

# Economically Targeted Investments (ETI)

## Investments & Pensions Oversight Committee

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# What are Economically Targeted Investments (ETIs)?

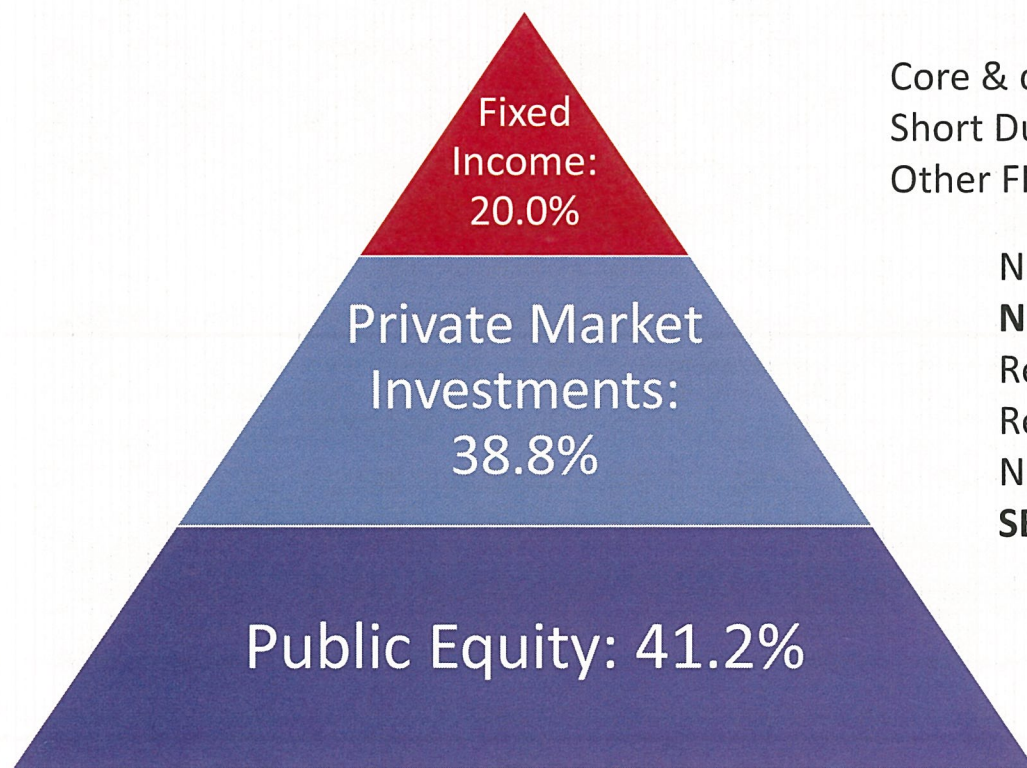
- Authorized by statute, NMSA 1978, § 7-27-5
  - Only allowed to be made from the Severance Tax Permanent Fund
  - ETIs can be differential-rate, or “below-market” in expected investment returns, in exchange for job/industry creation
  - The intent behind ETIs is dual track: “stimulate the economy of New Mexico” while also delivering financial returns
  - ETIs have specific statutory authorization for various strategies/programs
  - ETIs are not required to be made, with the exception of one: Small Business Investment Corporation (2% of the STPF)
  - Some programs have been repealed; many are inactive

# ETIs currently in statute:

<u>Statute</u>	<u>Description</u>	<u>Restrictions/terms</u>
7-27-5.3	Mortgage pass-through securities, collateralized by New Mexico real estate	\$100 million/year
7-27-5.4	NM business investments via Small Business Act of 1953 or Farmers' Home Administration Act of 1946	20% STPF
7-27-5.5	Educational loans via Educational Assistance Act	\$10,000,000
7-27-5.13	NM educational institution revenue bonds for R&D facilities	10% STPF
7-27-5.15	NM private equity funds & business investments	9% STPF
	NM Small Business Investment Corporation (NMSA §58-29-1)	2% STPF required*
7-27-5.17	Employers Mutual Company Act bonds (NMSA §52-9-1)	\$10,000,000
7-27-5.19	Deposits in NM financial institutions	20% STPF
7-27-5.20	Deposits in NM credit unions	None
7-27-5.22	Correctional facility bonds (NMSA §33-1-19)	None
7-27-5.24	State Capitol buildings & renovations	\$10.155 million
7-27-5.26	Film loan investments	6% STPF

\*The SBIC allocation percentage is established in statute, while all other ETIs are made at the discretion of the Council.

