



New Mexico State Investment Council

New Mexico Private Equity Investment Program

December 2020

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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.



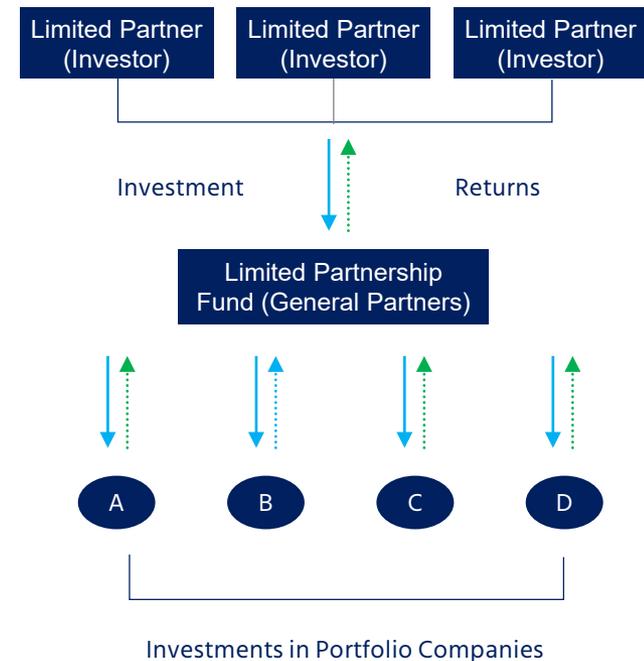
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Private Equity Benefits and Structure

Why Invest in Private Equity?

- Greater alpha potential through active management
- Assist companies with growth through various value-add initiatives
- Diversification
- Access to companies that cannot otherwise be invested in through public markets
- Economic development through job growth for successful companies

Private Equity Partnership Example



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 Severance Tax Permanent Fund (“STPF”)• The State Investment Council (“SIC”) has set a target of 9%
Return	“Differential rate investments” are permitted and intended to: 1) Stimulate the economy of New Mexico and 2) provide income to STPF
Governance	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, 2020 (\$ in millions)

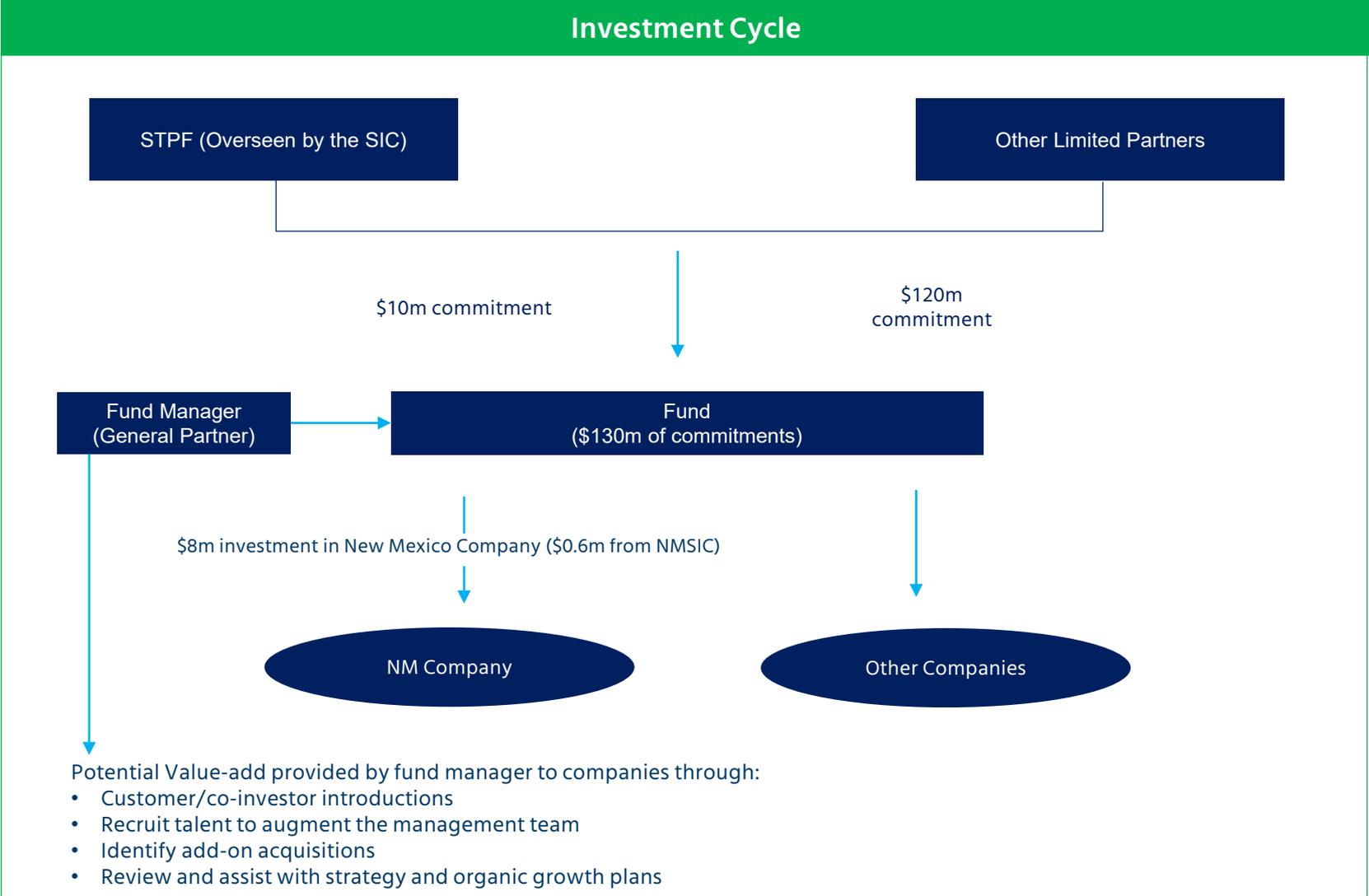
Portfolio	Vintage Year Ranges	# of Funds	Net Commit.	Net Contributed	Net Distributed	NAV	Total Value	Net Multiple ¹	Net IRR ²
Fund Investments	1993-2020	35	\$ 314.5	\$ 262.0	\$ 185.9	\$ 78.8	\$ 264.8	1.01x	0.1%
Co-Investment Funds	2003-2017	6	259.6	255.4	14.6	273.4	288.0	1.13x	1.5%
Recovery Fund	2020	1	100.0	30.8	-	30.5	30.5	0.99x	(2.0%)
Catalyst Fund	2016	1	10.0	3.5	-	3.6	3.6	1.03x	1.7%
Grand Total		43	\$ 684.1	\$ 551.8	\$ 200.5	\$ 386.4	\$ 586.9	1.06x	0.9%

