

NEW MEXICO
FINANCE AUTHORITY

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NMFA Venture Capital Program

Program Implementation Update

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NMFA Venture Capital Program Overview



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- ◆ **Venture Capital Program Act** (NMSA 1978, Section 6-33-1 *et seq*) created in the NMFA the Venture Capital Program Fund and authorized the NMFA Board to:
 - Make investments in New Mexico businesses that enhance economic development objectives of the state and create new job opportunities
 - Investments are made for the purpose of providing capital for start-up, expansion, product or market development, recapitalization or early-stage development.
 - Investments are made as equity or debt through:
 - Direct Investment
 - Venture private equity funds – an entity that makes, manages or sources potential investments. Has at least one full-time, experienced manager
 - Investment in one business cannot exceed 10% and in one industry cannot exceed 30%
 - Report annually on investment activity and economic development impact
- ◆ The Venture Capital Program Fund has been capitalized by state appropriations totaling \$50 million. Through its partnership with the New Mexico Economic Development Department, NMFA currently administers an additional ~\$17 million in federal funding for venture capital equity fund investments.

- ◆ NMFA operates the Venture Capital Program using an Investment Policy that outlines manager qualifications, investment parameters, and program mission and diversification objectives:
 - Create and invest in new, early-stage and expanding New Mexico businesses
 - Create and/or retain quality jobs for New Mexicans
 - Increase investment in diverse sectors of the State's economy
 - Increase access to capital for businesses owned by entrepreneurs from or benefiting Underserved Communities
 - Attract additional private sector investment in early stage and emerging businesses

- ◆ To date NMFA staff and Meketa (NMFA's Venture Capital Investment Consultant) have reviewed more than fifty proposals focusing on funds with sector and thematic alignment. This strategy has resulted in commitments that differ from other VC programs:
 - Anchor investments in new funds focusing on New Mexico businesses with flexible debt
 - Emerging fund managers
 - National firms with highly aligned mission and footprint in New Mexico
 - Mix of market rate and below-market rate investments

Investment Policy: Mission & Diversification



- ◆ The Investment Policy requires Venture Private Equity Funds to advance two or more of the following economic development objectives within the State:

Objective in Policy	Economic Impact Measures
1) Create and invest in new, early-stage and expanding New Mexico businesses	<ul style="list-style-type: none"> ▪ \$ deployed/# of NM businesses invested ▪ \$ deployed/# NM business at stage of company
2) Create and/or retain quality jobs for New Mexicans	<ul style="list-style-type: none"> ▪ # Part and Full-time equivalents created/retained in NM ▪ Salaries and employee benefits ▪ Diversity on staff and in hiring practices
3) Increase investment in diverse sectors of the State’s economy	<ul style="list-style-type: none"> ▪ \$ deployed/# of portfolio companies in NMEDD targeted industry sectors ▪ \$ deployed/# NM business at stage of company in sector
4) Increase access to capital for businesses owned by entrepreneurs from or benefiting Underserved Communities	<ul style="list-style-type: none"> ▪ Portfolio company ownership/control by individuals from Underserved Communities ▪ Diversity on management and staff and in hiring practices
5) Attract additional private sector investment in early stage and emerging businesses	<ul style="list-style-type: none"> ▪ \$ of follow-on capital invested ▪ # institutional investors in portfolio companies ▪ %age of out-of-state investors in portfolio companies

◆ **Fund Manager Qualifications**

- Adequate investment expertise and team capacity with professional staff qualified to execute on investments in New Mexico Businesses
- Capacity to meet best practice operational, reporting and compliance standards
- Sustainability as evidenced by operating budget projections
- Effective mitigation of key man risk and succession planning
- Adherence to adequate conflict of interest policies
- Alignment with funds under management

◆ **Investment Amounts/Concentration Limits**

- The Fund seeks to invest in a portfolio of five to ten funds with diverse underlying investment strategies
- Commitments to funds are expected to range between \$2 million and \$10 million and cannot exceed 20% of the balance of the Fund at the time of approval
- Single portfolio company concentrations cannot exceed 10% at the time of investment
- Funds are expected to seek minority non-controlling interests
- Fund investments in any one New Mexico business shall not exceed 50% unless under certain circumstances

◆ **GP/Fund Manager Commitments**

- Required to align Fund, general partner and fund manager interests

◆ **ILPA Standard Terms and SSBCI Conditions (if federally funded)**

◆ Local Funds (targeting > 90% to NM)

