



New Mexico State Investment Council



INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE

**INVESTMENT POLICIES, PRACTICES
& RETURNS FOR ECONOMICALLY
TARGETED INVESTMENTS**

AUGUST 9, 2013



STATE INVESTMENT COUNCIL

Economically Targeted Investments (ETI)

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- **ETI basics:**
 - ETIs seek “double bottom-line” of investment return & economic development/job creation benefits
 - Only allowed from the Severance Tax Permanent Fund (STPF)
 - All types require specific legislative authorization
 - They *may* be differential, or “below-market” rate
 - Below market investments can still qualify as prudent under Uniform Prudent Investor Act, if only a small part of a well-diversified portfolio
- **The legislature has previously authorized almost 70% of the STPF to be allocated for ETIs**
- **Current ETI investments: less than 10% of STPF**



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ETIs on the books

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- Various ETIs ‘carve-outs’ authorized by legislature over time
- Most active ETIs:
 - NM Private Equity
 - Film Loans
 - Small Business Investment Corporation
- All ETIs at discretion of Council *except* SBIC (mandatory 1% STPF)

Item No.	Statute	Description	Market Value @ 6/30/13	Restrictions on Investment (US\$/Percent)
1.	7-27-5.3	Mortgage Pass-Through Securities Secured by New Mexico Real Estate	\$10,259	\$100 MM Face per Year
2.	7-27-5.4	New Mexico Business Investments	\$1,236,829	20% of STPF
3.	7-27-5.5	Educational Loan Notes	None	\$10 MM/Yr 10% of STPF
4.	7-27-5.13	Educational Institution Research & Development Facilities Revenue Bonds	None	10% of STPF
5.	7-27-5.15	New Mexico Private Equity Funds and Business Investments	\$201,869,984	9% of STPF
		Small Business Investment Corporation	\$35,843,165	1% of STPF Required by Statute
6.	7-27-5.17	Employers Mutual Company Revenue Bonds	None	\$10 MM
7.	7-27-5.19	Bank Certificates of Deposit with NM Institutions	None	20% of STPF
8.	7-27-5.22	Investments in Obligations Issued under Section 33-1-19 for Corrections Facilities	None	None Stated
9.	7-27-5.24	Investments in Obligations Issued for State Capitol Buildings and Renovations	\$1,827,482	\$10.155 MM
10.	7-27-5.26	Investment in Films to be Produced in New Mexico	\$15,000,000	6% of STPF
Totals			\$255,787,719	



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ETI Summary

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- **SIC ETI programs status:**
 - **NM Private Equity** investment program established 1993, expanded in 2003 & 2006 (now up to 9% of STPF: \$370M)
 - ✦ Council has 5% STPF target, to be evaluated annually
 - **NM Film Loans** active 2002-2008, today only 1 loan (\$15M) outstanding; SIC now only offers loans at market rates
 - **Small Business Investment Corporation**, expanded in 2007 (1% of STPF, \$47M)
 - **Older programs:** loan participations, mortgage pass-throughs, investments in bonding obligations: winding down
 - **Other programs:** NM Bank CDs, Education-related loans: not currently active



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ETI Summary

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- **ETI history & returns as of 6/30/13:**
 - **NM Private Equity:**
 - ✦ 1993-2003 returns: -18% (-\$56.5M)
 - ✦ 2004-present: returns slightly positive (+\$6.5M)
 - **NM Film Loans:**
 - ✦ 24 loans, 2 films which shared profit, all principal repaid
 - ✦ \$243.7M loaned, \$245.3M spent in NM
 - ✦ NM crew employed: 4,649 (temporary)
 - ✦ Investment opportunity cost (@T-bill rate): \$31.3M
 - **SBIC:**
 - ✦ \$47.0M allocated by statute in 2007
 - ✦ Value today: \$35.8M



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ETI Conclusions

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- **ETIs very active over last decade**
 - Investment returns lacking in many cases
 - Job creation results sometimes difficult to assess
 - Outcome often did not meet expectations
- **Council today more focused on bottom-line ROI**
- **Taking more conservative approach to ETIs**
 - NM Private Equity pacing target adjusted to align with realistic number of quality investments available: \$40M/year
 - Film loans offered, but at a market rate; no loans since 2008
 - SIC not on SBIC board, but supports shift from venture capital investments to small loans