



NEW MEXICO STATE INVESTMENT COUNCIL

Investments & Pensions Oversight Committee

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New Mexico Private Equity & Other Economically-Targeted Investments

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Economically Targeted Investments (ETIs)



- Authorized by statute, NMSA 1978, § 7-27-5
 - Often differential-rate, or “below-market” in returns
 - Intention is to “stimulate the economy of New Mexico”
 - Diminished financial returns expected to be offset by benefits attached to jobs & industry creation
 - ETIs may only be made from the Severance Tax Permanent Fund
 - Specific legislative authorizations of NM-focused investing programs in statute
 - Some programs repealed; many inactive



Economically Targeted Investments (ETIs)



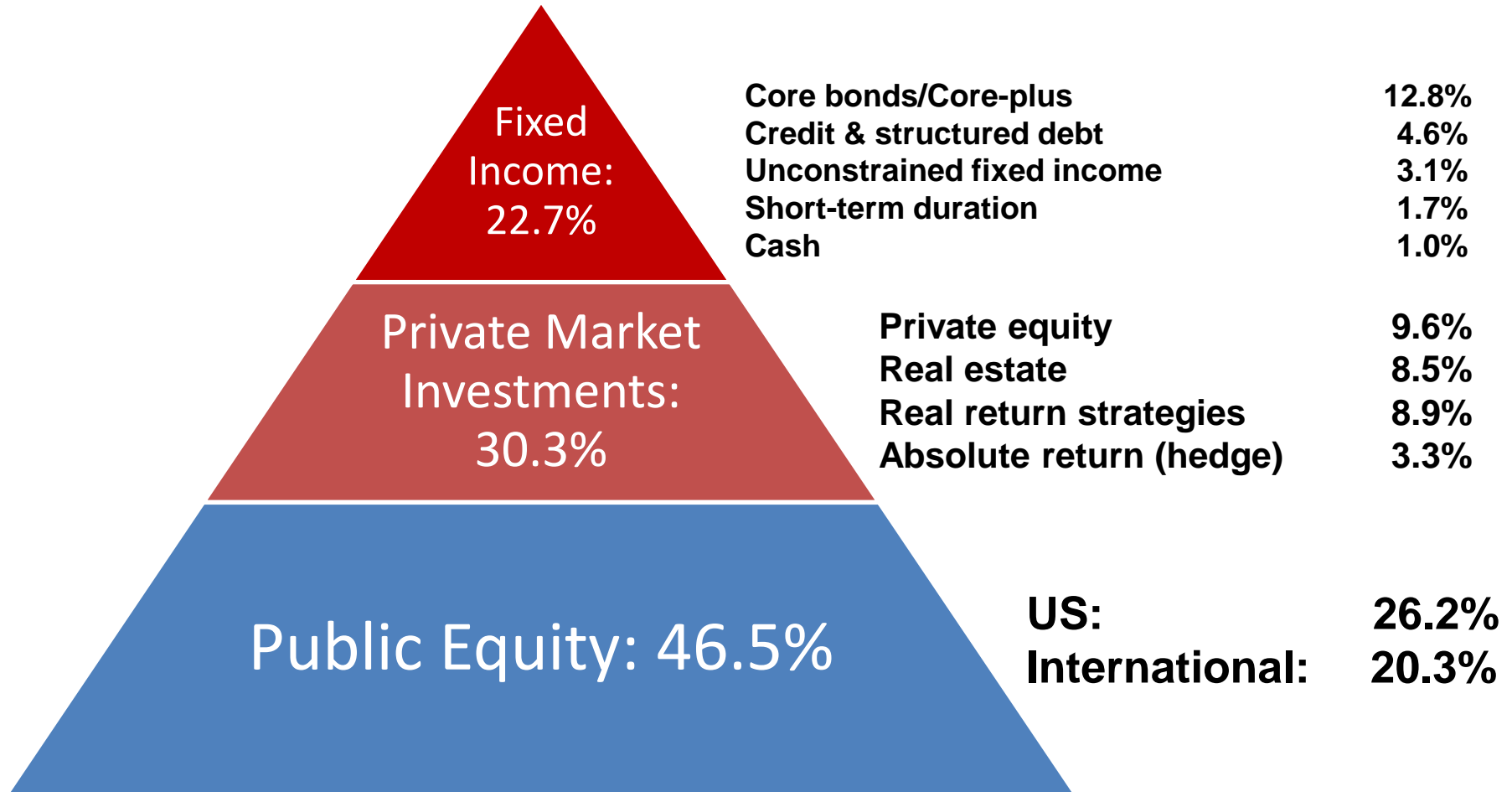
- ETIs currently in STPF statute:

<u>Statute</u>	<u>Description</u>	<u>Restrictions on Investment</u>
7-27-5.3	Mortgage pass-through securities, collateralized by New Mexico real estate	\$100 million/year
7-27-5.4	New Mexico business investments via Small Business Act or Farmers' Home Administration Act	20% STPF
7-27-5.5	Educational loans	10% STPF, \$10 million/year
7-27-5.13	Educational institution R&D facilities revenue bonds	10% STPF
7-27-5.15	NM private equity funds & business investments	9% STPF
	Small Business Investment Corporation	1% STPF, required by law
7-27-5.17	Employers Mutual company revenue bonds	\$10 million; 10-year T-bill rate
7-27-5.19	Deposits in NM financial institutions	20% of STPF
7-27-5.20	Deposits in NM credit unions	None
7-27-5.22	Correctional facility bonds	Obligations under 33-1-19 NMSA
7-27-5.24	State capitol building bonds	\$10.15 million
7-27-5.26	Film loan investments	6% STPF



Investment Allocation as of 9/30/17

Net assets: \$22.95 billion





ETIs in the SIC portfolio



**STPF=22%
of total assets**

**ETIs=7%
of STPF,
~\$350MM**



Economically Targeted Investments (ETIs)



- Primary ETIs in NM since inception:
 - NM Private Equity (1993-present)
 - » Up to 9% of the Severance Tax Permanent Fund
 - » Current allocation target: 5% of STPF
 - Small Business Investment Corporation (2000-present)
 - » Required 1% of the STPF
 - » Directed by SBIC board & Executive Director
 - NM Film Loans (2001-2008)
 - » Up to 6% of the STPF
 - » Council changed loan policy structure in 2011



Economically Targeted Investments (ETIs)



- Investment returns for ETIs lag historically
 - STPF underperformance attributed largely to ETI-impact
 - At peak of film-loan program, LFC estimated ETI opportunity-cost at \$40MM/year (about 1%)
 - Under tighter controls, higher standards, STPF financial performance has improved

Annualized net returns as of 6/30/17

	Value (\$1000s)	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Land Grant Permanent Fund	\$ 16,272,205	13.0	5.4	8.9	4.8
Severance Tax Permanent Fund	\$ 4,920,569	12.8	5.3	8.6	4.2
NM Private Equity	\$ 303,293	8.9	6.3	7.2	2.0
Other ETIs	\$ 37,921	-4.2	-0.3	1.4	-0.7



Economically Targeted Investments (ETIs)



- Fine-tuning ETIs
- NM private equity investment program
 - Broadening scope to address need
 - Creation of “NM Catalyst Fund”
 - » Investing in seed/early-stage start-up companies
 - » Partnering with new fund managers
 - » Creating next generation of NM tech companies
 - Statutory change improves NMPEIP
 - » Attracts other regional venture capitalists/expertise to NM
 - » Better networking, better portfolio diversification