

NEVADA CAPITAL INVESTMENT CORPORATION

June 1, 2022 – 1:00 PM

Summary Minutes

Location:

Via videoconference at the following locations:

Old Assembly Chambers	Governor's Office Conference Room
Capitol Building, Second Floor	555 E Washington Avenue, Suite 5100
101 N. Carson Street	Las Vegas, NV 89101
Carson City, NV 89701	

Treasurer Conine called the meeting to order at 1:00 pm.

Board members present:

Treasurer Zach Conine – Las Vegas
Robert Goldberg – via telephone
Phyllis Gurgevich – Las Vegas
Jan Jones Blackhurst- via telephone
Ash Mirchandani – Las Vegas

Others present:

Tara Hagan:	Treasurer's Office
Jeff Landerfelt:	Treasurer's Office
Ian Carr:	Attorney General's Office
Miguel Luina:	Hamilton Lane
Rob Reed:	Hamilton Lane

Agenda Item 2 – Public Comment.

No public comment in Carson City or Las Vegas. No written public comment.

Treasurer Conine thanked all Board members for taking the time to do this work and hopes that it is impactful.

Agenda Item 3- Informational Item – Nevada Capital Investment Corporation Program Overview

Chief Deputy Tara Hagan gave a brief overview of the Nevada Capital Investment Corporation Program. She noted the primary goal of the program, as well as the fiduciary responsibility of the Board and the professional fund-of-funds manager, is to increase risk-adjusted investment returns for Nevada K-12 education by investing a portion of the state Permanent School Fund (PSF) in private equity investments. Prior to passage of SB75, the entire Permanent School Fund was invested in fixed income securities. SB75 allowed the Board to utilize up to \$50 million from the PSF for Nevada-based private equity investments. Based on the private equity program's Nevada orientation, an ancillary benefit will be to grow and diversify the state's economic base, potentially leading to increased employment in Nevada.

Ms. Hagan noted that in 2013, the program did a request for proposal and hired fund of funds manager Hamilton Lane and created the investment vehicle known as the Silver State Opportunity

Fund. It also made its first investment in 2013, and by May of 2016 the fund was fully committed with 14 investments, 10 of which are active. She stated that the Fund has invested \$47.4 million, of which \$37.8 million in interest and principal has been distributed back to the PSF, resulting in \$9.6 million in net invested capital. In terms of financial performance, the SSOF generated an 8.08% net annual return to the PSF. The 'net return' represents the Net Internal Rate of Return (Net IRR) which considers all net cash flows, including management fees and the market value of the investments as of December 31, 2021. On a gross basis, SSOF generated 11.2% IRR. The performance is driven by yield-producing fund investments and the Fund's direct co-investments.

She described the second investment NCIC made in Fiscal Year 2018. The Board voted to invest in Accion 2017G, LLC which lends monies to Accion, Inc. (non-profit) to make micro and small business loans to Nevadans. The investment allows for earnings to be paid to NCIC over a ten-year period on the \$1 million investment. Accion, Inc. (now DreamSpring) has the discretionary authority to make all investments. This investment generated a 2.5% annual net return to the PSF in Fiscal Year 2021. During Fiscal Year 2021, DreamSpring loaned a total of \$10.1 million in Carson City, Churchill, Clark, Douglas, Lyon, Nye, and Washoe counties during the year. 1,177 loans were granted with these funds, which helped to support 1,380 full-time Nevada employees. 46% of loans were granted to women, 22% of loans were granted to African American, and 17% of loans were granted to the Hispanic/Latino population in Nevada.

Ms. Hagan reviewed the monies that have not been encumbered and went over the existing investments. Due to the passage of SB68 in the 2021 Legislative Session coupled with the SSOF investment nearing the end of its term, the Board has over \$60 million available for new investments and the opportunity to shape the program for its next phase.

Member Jones Blackhurst questioned the initial investments that were made with the original fund.

Ms. Hagan stated there were 14 initial investments in the Silver State Opportunity Fund which is a mixture of fund and co-investments. 10 of those remain active today with 7 being fund investments and 3 as co-investments.

This was not an action item and therefore did not require a vote of the members.

Agenda Item 4 -Informational Item: Silver State Opportunities Fund, LLC Agreement, and contract with Hamilton Lane.

Ms. Hagan gave an overview of the Silver State Opportunity Fund, LLC Agreement and noted it is in its 10th year which falls in August of this year. She noted that the manager Hamilton Lane at its sole discretion can extend the contract for two (2) years through July 31, 2024. She thanked the representatives from Hamilton Lane for having these discussions and appreciates their partnership. She stated staff looked at various scenarios regarding the Board's options related to the SSOF Agreement. One would be to sell the existing investments on the secondary market, however, selling private equity positions in the secondary market is challenging for larger public entities (e.g., pension systems) as the market will demand a discount. In conversations with both Hamilton Lane and Meketa Investment Group, sizable positions in fund or co-investments in private equity on the secondary market will be sold at a discount, as noted by the attached article in which the State of Oregon's pension fund sold older limited partnerships in 2020 at a discount. The article notes the strong pricing of 2021 versus 2020 resulted in limited partnerships selling at 85 to 83 cents on the dollar.

