



ANNE ARUNDEL COUNTY
RETIREMENT AND PENSION SYSTEM

Board of Trustees
Minutes of January 16, 2024,
Virtual Meeting

Members Present: Christine Anderson, Karen Henry, Rhody Holthaus, Mary Lu Hughes, Alan Hyatt, Kevin Nethers, Billie Penley, Chris Trumbauer and Leroy Wilkison

Members Absent: Howard Brown, Anne Budowski, Ronald Seldon and M. Kathleen Sulick

Staff Present: Gar Chung, Lynn Daitch, John Hammond, Hujia Hasim and Kelly Lovett

Staff Absent: Lori Blair, Wendy Graulich, Amy Lukas and Beth Zimmerman

Guests: Rhett Humphreys, Louise Smith, Julia Seelye, Richard Wiltshire, Chris Turner, Jim Wilson and Joe Ebisa

Recorder: Stacy Kish, Audio Associates

Ms. Anderson called the meeting of the Board of Trustees of the Anne Arundel County Retirement and Pension System (Board) to order at 12:03 p.m. The minutes for the December 19 meeting were approved unanimously.

Manager Interview

Apogem Capital

Louise Smith, Julia Seelye, Richard Wiltshire

Ms. Smith began with an overview of the Apogem Capital platform, which focuses on the middle market and lower middle market across North America (funds below \$3 billion).

Ms. Smith continued with the performance of four multi-manager funds (PASCBF V, PASCPEF VI, PASCPEF IX, and APEF X) in the Board's portfolio. The mature investments (funds V and VI) are fully invested and fully de-risked. Apogem Capital is looking for options to fully realize fund V, which should occur this calendar year. As of September 30, 2023, fund V is valued at 1.8. and under 15% net. Fund VI is about 55% unrealized. Apogem Capital anticipates meaningful exit activity and liquidity in the portfolio. Both mature funds are on track to meet target returns and performing well.

Fund IX is fully committed and about 80% called. It is valued at 1.5-times net MOIC and 30% net IRR. It has returned 25% of called capital through the exit of 20 of 200 companies. Fund X will have a similar construction as fund IX. Apogem Capital is actively building the portfolio and approaching 30% call with nice early performance. It is valued at 1.3 times net multiple of invested capital.

Beyond the portfolio, the multi-manager fund for Apogem Capital net IRR is above the S&P 500 and Russell 2000 for 3, 5, 10, and 20-year basis. The firm focuses on high-quality companies and capitalize conservatively with low amounts of debt. The multi-manager strategy prioritizes capital preservation while mitigating volatility. With regard to capital efficiency, funds get 60 to 70% called before netting distribution against capital calls. Funds V and VI are fully de-risked, and funds IX and X are still young. Apogem Capital has identified investment class equity names combined with opportunistic co-investment that has translated into strong early performance.

Mr. Wiltshire continued that the Board's portfolio includes the PA Small Company Co-Investment Fund (PASCCIF) and PASCCIF II. The firm's returns are driven by investing in the business, improving operations, and driving returns through accelerated growth. In general, Apogem Capital sells businesses to larger private equity firms or strategic corporate buyers. Less than 5% of exits are through IPOs. Return objectives are two-times multiple of capital over the life of the fund with IRR of 20% or better. Both funds are top quartile and should meet or exceed underwriting expectations.

The aggregate performance of the two funds has been 25% compounded annual return and 1.8 times net invested capital. The funds have increased close to 35% since 2022. These funds have continued to generated liquidity. The Board has a \$20 million commitment. It is invested in 30 investments with 12 investments realized with gain of 3.5-times and returned 92% of invested capital. It is up 23% (e.g., exit of a company called Mr. Greens). The remaining portfolio is moving into the harvest phase.

The Board has \$30 million invested in Fund II (31 companies and 22 private equity investors) and called 88% of committed capital. Apogem Capital anticipates completing investments early in 2024. The fund is marked at 1.6-times multiple invested capital and earnings of portfolio companies are up 70% on average. The fund has returned 14% of capital.

