



New Mexico State Investment Council

New Mexico Private Equity Investment Program

October 2021

welcome to brighter

Strategies In Private Equity

Investments Over a Company's Life Cycle

Development

Early
Growth

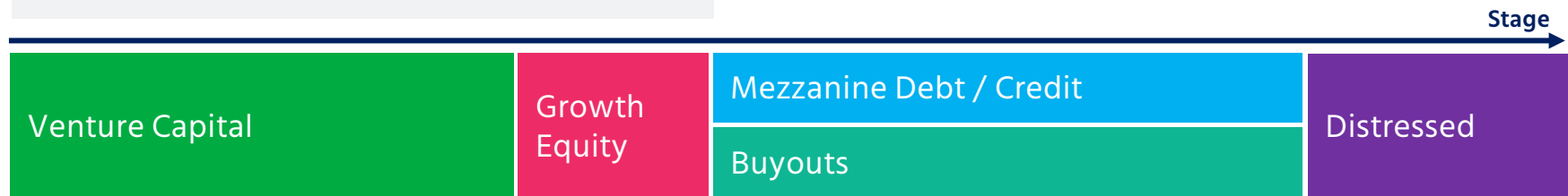
Accelerated
Growth

Maturity

Decline

Focus Area of the New Mexico
Private Equity Investment Program
("NMPEIP")

- Each stage of the business life cycle requires a specialized skill set.
- Most private equity strategies focus on a particular stage of the business life cycle.

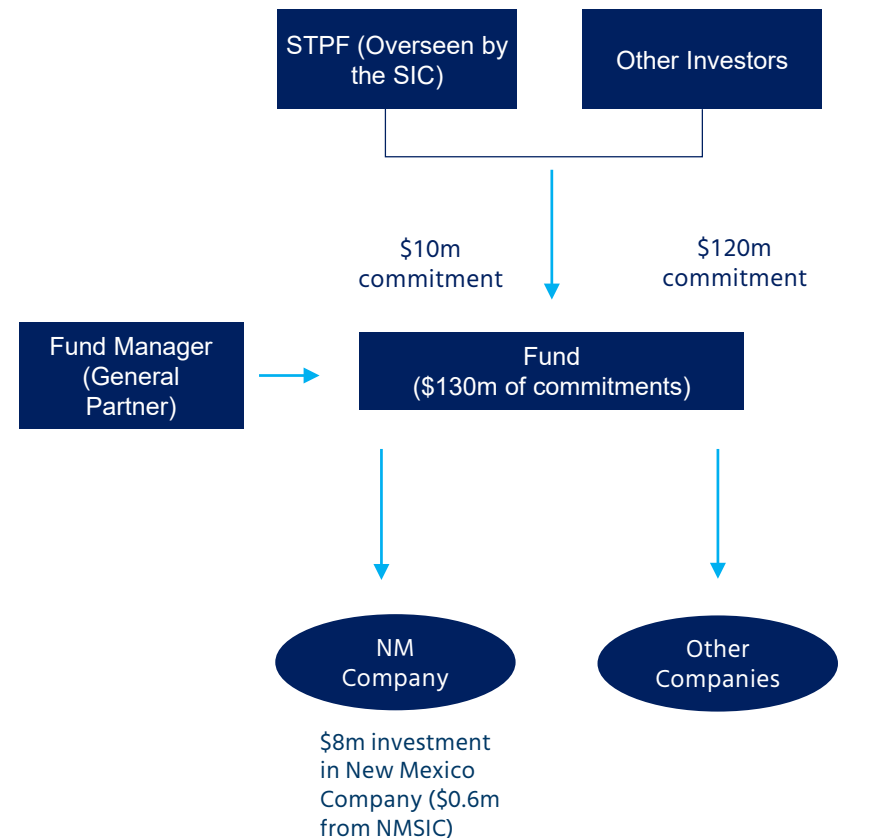


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How NMPEIP Benefits New Mexico Companies

- The New Mexico State Investment Council (“SIC”) commits to a fund using capital from the Severance Tax Permanent Fund (“STPF”)
- The fund manager uses the pool of fund capital to invest in a number of companies over two to four years
- All fund investors invest equally in the fund’s companies (i.e., when there is an investment in a New Mexico company, SIC and other investors’ capital is used)
- The fund manager focuses on creating value at companies so they can be realized at a higher value
- Potential value-add initiatives provided by the fund manager include:
 - Customer/co-investor introductions
 - Recruit talent to augment the management team
 - Identify add-on acquisitions
 - Review and assist with strategy and organic growth plans