Source: Invient.

¹ Net Multiple is a performance measure calculated by taking the net distributed plus the net asset value ("NAV") and dividing by net contributed.

² Net IRR is the since inception Internal Rate of Return net of all fees and carried interest.

How NMPEIP Benefits New Mexico Companies



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

Economic Impact

Economic Development Summary ¹	
Measure	Total
Number of New Mexico-based Companies Receiving Investments	80
Invested Capital in New Mexico-based Companies (NM SIC-level)	\$275.0 million
Invested Capital in New Mexico-based Companies (Fund-level)	\$375.4 million
Total Jobs Reported	1,239
Job Growth Since Investment Inception	555
Annualized New Mexico Payroll	\$83.1 million
Annualized Expenditures on New Mexico Goods and Services	\$39.2 million

As of June 30, 2020 or most updated information provided by General Partners.

Source: Invient and General Partner-provided information.

¹ Companies based on current information in Invient and does not include all companies that have been invested since the NMPEIP's inception.

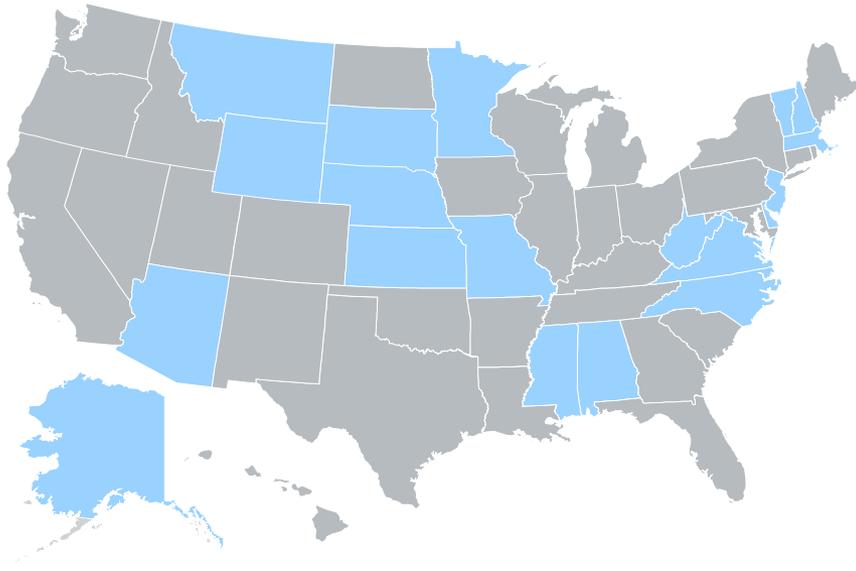
Economic development information is reported by the General Partners and collected on a quarterly basis. Realized investment numbers reflect the most recently reported numbers by the General Partner and are rolled forward after the realization.

