

Economically Targeted Investments (ETI)

Investments & Pensions Oversight Committee

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Charles Wollmann, Director Communications, Legislative & Client Affairs

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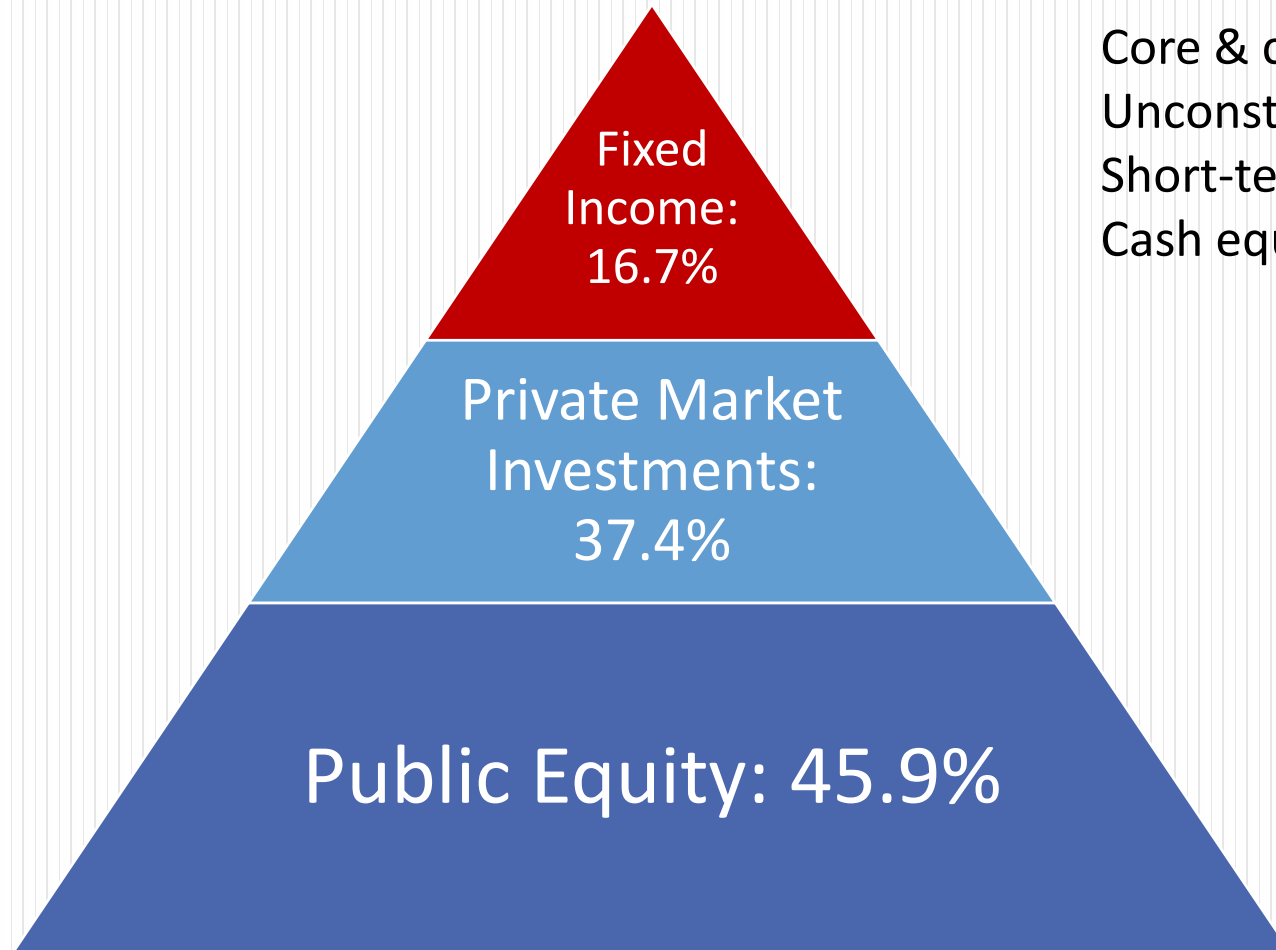
Economically Targeted Investments (ETIs)

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 - Some programs repealed; many inactive