Private Equity Fund Investment Cycle



NMPEIP Statute Overview

Statute Summary for the NMPEIP	
NMPEIP Size	<ul style="list-style-type: none">• No more than 11% of the market value of the STPF• The SIC has set a target of 9%
Return	<ul style="list-style-type: none">• “Differential rate investments” are permitted and intended to: 1) stimulate the economy of New Mexico and 2) provide income to STPF• NMPEIP strategy seeks to balance the risk of venture capital with generating a return for the STPF
Governance	<ul style="list-style-type: none">• The SIC oversees NMPEIP investment activity
Requirements	<ul style="list-style-type: none">• Invest for start-up, expansion, product or market development, recapitalization or similar business purpose;• Seek capital appreciation;• Employ one full-time manager with at least three years of professional experience in a similar strategy;• Invest or cause others to invest an amount in New Mexico companies equal to the commitment made by the SIC; and• The fund accepts investments only from accredited investors with at least \$5 million in overall assets.

Source: New Mexico Statute 7-27-5 and 7-27-5.15

NMPEIP Structure – Four Approaches

- Fund Investments
 - Commit to a fund manager who seeks multiple investments according to its investment strategy
- Co-Investment Funds
 - Managed by Sun Mountain Capital to invest alongside other fund managers
- Catalyst Fund
 - Managed by Sun Mountain Capital; \$20 million fund-of-funds that invests in emerging and existing venture capital funds in New Mexico
- Recovery Fund
 - \$100 million fund to make short-term loans to medium-to-large size New Mexico businesses that have been impacted by the COVID-19 pandemic

NMPEIP Structure and Performance

As of June 30, 2021 (\$ in millions)

Portfolio	# of Funds	Commit.	Contributed	Distributed	NAV	Total Value	Net Multiple ¹	Net IRR ¹
Active Commitments								
Catalyst Fund	1	\$ 10.0	\$ 4.6	\$ 0.0	\$ 4.7	\$ 4.7	1.03x	1.2%
Co-Investment Funds	5	197.6	205.4	12.6	271.6	284.3	1.38x	4.5%
Fund Investments	25	255.8	197.9	113.5	148.3	261.9	1.32x	4.0%
Recovery Fund	1	100.0	92.7	4.8	87.4	92.2	0.99x	(0.9%)
Sub-total	32	\$ 563.4	\$ 500.6	\$ 131.0	\$ 512.1	\$ 643.0	1.28x	4.1%
Liquidated Funds	15	150.7	151.2	91.6	-	91.6	0.61x	(6.2%)
Grand Total	47	\$ 714.1	\$ 651.7	\$ 222.6	\$ 512.1	\$ 734.6	1.13x	1.7%

Source: Invient.

