



New Mexico State Investment Council

# **New Mexico Private Equity Investment Program**

November 2021

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# Strategies In Private Equity Investments Over a Company's Life Cycle

Development

Early Growth

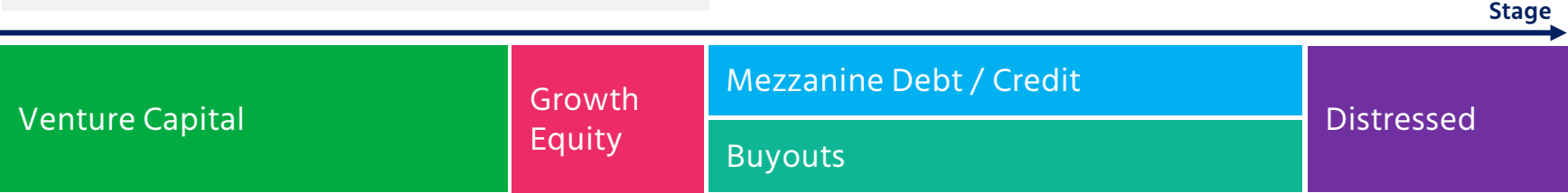
Accelerated Growth

Maturity

Decline

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

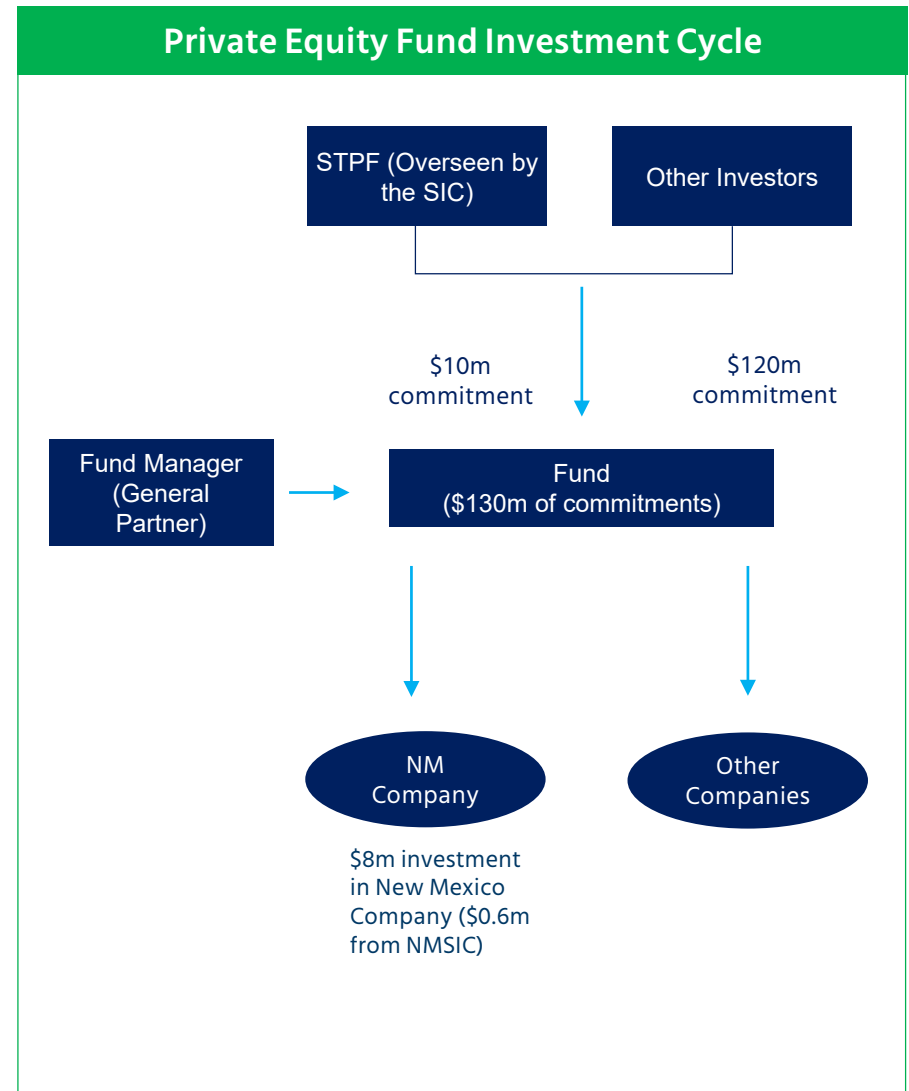
- Each stage of the business life cycle requires a specialized skill set.
- Most private equity strategies focus on a particular stage of the business life cycle.