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



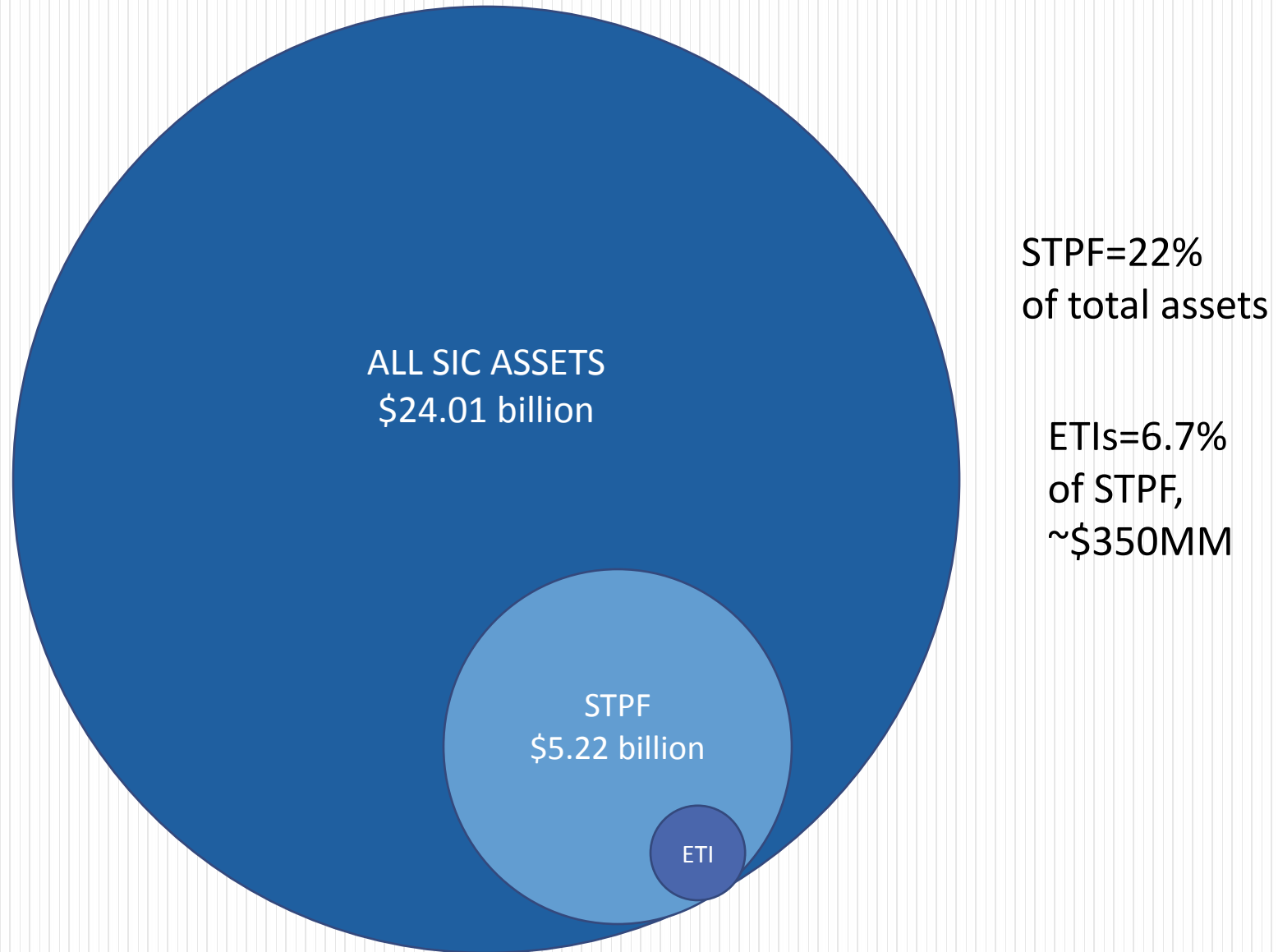
Core & core-plus bonds	11.0%
Unconstrained fixed income	1.4%
Short-term duration	2.3%
Cash equivalents	2.0%

Private equity	10.7%
Real estate	8.5%
Real return strategies	9.7%
Non-core fixed income	8.5%

US stocks:	25.0%
International stocks:	20.9%

Net assets as of 6/30/18: \$24.01 billion

ETIs in the SIC portfolio



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 6/30/18					
	Value (\$1000s)	1 year	3 years	5 years	10 years
LGPF	\$ 17,528,557	8.36	7.04	7.93	6.08
STPF	\$ 5,217,941	8.43	7.04	7.90	5.50
NM Private Equity	\$ 359,719	11.13	8.24	9.00	7.69
Other ETIs	\$ 40,448	6.66	3.06	2.87	1.72

Economically Targeted Investments (ETIs)

- ETIs require more controls, monitoring and evaluation of impact
 - SBIC: Only mandatory ETI, \$49.3 million deployed
 - Current value \$40.5 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, with minimal recoveries

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
 - Supporting next generation of NM tech companies
 - Statutory change improves NMPEIP
 - Attracts other regional venture capitalists/expertise to NM
 - Better networking, better portfolio diversification