Highlights from 2020

- Five new fund commitments for \$40 million (two existing managers and three new managers)
- Two new commitments to New Mexico-based funds for \$10 million
- The \$100 million New Mexico Recovery Fund established
- 18 New Mexico-based companies received an aggregate \$45.7 million of new investments in the last year
- \$20.5 million of distributions received year-to-date through October 30, 2020

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:

- **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)
- **Utah Capital:** Utah Fund of Funds (2006) – \$121m (contingent tax credits)
- **Wisconsin:** Badger Fund of Funds – \$25m

Current NMPEIP Goals

Goals

- Increase the number of managers in NMPEIP
- Increase the number of active companies in the portfolio
- Help foster a more robust local venture capital community
- Earn a positive return on an overall portfolio basis

Benefits

- Local companies have multiple opportunities to raise capital
- Local managers gain experience to raise outside capital and be a resource to outside managers
- Outside managers bring domain expertise and business connections to help companies grow
- Outsized performance attracts more capital

Risk Mitigation

- Diversify risk across multiple managers rather than a few managers
- Gain exposure to multiple companies to improve diversification so that the outcome of one company does not drive results
- Manage the impact of losses that are inherent in venture capital



Appendix

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New Mexico Venture Capital Overview

- Many of the firms that have invested multiple times in New Mexico are headquartered in New Mexico or regionally focused in the Mountain West
- The New Mexico Private Equity Program has exposure through its current portfolio to many of the repeat investors in New Mexico and many of the large venture capital deals are also in the co-investment funds

Select Investment Firms That Have Invested Multiple Times in New Mexico Since 2007

- Cottonwood Technology Fund
- EPIC Ventures
- Flywheel Ventures
- Kickstart Seed Fund
- New Mexico Angels
- Pangaea Ventures
- Signal Peak Ventures
- Southwest Medical Ventures
- Sun Mountain Capital
- Verge Fund

Source: Pitchbook.

Select Companies Receiving Venture Capital Investments Since 2007

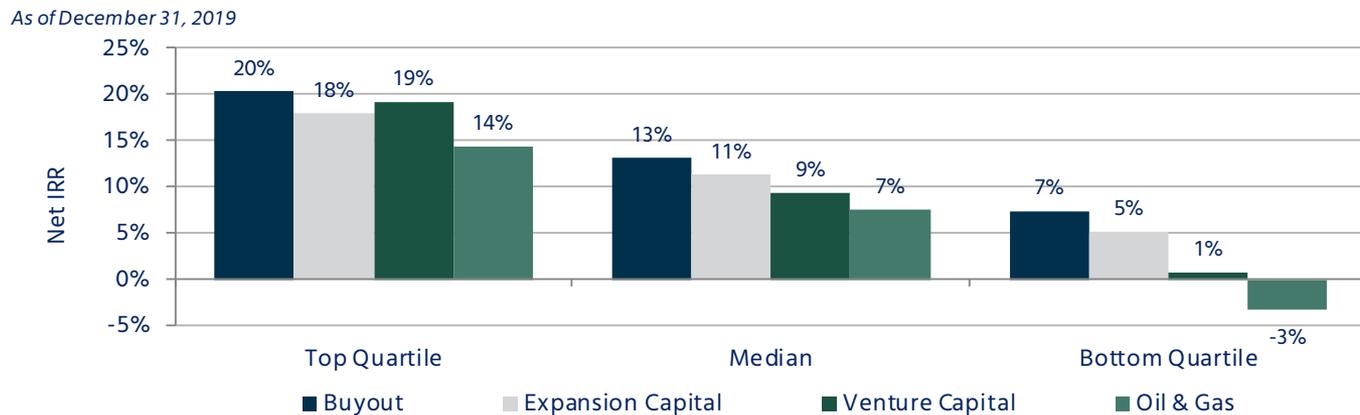
- Advent Solar (clean energy)
- Aspen Avionics (aerospace)
- Bayotech (machinery)
- Descartes Labs (software)
- Dion's (food products)
- MIOX (water utilities)
- Respira Theapeutics (devices)
- Skorpios (semiconductors)
- Trilumina (semiconductors)
- VeraLight (diagnostics)

Historical Performance by Strategy

A look at overall returns

- Since 2000, buyout funds have typically generated strong performance overall with less downside compared to other equity strategies.
- Venture capital funds have historically demonstrated high upside, with top quartile returns in line with buyout and the top 5% returns exceeding all other examined strategies; however, venture capital funds have a wider dispersion of returns resulting in lower median and bottom quartile returns than other strategies.