She stated when looking at selling the secondary investments it's important to think about the stage of the fund as it is closer to the end of the life of the investment meaning distributions will start to increase. The amount that needs to be contributed is less than \$10 million therefore the distributions that will come back to the program will increase. She noted the distributions over the next 3 plus years could be as high as \$38 million.

Ms. Hagan noted that the second consideration was to look at replacing Hamilton Lane as the manager. The existing LLC agreement would require continuing to pay those investment fees to Hamilton Lane and in addition, they would expect to pay those same fees to the new manager. About \$3 million has been paid to Hamilton Lane to date and would have to pay the carried interest. She noted staff believes it is best for the program to concentrate on the unencumbered assets of the ~\$60 million and continue to monitor the Silver State Opportunity Fund and its performance and let it mature at this stage. This item was presented as informational only.

This was not an action item and therefore did not require a vote of the members.

Agenda Item 5 – Informational Item: Presentation of the Silver State Opportunity Fund December 31, 2021 Report.

Miguel Luina presented the Silver State Opportunity Fund report. He noted they have invested in this program for the last 10 years and they are excited about the performance and the partnership that has been developed with the state. He noted that they launched the fund in the Fall of 2021 moved to Las Vegas to open an office there and have made 14 investments. 7 of those investments are targeted with the fund investments. A goal is to support access to capital within the state. He noted they are required with every fund in this portfolio to have at the very least a \$1.00 per \$1.00 commitment back from that fund to invest in companies within the state. Another requirement was to open an office or make a commitment to spend time developing the ecosystem. He noted the other 7 investments were done directly into companies with the same goals. Every company is either headquartered within the state of Nevada or has meaningful operations. He noted in terms of results of the program they have invested in 32 Nevada companies with all \$45 million of Silver State Opportunity Fund capital. A total of \$815 million of equity of mezzanine capital was invested into those companies which is an 18x multiplier of capital available to Nevada companies compared to the capital that was available to the Silver State Opportunities Fund alone. The \$815 million supported the equity to help companies raise additional capital outside of capital committed directly from Silver State and its fund partners. He noted they have opened an office with 3 general partners who have opened offices and hired local Nevada representatives and have also held multiple conferences to bring attention to the opportunities for local and outside managers. He noted the economic impact has been large as the Silver State Opportunity Fund supports 2,470 Nevada employees. This fund grew employment at 2 times the rate and the jobs created were high-quality jobs with a median wage of \$30,000 which is 64% higher than the Nevada average wage. He noted that 10 investments are left and have a remaining value of \$29 million. He reviewed they have 4 benchmarks and reviewed the market rate. He stated during the investment period they pivoted from mainly focusing on the equity investments to having a greater focus on credit investments to exceed the high yield index.

Robert Reed from Hamilton Lane referenced page 19 of the materials to review the portfolio quarterly summary report. He noted that the average life cycle of a fund based on Hamilton Lane's data is typically 12-15 years. He noted that some of the funds in the portfolio have a fair

number of active investments remaining that will likely carry forward for several more years whereas other funds are winding up more quickly which are the mezzanine or credit-oriented funds that typically have a shorter hold period.

This was not an action item and therefore did not require a vote of the members.

Agenda Item 6- For discussion and possible action: on the direction, goals and role of the Business Leadership Council as noted in NAC 355.250.

Chief Policy Deputy Erik Jimenez presented this item and stated pursuant to NRS 355.285 the Treasurer is provided with the authority to establish a business leadership council within the Nevada Capital Investment Corporation. He noted this is authorized by statute and regulation and was never acted upon within 10 years of its existence. Given the current climate and business environment, this state took one of the hardest hits and it is now a good time to act on this business leadership council. He stated staff would like to get feedback from this Board to understand if there were any priorities that they would like to focus on. The council shall consist of business leaders in Nevada and does not have any limitations on the number of members the Board can appoint and is a public body. He noted pursuant to NAC 355.250, the business advisory council is tasked with providing advice and guidance to the fund of funds manager and the Board. It is also tasked to nurture and mentor businesses that are seeking and receiving investments from the Nevada Capital Investment Corporation, collaborating with Nevada System of Higher Education and other educational institutions to develop internship programs for students that are engaged with businesses that are invested within the fund and to provide any support requested by this Board to further the goals of the state. He noted that staff intends to launch a short interest form on the Treasurer's website where business leaders can apply or state their interest to join the business leadership council. He noted they are going to make an effort to get into diverse communities.

Member Blackhurst commented to be careful to not make the business council too large in order to facilitate decision-making.

Member Mirchandani echoed Member Blackhurst's comment and stated they should ensure the council is not too big to where it becomes difficult to come to a consensus. He acknowledged there is a lot to be done for small businesses. He noted the importance of considering the top 10 industries and see how they can have work groups within those industries that can report to the council and work on areas that haven't been represented.

Treasurer Conine commented that this Board should give clear direction on what they need to get out as they have very broad structure.

Mr. Jimenez noted it would be helpful to direct staff to put the interest form out to communities and solicit feedback from the members of the Board and bring back any recommendations in future meetings.

Member Mirchandani moved to approve Agenda Item 6 and a second from Member Gurgevich. Motion passed unanimously.

Agenda Item 7- Public Comment

No public comment in Carson City or Las Vegas.

Treasurer Conine thanked Ms. Hagan for keeping NCIC on wheels for the past 8 years.

Meeting adjourned at 1:40 pm.