□ Impact

- Investment in local businesses
- Target capital gaps at different stages (pre-seed through growth)
- Build capacity of locally-based fund ecosystem

□ Risks

- Lack of sector/strategy/investment experience
- Lack of investor base
- Poor track records
- Small fund sizes
- Not fully staffed or operationally unsustainable
- Conflicts of interest

◆ National Funds

□ Impact

- Bring sector/strategy and investment expertise to local ecosystem
- Larger funds can deploy more capital to each portfolio company
- Attract new private investors to local businesses
- Connect local entrepreneurs with industry and investor networks
- Balance risk/return profile of portfolio
- Ability to co-invest

□ Risks

- Cannot make firm \$ commitment to NM unless explicit in fund documentation
- May deploy elsewhere when opportunities more attractive on relative basis

Parameters For Fund Investments

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◆ Local Funds (targeting > 90% to NM)

- NMFA cannot exceed 60% of total fund commitments
- 70% match from NM public or private (or 1:1 private if SSBCI)

◆ National Funds

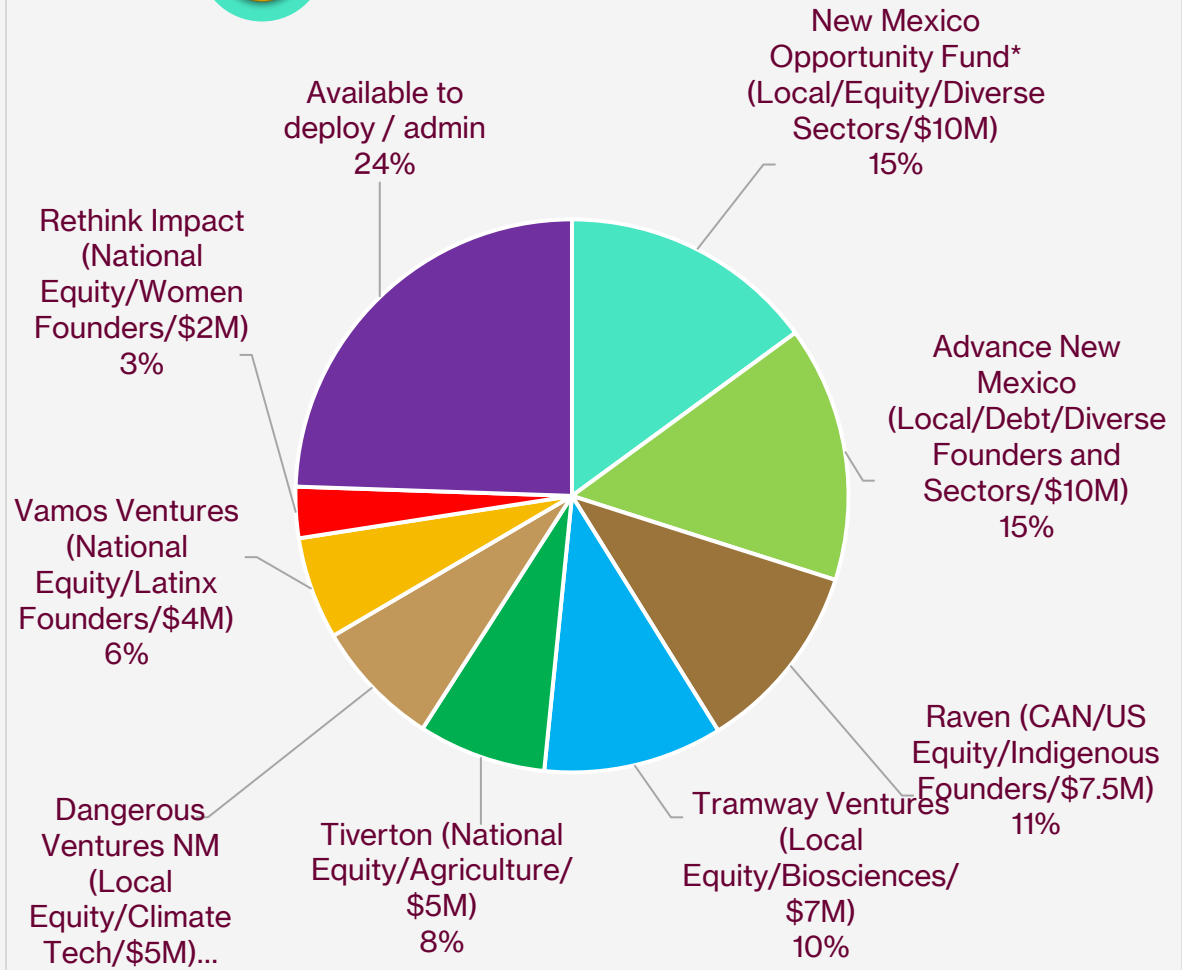
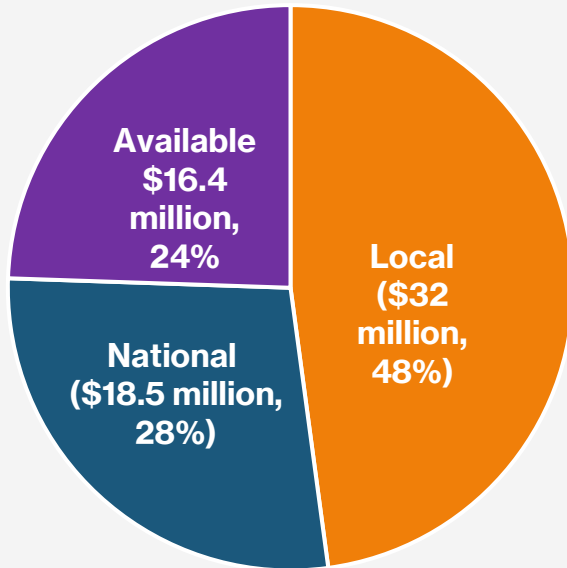
- NMFA cannot exceed 20% of total fund commitments
- 1:1 match from private sources
- Must demonstrate two or more of:
 - Investment expertise in sectors/strategies supporting state economic diversification and growth
 - Prior investments/pipeline in NM
 - Locally based resources
 - Formal commitment to staffing, presence, office hours, and/or educational events