# Investment Allocation for \$5.5 Billion STPF



Core & core-plus bonds	10.2%
Short Duration	4.1%
Other FI Securities/Cash equivalents	5.7%

Natl Private equity	3.8%
<b>NM Private equity</b>	<b>7.5%</b>
Real estate	9.7%
Real return strategies	8.3%
Non-core fixed income	8.7%
<b>SBIC</b>	<b>0.8%</b>

US stocks:	19.6%
International stocks:	21.6%

Net asset value as of 6/30/19: \$5.51 billion

# Primary ETIs in NM Since Inception

- **NM Private Equity (1993-present)**
  - Up to 9% of the Severance Tax Permanent Fund
  - Long-term allocation target: 5% of STPF
  - Council is evaluating allocation size, additional strategies
- **Small Business Investment Corporation (2000-present)**
  - Allocation to double to 2% of the STPF due to SB10.
  - Directed by SBIC board, executive director & lending partners
- **NM Film Loans (2001-2008)**
  - Up to 6% of the STPF
  - Limited profit sharing (only 1 of 25 projects)
  - Council changed loan program to “market” rate loan in 2011, but interest limited today and no loans made since 2008.

# Economically Targeted Investments (ETIs)

- Investment returns for ETIs have lagged historically
  - Recent performance has improved significantly for NM Private Equity Investment Program
  - Concerns over number of realized investments, lack of quality “exits”
  - Under tighter controls, higher standards, ETIs have improved from negative returns in 1990s.

## Annualized Net Returns as of 5/31/19

	Value (\$1000s)	1 year	3 years	5 years	10 years
LGPF	\$17,916,570	2.23	7.83	5.66	8.73
STPF	\$5,117,802	1.98	7.73	5.57	8.45
NM Private Equity	\$409,336	8.66	8.97	7.54	6.78
SBIC	\$42,769	-2.28	1.23	0.50	0.28

# ETI challenges beyond “normal” investing

- ETIs require more controls, monitoring and evaluation of impact
  - SBIC: Only mandatory ETI, \$52.8 million deployed
    - Current fair market value \$42.7 million
  - NM Film Loans: \$243 million granted to 25 loans, all repaid in full
    - Two films saw combined returns of \$2.0 million, all others \$0
    - Opportunity cost: \$31.5 million (T-bills)
  - Region III Housing Authority bonds: \$5 million invested
    - Funds misused, only about \$2.5 million recovered
  - NM direct investments in Eclipse, Earthstone, TCI Medical
    - All three companies failed, Council decided to focus on investments made by professionals using fund structure thereafter

# Assessing & Fine Tuning ETIs for Prudent Expansion

- Council Key Steps:
  - Catalyst Fund: ~\$40M targeting early-stage/start-ups
    - Six funds (3 ABQ, 2 Santa Fe, 1 Las Cruces)
    - Co-Investment greater aligns interests
  - Statutory change (2017) removed barriers for regional VCs
    - More outside investment, more investors looking at NM
  - Working to align sector focus, coordinate with NM EDD on targeted industries (Aerospace, BioScience, Cybersecurity, Sustainable Energy, Intelligent Manufacturing)
  - Making investments in companies located on state trust land



# Assessing & Fine Tuning ETIs for Prudent Expansion

- NMPEIP advisor change to Mercer
- Sun Mountain Capital managing Co-Investment Fund and Catalyst Fund
- SIC Hiring NM Private Equity Portfolio Manager
  - Dedicated professional with full-time focus on NM
- Recent large investment rounds:
  - Meow Wolf (\$150 million)
  - Exagen (\$22.6 million)
  - 3D Glass Solutions (\$12 million)