¹ Performance since inception

Current NMPEIP Goals and Progress

NMPEIP Activities

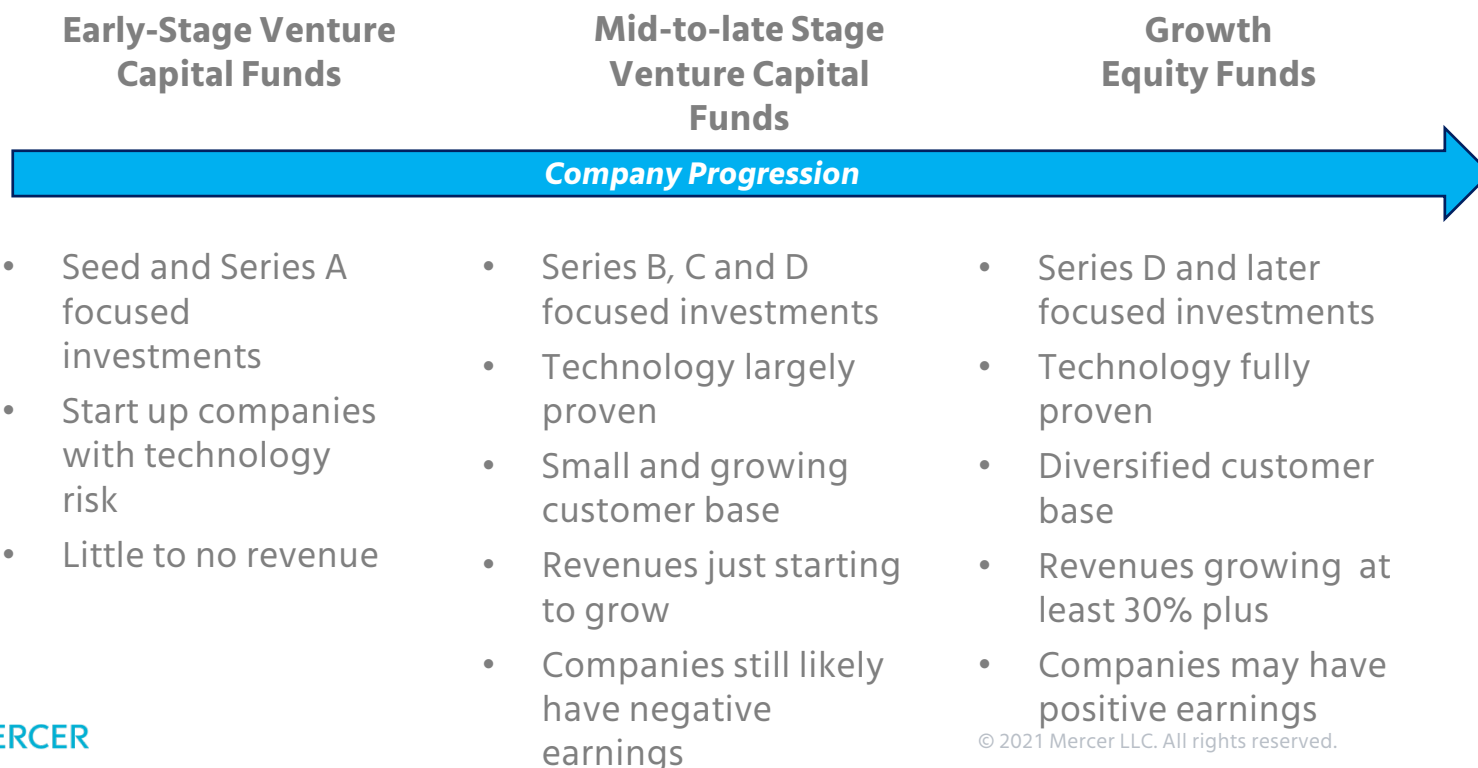
- **Generate a positive economic impact for the State of New Mexico**
 - New Mexico companies have received \$427 million from funds in the NMPEIP ¹
 - Total jobs reported at New Mexico companies in NMPEIP is 2,638 with job growth of 617 ¹
- **Earn a positive return on an overall portfolio basis**
 - Overall return as of June 30, 2021 is 1.7% (active commitments have an overall return of 4.1%)
- **Increase the number of managers in NMPEIP**
 - Seven new fund commitments over the last two years for \$60 million to three existing NMPEIP managers and four new managers
- **Increase the number of active companies in the portfolio**
 - 27 new NM-based companies received investment through NMPEIP funds over the last two years
- **Help foster a more robust local venture capital community**
 - Two new commitments to New Mexico-based funds for \$10 million
 - Continue to introduce New Mexico-based managers to national fund managers for knowledge sharing and potential syndication of investments

¹ Data as of March 31, 2021 and includes New Mexico-based companies in NMPEIP from 2000 to 2021, including both active and realized companies.