For illustration purposes only

# 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



# NMPEIP Statute Overview

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

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 <sup>1</sup>	Net IRR <sup>1</sup>
<b>Active Commitments</b>								
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%)
<b>Sub-total</b>	<b>32</b>	<b>\$ 563.4</b>	<b>\$ 500.6</b>	<b>\$ 131.0</b>	<b>\$ 512.1</b>	<b>\$ 643.0</b>	<b>1.28x</b>	<b>4.1%</b>
<b>Liquidated Funds</b>	<b>15</b>	<b>150.7</b>	<b>151.2</b>	<b>91.6</b>	<b>-</b>	<b>91.6</b>	<b>0.61x</b>	<b>(6.2%)</b>
<b>Grand Total</b>	<b>47</b>	<b>\$ 714.1</b>	<b>\$ 651.7</b>	<b>\$ 222.6</b>	<b>\$ 512.1</b>	<b>\$ 734.6</b>	<b>1.13x</b>	<b>1.7%</b>

Source: Invent.

<sup>1</sup> Performance since inception

# Current NMPEIP Goals and Progress

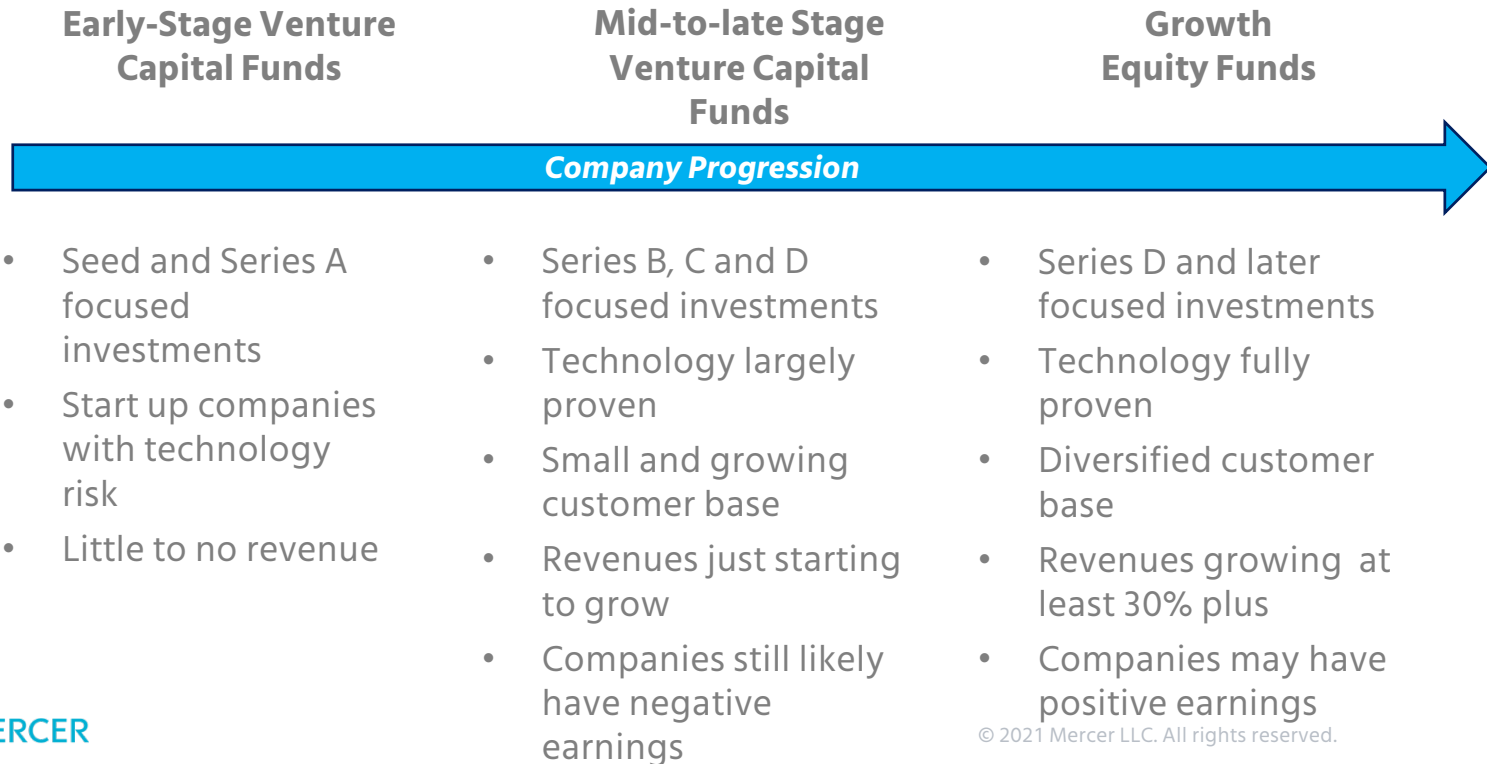
