

Verge FUND



INVEST. GROW. MAKE A DIFFERENCE.

*Investing in New Mexico:
Needs, Opportunities and
Benefits*

New Mexico Investments &
Pensions Oversight
Committee

October 19, 2017



Alternative Investments and Portfolio Volatility

- Since the financial crisis of 2007-2008, Public Pensions have reduced investments in public equities and fixed income in favor of increasing their positions in alternative assets.
- Research indicates that a patient approach to pension investments into long-term returns like alt. investments will see a reduced volatility within their portfolio, and will improve overall returns through strategic diversification.



“Invest In Ourselves” Philosophy

Moreover, several states have adopted investment models within the alternative asset class that focus on local investing, while still meeting their fiduciary obligations as stewards of public monies.

Why is investing locally in NM important?

Supports & Promotes
Entrepreneurs and
Entrepreneurial
Community

Innovation Led
Economy

Job Creation
(High Paying, Tech)

Wealth Creation

Economic
Development

Provides support &
opportunities for
Under-Appreciated
Talent

The State of New York Common Retirement Fund

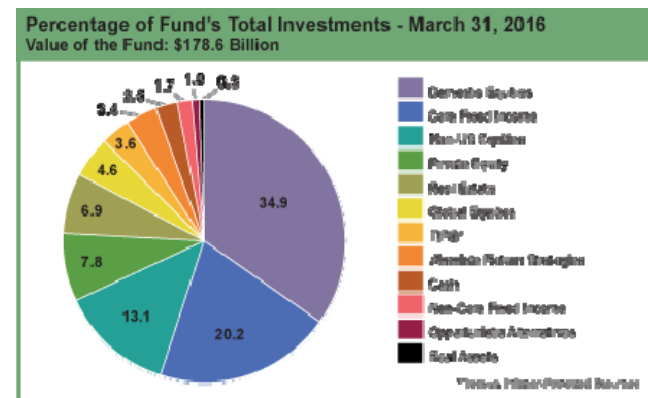
This program invests in private equity funds that target technology-based startups and established businesses in New York State seeking expansion capital.

The program generates solid returns for the state pension fund and the one million members, retirees and beneficiaries who depend on it.

As an added bonus, it spurs private sector investments and jobs—upstate and downstate—by investing in businesses that want to expand in New York.

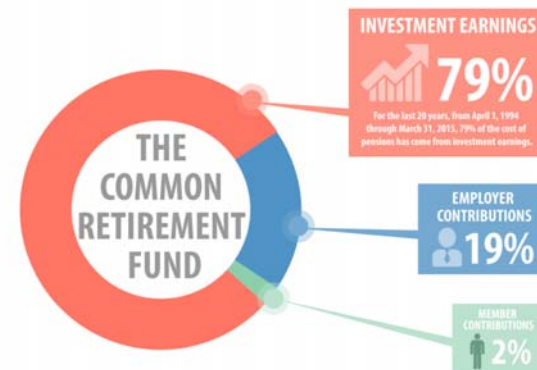
More than \$800 million has already been invested in over 300 New York State companies.

Since 2007, Comptroller DiNapoli has doubled the capital committed to this program.



HOW NYSLRS PENSIONS ARE FUNDED

The Common Retirement Fund's assets come from three main sources: investment earnings, employer contributions, and member contributions.



SOURCE: New York State and Local Retirement System <http://www.nyslrs.org>

Wisconsin State Badger Fund of Funds

Badger Fund of Funds is an initiative aimed at providing capital to early stage Wisconsin-based startup companies. The Badger Fund has invested in two local recipient funds that will directly invest into startups.

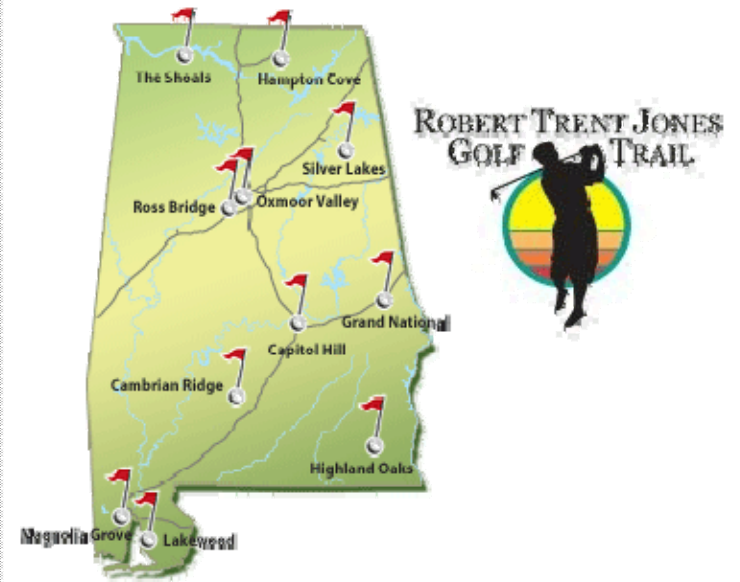
While recipient funds can invest in startups basically anywhere in WI, part of the idea is to move more money into companies outside of Milwaukee and Madison, the state's two biggest cities.