Source: Invient for financial performance; fund managers for economic data

Venture Capital Company Development

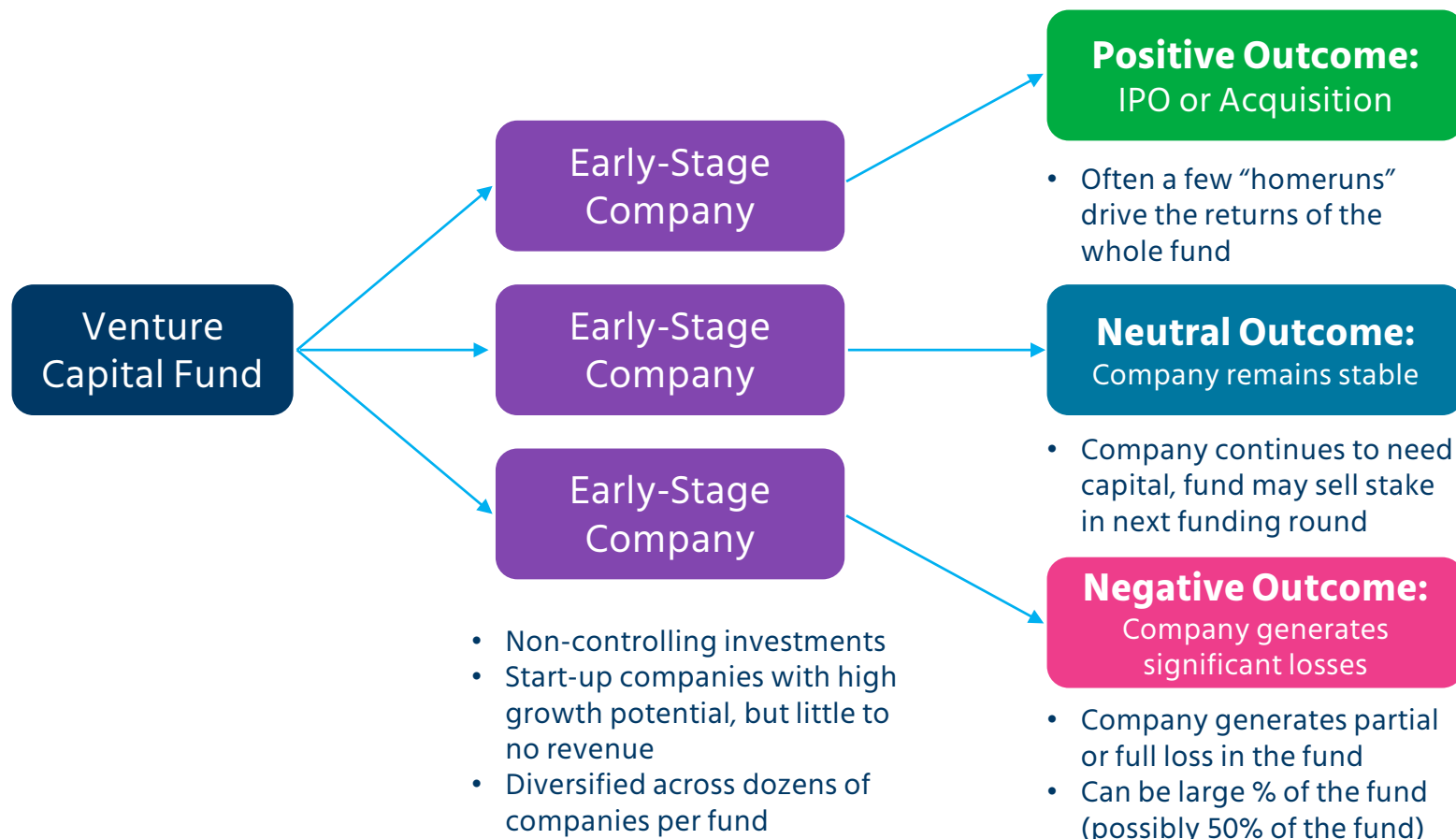
- Successful companies often have to raise multiple rounds of capital, which is typically done after meeting developmental milestones
 - Companies that do not make progress typically pivot operations to a new area or wind down operations
- Companies typically raise capital from multiple sources as there is positive operational progress



Venture Capital Risk

- Venture capital is a volatile asset class where outcomes can be highly variable

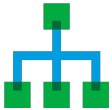
Potential Outcomes of a Venture Capital Investment



Implementation considerations

Private markets manager selection – four factors

- SIC Staff and Mercer have an established process to source, screen and evaluate new fund investments
- Each investment undergoes a full due diligence process that examines multiple characteristics, which can be summarized in the following four factors



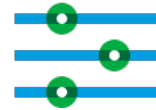
Business Management

- Team expertise and experience
- Team capacity and stability
- Organizational Structure



Alignment

- Measure of mutual interest between fund managers and investors
- Fund terms for fund under evaluation and changes from previous fund(s)



Strategy

- Investment focus and process
- Value creation / protection capabilities
- Fund size
- Relevance of track record for the investment strategy