- ◆ To date, NMFA has committed ~\$50 million to eight funds:
 - **Tramway Venture Partners III** – investing equity in early-stage New Mexico businesses in the biosciences sector
 - **New Mexico Opportunity Fund*** – investing equity in early-stage New Mexico businesses in diverse sectors overlooked by traditional VC (*approved commitment did not close)
 - **Advance New Mexico** – investing debt in growing early-stage New Mexico business targeting underserved entrepreneurs and diverse sectors overlooked by traditional VC
 - **Raven Indigenous Impact Fund II** – investing late seed and early-stage capital to innovative, scalable purpose driven Indigenous enterprises
 - **Dangerous Ventures NM Fund I** – investing in a sustainable and resilient future for people and planet targeting seed stage investments in New Mexico businesses in climate tech
 - **Vamos Ventures Fund II** – provides capital and partnership to Latinx and diverse teams solving real problems through scalable, tech-driven companies
 - **Tiverton Ag Legacy Holdings Fund II** – investing in agricultural production and infrastructure
 - **Rethink Impact III** – investing in gender diverse tech-enabled companies working to solve the world’s biggest challenges

Approved Commitments

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\$50.5 million approved to date

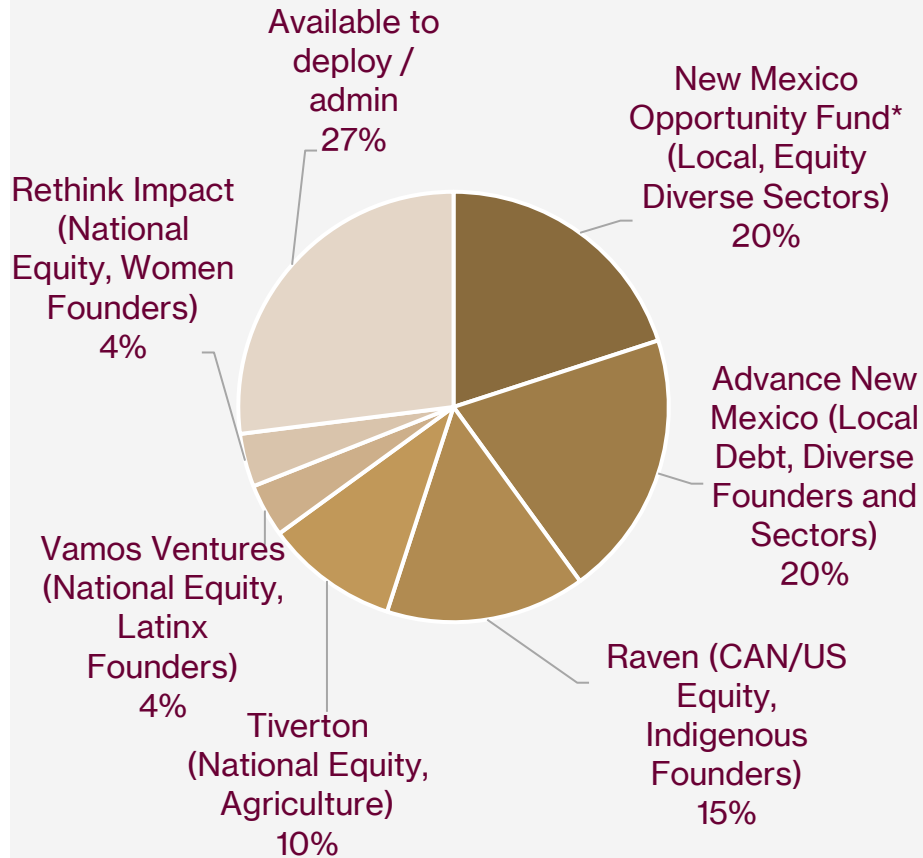


*Approved commitment to New Mexico Opportunity Fund failed to close

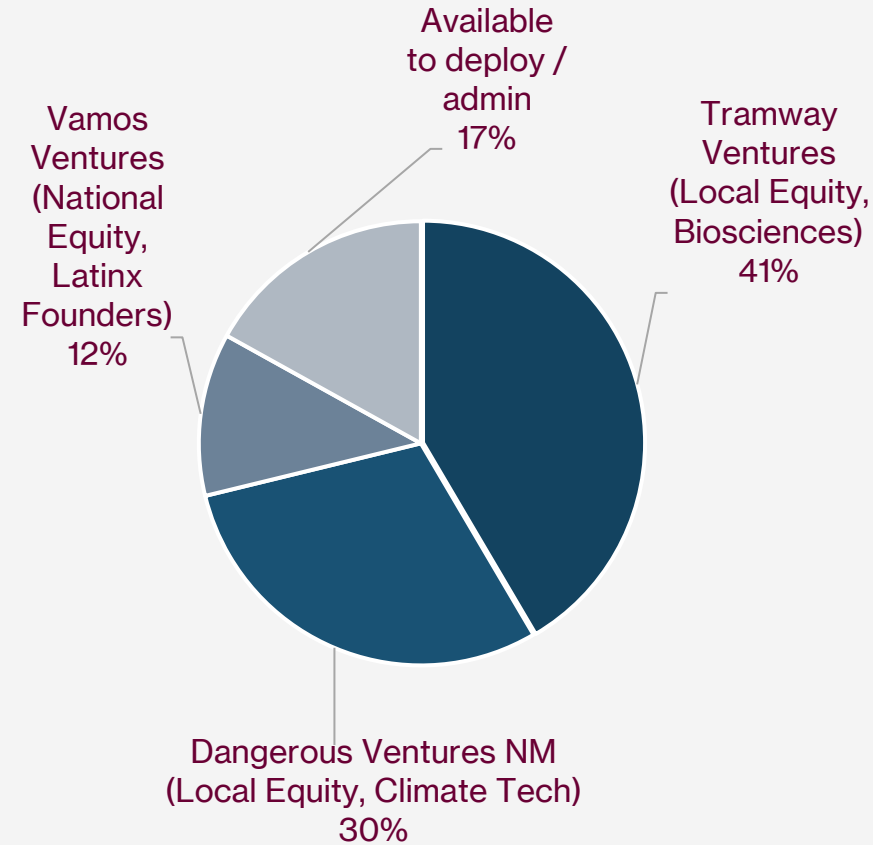
Approved Commitments - By Funding Source

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\$28.5 million State Funding approved



\$16 million Federal Funding approved



*Approved commitment to New Mexico Opportunity Fund failed to close

- ◆ Lending to local farmers transitioning to organic (below market)
 - Potential to leverage philanthropic funding and include technical assistance for local farmers
- ◆ VC fund investing in women founders (below market)
 - Potential to leverage philanthropic funding to bring accelerator model to local ecosystem
- ◆ Seed fund investing in rural businesses (below market)
- ◆ Seed fund investing in consumer sector businesses (below market)
- ◆ Equity investing in businesses transforming Tribal healthcare
 - Potential to leverage federal and Tribal funding sources
- ◆ Pre-seed/seed for local tech
 - Potential to leverage local philanthropic funding and resourcing