Mr. Wiltshire concluded with an update on Apogem Capital co-investment Fund VII (2022). To date, it has closed \$330 million and expecting final close during the first quarter of 2024. Fund VII has deployed \$80 million. Three investments in 2022 have experienced earning growth of 30% plus on average. Apogem Capital expects to fund it over the next two years. NEPC research rated the fund. A commitment of the Board to fund VII would benefit from a total 35 basis point discount from the 1% management fee.

Warburg Pincus

Chris Turner, Jim Wilson

Mr. Wilson thanked the Board for investments at Warburg Pincus. He turned the presentation to Mr. Turner, who began with an overview of the firm and gave a brief update on personnel,

including the transition of Jeff Perlman to President of the firm and Tim Geithner to Chairman. Vishal Mahadevia has been named the Head of Asia Private Equity. Frank Wei is stepping down from his current role as Head of China, and Min Fang and Ben Zhou will serve as co-Heads of China Private Equity. Narendra Ostawal has been named Head of India Private Equity. Saurabh Agarwal has been appointed Head of Southeast Asia Private Equity.

Warburg Pincus has distributed about \$10 billion in 2023. The Board is invested in three funds (Fund XII, WPGG, WPGG14). WPGG14 closed in 2023 at \$17.3 billion, with 33% invested, 43% committed, and 24% called, generating a gross 14.4 and net 3.7. Investments include (but not limited to) Simtra, Ensemble, and Norstella.

WPGG (2019) is almost 19% gross and 14.2% net. It is 94% committed and 91% called. Investments include (but not limited to) StorHub, Lending Point, Community Fibre, and SCA.

Fund XII (2015) is 100% called. It has 20% gross investment, two-times gross multiples, and 18 and 2.1 net IRR. Drivers of return include technology and health care.

Mr. Hammond: Who is the primary contact for the Warburg Pincus account?

Mr. Turner: Jim Wilson is responsible for the relationship with the Board.

New England Pension Consultants
Rhett Humphreys

Mr. Humphreys began with the preliminary December 31, 2023 report. Pricing for private equity in real estate and fixed-income portfolios have not been finalized but should produce positive corrections.

For the quarter and year-to-date, the portfolio ended with positive numbers, which was led by credit and U.S. equities. The Board has a material allocation to high-credit and non-core bonds.

For December, total fund allocation index is 3% for the year to date and 11.8% net of fees. Mr. Humphreys does not anticipate that the updates will change the numbers or may improve them slightly for the year.

Mr. Trumbauer: You have trained me to focus on the five-year number, and it looks good at 7.1%.

Mr. Humphreys: As we update this, the five-year number may change slightly for the positive. It is where you want to be actuarially.

Equities (almost 12%) is motivated by U.S. at 24%, international developed at almost 15%, and emerging at 11%. Several managers were behind the market, but NEPC does not see anything that is concerning. The managers have been outperforming as a whole.

The total fixed income composite is at 8.1% (still waiting on pricing for a few portfolios). Mr. Humphreys anticipates good numbers for the updates. Core-fixed income is at 4.3%. Non-core is double digits for the year. Loomis Sayles, a bank loan portfolio (BB, B), is at more than 10% net of fees. Penn Capital, a high-yield (BB, B) portfolio, is at more than 12% for the year. PIMCO, emerging market debt, is at 11.7%.

Mr. Humphreys will have updates for the February 8 meeting as well as asset allocation ideas for the meeting.

Administrative Report

Ms. Lovett shared that there were 15 retirements in January, which is on target year over year. Tonight (January 16), there will be a hearing on Bill 93-23. She anticipates that several amendments will be added to the Bill.

Ms. Penley did not have a report this month.

Other Business

The next meeting will be held in person on February 20. The meeting adjourned at 1:18 p.m.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.



Anne M. Budowski
Secretary to the Board

3/11/2024
Date