Track Record

- Sourcing / allocation of capital
- Investment pacing
- Return components
- Realized and unrealized track record

Summary

- The NMPEIP continues to target experienced fund managers who will target New Mexico-based companies, including local managers
 - Goal is for local companies to have multiple opportunities to raise capital
 - The NMPEIP does not invest directly in companies; fund managers choose which companies receive investments
- The strategy seeks to diversify risk across multiple managers and companies rather than a few managers given the volatility of venture capital performance
 - Gaining exposure to multiple companies improves diversification so that the outcome of one company does not drive results
 - Given the high loss ratios in venture capital, diversification increases the likelihood of earning a positive return on a portfolio basis
- The NMPEIP focuses both on performance metrics and economic growth metrics to measure success
- The SIC has an institutional process to evaluate fund investments, with each fund going through a due diligence process

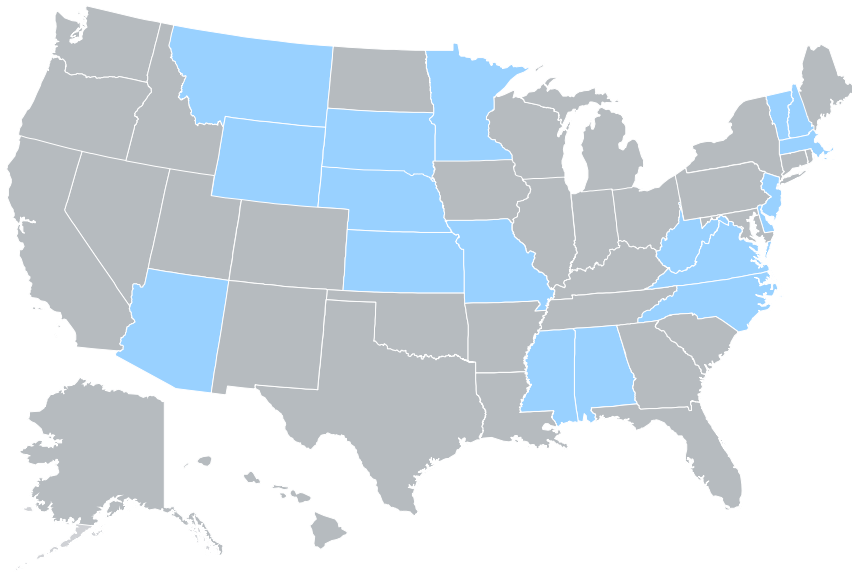
Other Existing Economic Development Options

- **Economic development funds/programs:**
 - LEDA, JTIP (dollars to incentivize business relocation/expansion & job training in NM)
- **State Small Business Credit Initiative:**
 - SSBCI funding, other federal grants or programs (US Treasury/Federal grants targeting business creation)
- **NM Finance Authority's "Smart Money" business loan participation program:**
 - NMFA purchases bank business loan participation
- **Small Business Investment Corporation**
 - 2% of STPF for business loans through various loan partners
- **Start-up Incubators & Accelerators**
 - Often venture capital or university-backed growth and advantage programs for start-ups

Appendix

Other State Programs

- Many states have similar investment programs
- New Mexico's program has historically been one of the largest



States with an investment program

States with no known investment program

New Mexico: NMPEIP (1993, overseen by State Investment Council) – \$684m (Severance Tax Permanent Fund)

Other Select State Programs:

- **Alaska:** Alaska Investment Program (2019) – \$200m (Permanent Fund)
- **California:** CalPERS 'California Initiative' (2001) – Invested \$1 billion since inception
- **Colorado:** Mile High Fund – \$50m co-investment fund (pension); Greater Colorado Fund (2018) – \$9.1m (Office of Economic Development) – targets rural businesses
- **Florida:** Growth Fund (2009) – \$740m under management (fund and co-investments)
- **Georgia:** Invest Georgia (2013) – \$40m (State of Georgia) – Invests in Georgia-based funds
- **Indiana:** Next Level Fund (2017) – \$250m (state investment portfolio)
- **Iowa:** Iowa Fund of Funds (2002) – \$57 m (tax credits)
- **Ohio:** Ohio Capital Fund (2005) – \$133m; Cintrifuse Fund (corporate investors)
- **Oklahoma:** Oklahoma Capital Investment Board (1994; 2005) – \$100m tax credits
- **Oregon:** Oregon Investment Fund (2005) – \$158m (ORPERF)
- **Michigan:** Michigan Renaissance Fund (2008 - corporate investors)
- **Nevada:** Silver State Opportunity Fund (2013) – \$50m (Permanent Fund)
- **North Dakota:** ND Growth Fund (2021) – \$264m (Legacy Fund)
- **Utah:** Utah Fund of Funds (2006) – \$121m (contingent tax credits)
- **Wisconsin:** Badger Fund of Funds – \$25m

