the one of the most important and least discussed issues coming up in the next decade is demographics. People just aren't talking about it. And boy, does it have a big impact. And I could go for an hour on it. So, I think that's one area we're spending more time on, is trying to get our hands around what exactly happens to a South Korea, who has a 0.4 fertility rate? China is in a similar boat. Germany's not in good shape. There are several countries that are really trying. And we really don't... so as the world continues to age and we have fewer and fewer young people coming up to replace the older folks, we don't really have an economic model for that. We've got an economic model for growth. If everyone can count on growth every year or most years, the global economy's continuing to get better. But what happens when populations start to shrink, and the global economy starts to shrink? We don't have a model for that. It seems like a long time away, but it's going to start happening here. The effects will start happening here in the next decade. So that's one thing we're thinking about that I think not a lot are. The second thing is interest rates have popped up here fairly recently with Fed, with the fastest interest rate increase pretty much ever, at least in living memory, in terms of 0% to 5.5%, 5.75%, 5.5%, with basically no effect. We're wondering... yeah, I mean, we got a 4% unemployment rate, 2.5% GDP growth in an economy that maybe has 2% run rate to it, or 2% average rate to it. And no real effect. I mean, it did manage to pull inflation down, but we're still pretty sticky at 3%, here. So, we've got this restrictive monetary policy... so if you take 2% GDP as, you know, a trend, and add 3% inflation, which we're about where we are now, you get 5%, and you get Fed funds at 5.75%, 5.5%, so we consider that restrictive. Fed's balance sheets fallen by a couple trillion dollars, from 9 to close to 7. Really, it should be 1 or 2 or 3... so, again, another \$3 or \$4 trillion that the economy's going to have to absorb through the financial markets. So that's restrictive. And yet we have record valuations... near-record valuations on the stock market... and certainly hitting new highs here lately. So, we're very concerned about when the bill comes due, in that respect. And I know when I talk to my peers, that's high on their list. That's nothing new or exciting. We do think, though, on the more positive side of what you can look at is we've really been... we've been ramping our real assets. So, we've got a 12% allocation to real estate, and another 12% allocation to real assets, ex-real estate. We're not out there buying gold yet, or Bitcoin. But we are buying hard assets that could protect against an inflationary environment. The federal government here in the United States and overseas, too, are running wartime deficits at a time when you've got an economy basically doing pretty good... you know, 4%

unemployment and above-trend growth, which is ridiculous. And it's piled up. So, inflation is the way they get out of that. So, we've really shifted toward inflation-related assets against bonds. So, our bond exposure at our targeted allocation... it's not true today, because of all the inflows... but at our targeted allocation is 7% in core bonds. So very low, of course, which get damaged in an inflationary environment. So, I'd say those are things... a couple of concerns, plus maybe some ideas for folks on asset allocation shifts toward real assets.

**Robert Morier:** Well, I appreciate you leaving us with something relatively positive in all of that. So, thank you. But it's helpful insights. And thank you for the little bit of the head start, based on what's going to be published. I was trying to figure out a clever way to ask you about risk management. And there's been no shortage of articles the last week or two about this surge in dividend recapitalizations, where private equity firms raise debt to hand cash to investors. It's helping with immediate returns, but it also significantly increases the leverage and the risk of these underlying companies, especially during economic slowdowns. So, given your experience... and I guess I'm trying to figure out, maybe, with that example, how do you assess and mitigate those risks associated with these highly leveraged strategies in private equity and private markets?

**Robert "Vince" Smith:** Well, we mitigate it with the best way possible and just don't get involved. Right? I mean, when our asset class director for private equity is out there looking for managers, he's looking for managers that do it the old-fashioned way... buy a company and prove it, sell it, and send us back our profits.

**Robert Morier:** Yeah, that makes a lot of sense. If you avoid it, you don't have to deal with it. And it makes a lot of sense for us. And we appreciate that. Thank you so much.

**Robert "Vince" Smith:** I will say, Rob, I will put more of a higher level or more of a macro theme. Risk... the main risk that we stand is not earning enough. Right? I mean, not earning our distribution plus an inflation bid on top of that. So, we really focus a lot on, how sure that we're going to have these returns? And we're looking over 7, 10-year periods. So, in any one year, nobody knows. But we spend an awful lot of time... now we're targeting 7%, and we spent an awful lot of time trying to make sure that we'll see 7% compound 10 years from now.

**Robert Morier:** Thanks for that additional insight. I appreciate that. Vince. Quickly, on emerging managers, do you think about an emerging manager as it relates to a program, or is it just part of the due diligence process, whether they're relatively newer to the scene or more experienced?

**Robert "Vince" Smith:** Yeah. So much more of a due diligence process for us. We don't have a specific program. And I would say it's really a function of, that's our due diligence,



and selecting the best managers we can is really... we consider that our bread and butter. And to put a program in place could possibly hinder that... we don't know. We haven't run a program, but that's a concern. So yeah. But it's a wide-open field. If you're good at your job, we're going to find out.