## NMPEIP Activities

- **Generate a positive economic impact for the State of New Mexico**
  - New Mexico companies have received \$427 million from funds in the NMPEIP <sup>1</sup>
  - Total jobs reported at New Mexico companies in NMPEIP is 2,638 with job growth of 617 <sup>1</sup>
- **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

<sup>1</sup> 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

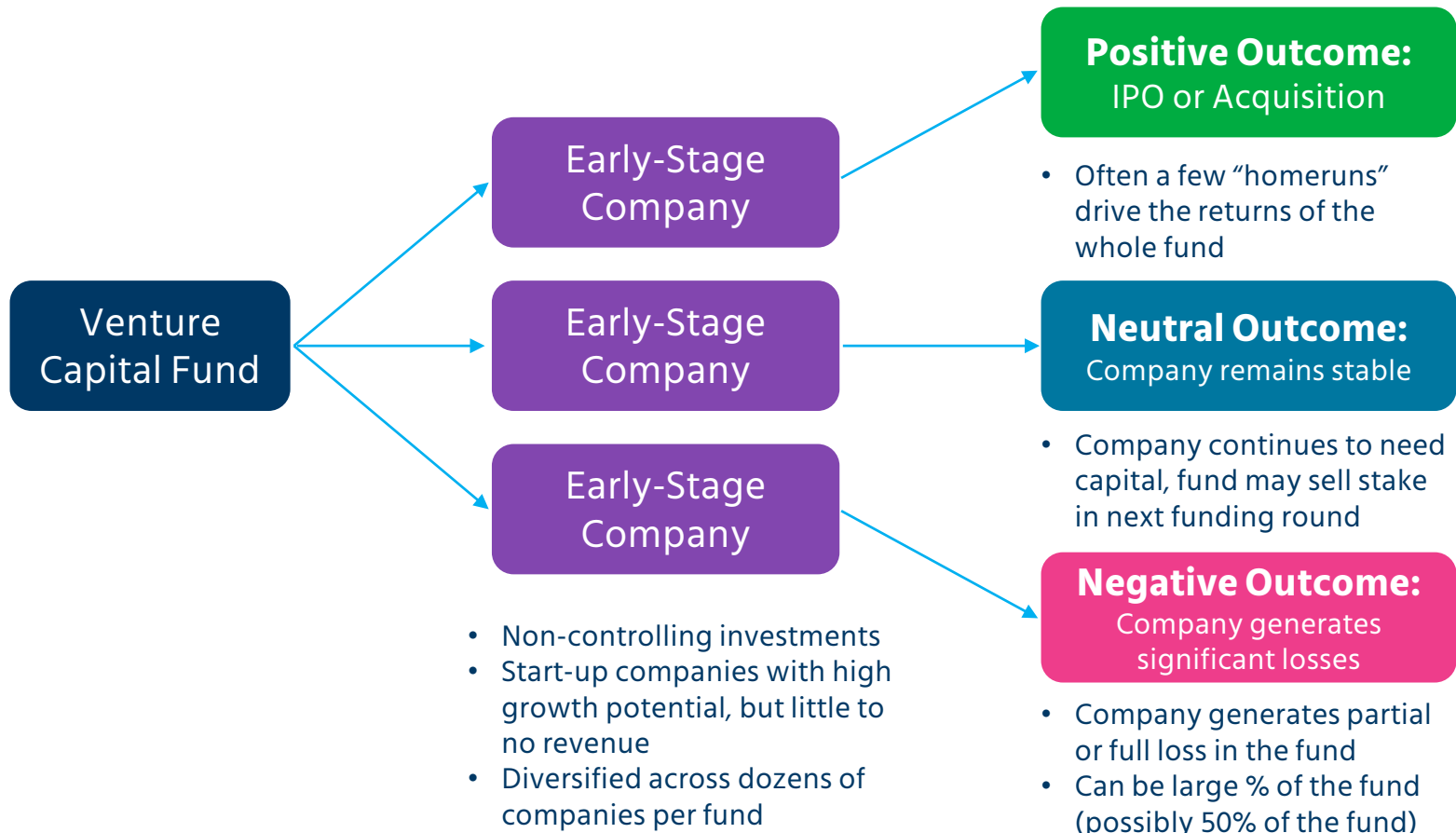
- Successful companies often have to raise multiple rounds of capital, which is typically done after meeting developmental milestones
  - Companies that do not make progress typically pivot operations to a new area or wind down operations
- Companies typically raise capital from multiple sources as there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