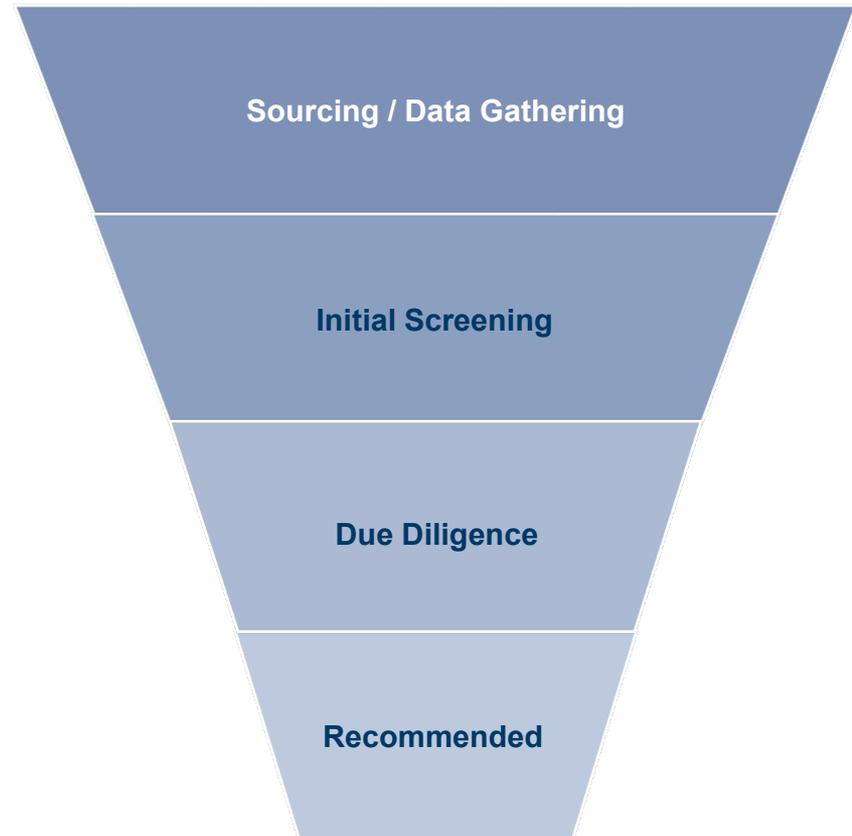
Private Assets Return Comparison by Strategy



Source: Burgiss since inception returns through December 31, 2019, including funds with vintage years 2000 through 2016.

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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Investment Due Diligence

- The investment due diligence process is an in-depth analysis of various aspects of a fund manager's strategy, team, alignment, track record and processes, with specific considerations, including but not limited to, highlighted in the table below
- The results of the due diligence analysis is summarized in a due diligence report that is reviewed by the SIC before they vote to approve the investment

Due Diligence Considerations

Strategy	Team	Alignment	Returns and Performance	Systematic Processes
<ul style="list-style-type: none"> ▪ Business size / stage ▪ Condition ▪ Industry / Geography ▪ Ownership stake ▪ Investment process ▪ Strategy consistency ▪ Market opportunity ▪ Competitive landscape 	<ul style="list-style-type: none"> ▪ Firm structure ▪ Capabilities ▪ Capacity ▪ Communication ▪ Experience ▪ Longevity / stability ▪ Depth ▪ Turnover 	<ul style="list-style-type: none"> ▪ Governance terms ▪ Fees ▪ Carried Interest ▪ Compensation ▪ GP Commitment ▪ Ownership structure and team incentives ▪ Allocation between multiple vehicles 	<ul style="list-style-type: none"> ▪ Absolute performance ▪ Relative Performance ▪ PE Benchmarks ▪ Public Markets ▪ Loss ratios ▪ Value drivers ▪ Attribution analysis ▪ Realized vs Unrealized 	<ul style="list-style-type: none"> ▪ Sourcing ▪ Pipeline management ▪ Value creation ▪ Performance evaluations ▪ Investor relations ▪ Cash flow management



Mercer Alternatives

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