**Robert Morier:** At Drexel University, I teach private market due diligence, and I always try to give students advice as to what questions they should be asking the GPs, the fund managers that come in and present case studies, but also, the questions that they want to hear from those managers. And I'm curious kind of to flip it around a little bit. What are the key questions that GPs should be asking you when they come into your office?

**Robert "Vince" Smith:** I like it best when they assess us as a partner... somebody that will be there for the next fund and the fund after that, as long as they perform and do what they're supposed to be doing. We have a number of our private funds. We have contacts inside of those funds that help us with our macro picture. And they've got their own macro people, or whatever. So, we really like it when somebody looks at us as a longer-term partner... not just a capital supplier, but somebody they can talk with and partner with.

**Robert Morier:** Your team recently focused on private equity investments with a climate technology angle. Those investments reflect a strategic move towards integrating climate considerations into the portfolio. Can you share some insights into how those climate tech investments align with New Mexico's broader goals of technology, commercialization, and sustainability?

**Robert "Vince" Smith:** The direction of that focus really was from the council. They were very interested in getting involved... asked us, does this make sense? You know, it seems to... to us. Does this make sense from an investment standpoint? We did the research and said yes, we can find funds that meet our criteria in terms of quality and potential return and mitigation of risk. I think, also, part of the council's interest was, as an oil and gas state, these aren't renewable investments. At some point, the oil stops pumping, and what's New Mexico going to do then? And renewables is on the table for a state like us. So, I think they were further interested in, this is a direction the state's going to go. Can our investments mirror that?

**Robert Morier:** Well, we're getting close to the top of the hour. I usually like to cite a quote here typically about your history and where it shows up in your life. But I was hoping I could ask you something a little different, which is something I have asked a couple other guests. But you've had a very successful and long career. And for us, we're always grateful to be able to talk to someone like you, who's well into their fourth decade. And you've had to make a lot of decisions over your career, so I'm curious if you could think of one or two that you're most proud of.

**Robert "Vince" Smith:** I think it was the development of the macro that recognized a systemic issue... at least what I, at the time, and still think is a little bit of a systemic issue... in our industry, that we need to put more horsepower on that end of the analysis scale. So, I think I'm probably most proud about that. I've hired some very good people in the past. I don't have a CIO yet. I've got a couple of deputies. But I'm waiting to have made a CIO off of my staff at some point. I'd be very proud of that.

**Robert Morier:** What would you be looking for in that person?

**Robert "Vince" Smith:** Experience trumps everything. You know, just having sat in the seat, having made decisions, having been wrong on stuff, having to rebound from that, and change thinking, or change processes, or whatever you need to do to minimize being wrong again... about the same thing, anyway... and just seeing how the financial markets, the global economy works, which you really just can't get any other way. Or at least the best way to get it's through experience. I'd also say travel when you can. Get overseas. Go see big markets. Go. Just not on vacation. Find a business need, and get out there, and start talking to people in other cultures and other ways of doing business, because it really opens your eyes and makes you a better investor, for absolute sure.

**Robert Morier:** Yeah. That's a good advice as well, especially for my students. So, thank you so much. I suspect you are probably a mentor to a number of people, so I would be grateful to, hear from your side, some of the people, some of the mentors, who have influenced your career over the years.

**Robert "Vince" Smith:** For me, it's been about the people that provided me opportunity. I can say I've not had someone take me under their wing and teach me the ropes and that. I've had people provide me opportunity and give me support. So, one of the comments when I left Kansas was, you grew into this role so fast. We knew we were hiring somebody without CIO experience. We wanted you, so we did it. And you grew into the role so fast. Well, the reason for that was the support that they gave me, and the opportunity to do it. So, I think from mentorship, it's been mostly the people that have given the opportunities along the way.

**Robert Morier:** Vince, thank you for being here today. This was a real pleasure for me. Congratulations on all your success. Congratulations to the success of the state as well, for the growth that they've experienced. And it sounds like a lot of good days ahead, and some growth on the staff potentially as well. So, thanks for sharing all that. Well, if you want to learn more about Vince and the New Mexico State Investment Council, please visit their website at [www.sic.state.nm.us](http://www.sic.state.nm.us). You can find this episode and past episodes on [Spotify](#), [Apple](#), or your favorite podcast platform. We are also available on [YouTube](#), if you prefer to watch while you listen. And if you'd like to catch up on past episodes, check out

our website at [dakota.com](https://dakota.com). Finally, if you like what you're seeing and hearing, please be sure to like, follow, and share these episodes. We welcome your feedback as well. Vince, thank you again for joining us here today. And to our audience, thank you for investing your time with Dakota.