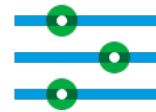
### Business Management

- 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

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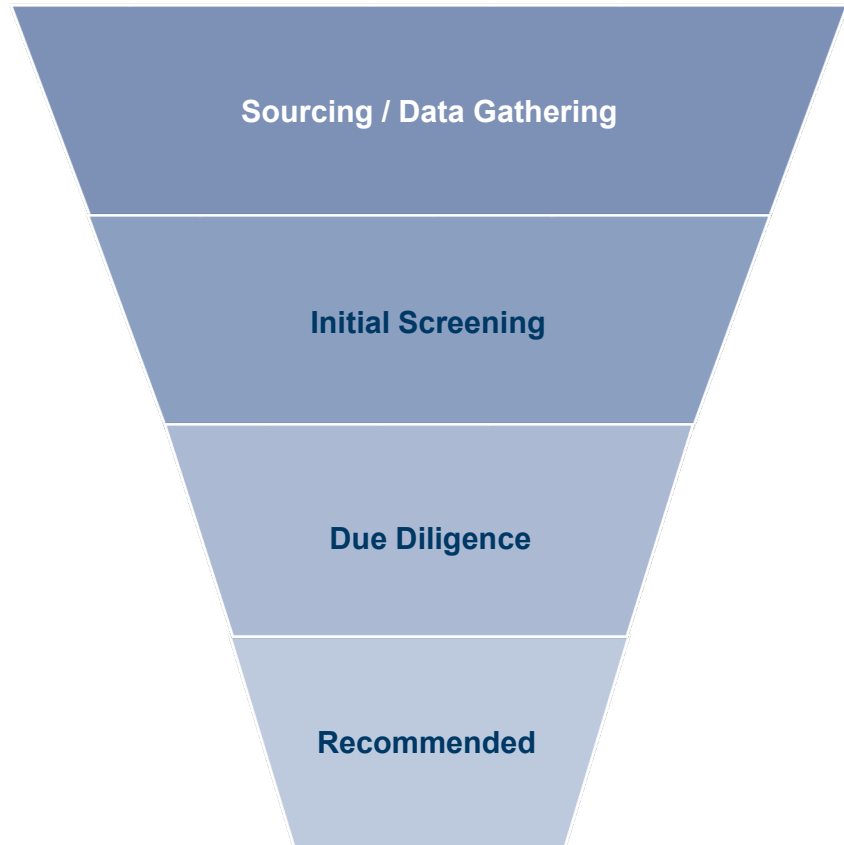
# Case Study from a NMPEIP Manager

## Value-Add Initiatives for a New Mexico Based Company

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

# 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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Mercer Alternatives

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