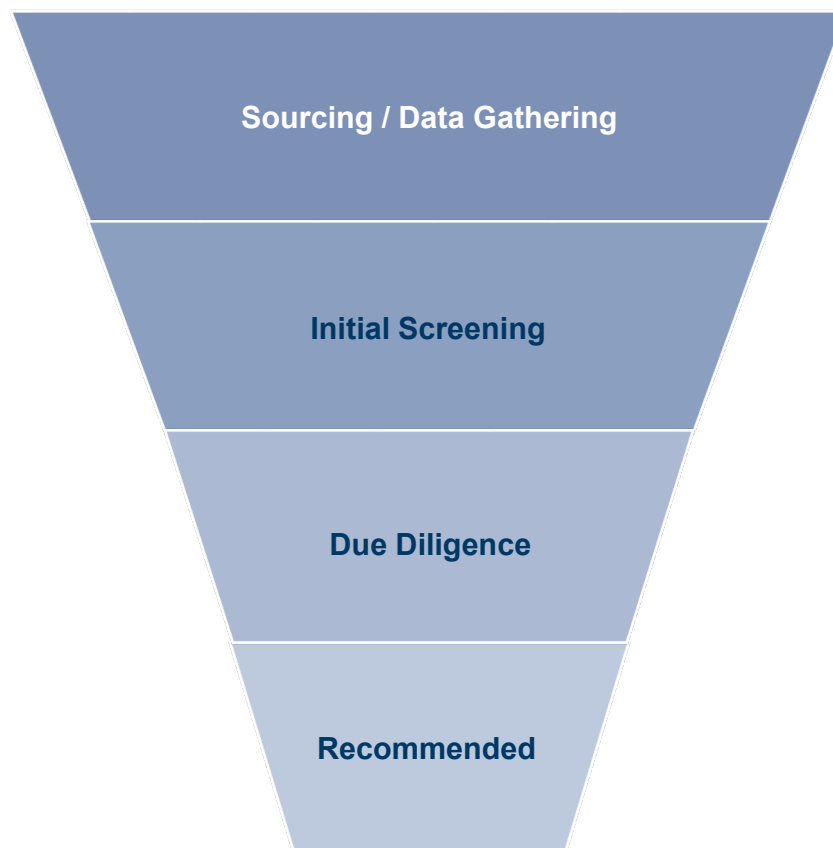
Case Study from a NMPEIP Manager

Value-Add Initiatives for a New Mexico Based Company

Corporate Governance	<ul style="list-style-type: none">Expanded company board to include a former director of a US national laboratory and multi-decade veteran in pharmaceuticals
Expanded Network	<ul style="list-style-type: none">Brought in a high-profile co-investor in the life science spaceIdentified and facilitated key customer engagementFacilitated direct engagement with State government and National government agencies
Talent Recruiting	<ul style="list-style-type: none">Led executive search processes to locate and recruit key executives
Real Estate/Facility	<ul style="list-style-type: none">Led efforts to locate a suitable facility to support company's immediate needs and long-term growth
Strategic Communications and Marketing	<ul style="list-style-type: none">Assisted company with press releases announcing new investment, key hires, new board members and other major milestones
Non-Dilutive Funding and Tax Credits	<ul style="list-style-type: none">Supported company in preparation of both state and national non-dilutive funding opportunities

Private Equity Investment Process

- The investment process is collaborative between Mercer and SIC Staff (“Staff”)
- Funds are sourced through various avenues, including referrals, in-person meetings, phone introductions and other proactive efforts
- Staff and Mercer collectively review potential investment opportunities on an at least a two weeks basis in order to refine the universe to the best of both Staff’s and Mercer’s thinking
- Mercer and Staff conduct due diligence on the fund to confirm fit and suitability and meets with managers independently
- These processes result in recommendations which are then presented to the SIC for approval



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