Alabama State Robert Trent Jones Golf Trail

The Robert Trent Jones Golf Trail, which started as a gamble, is celebrating its silver anniversary. The trail encompasses 468 holes on 26 courses at 11 sites scattered throughout Alabama. It opened in 1992 with seven facilities, the brainchild of David Bronner, chief operating officer of the Retirement Systems of Alabama. Bronner chose Robert Trent Jones Sr., the famed golf course architect, and his company to design the series of courses

“When we started out, this program was a \$1.8 billion industry a year,” Bronner said. “Now it’s an annual \$13 billion industry. What that has done is affect the north to the central to the south of the state with tourism. Those dollars flow into those communities.” – Dr. Bronner

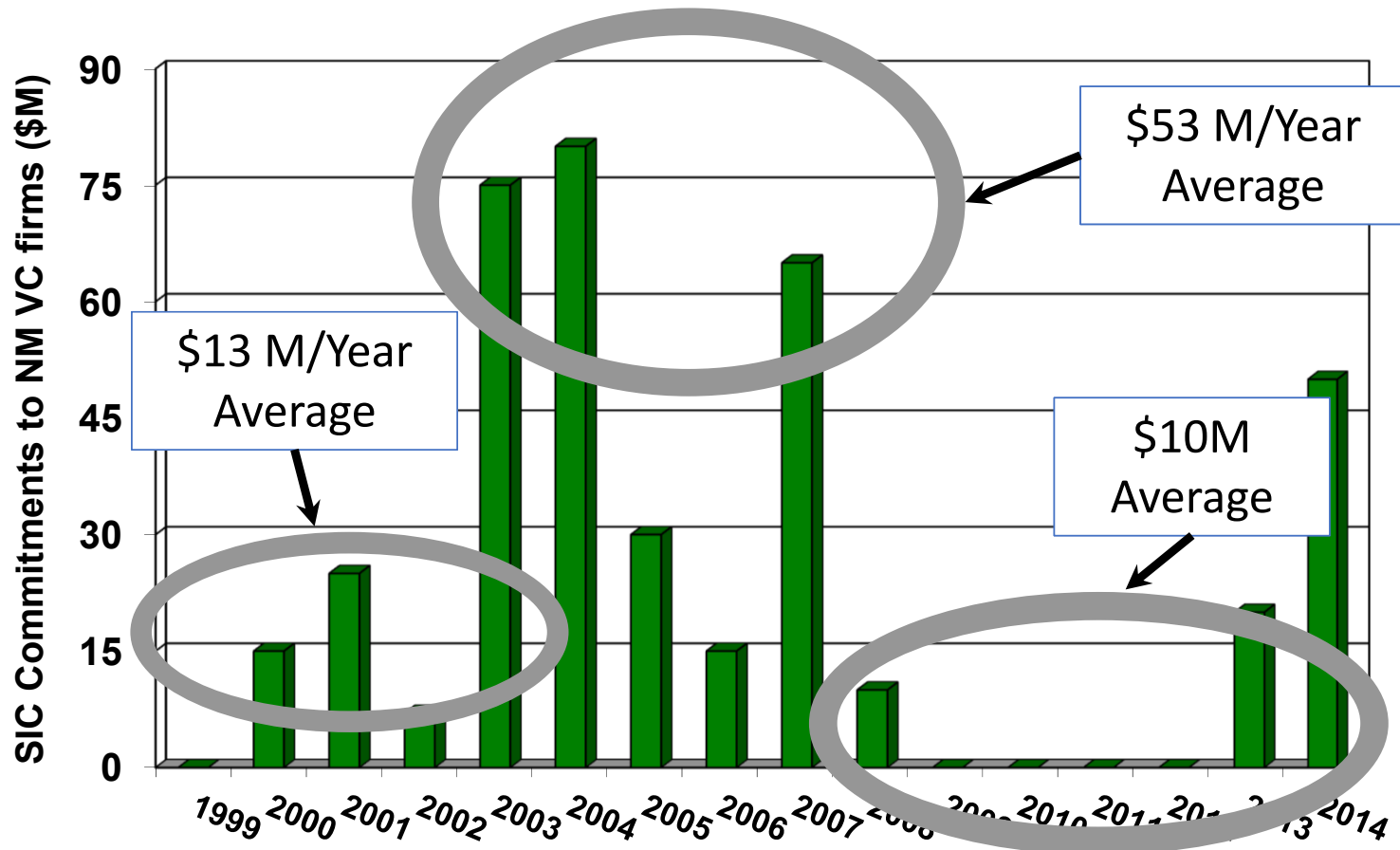


New Mexico Regional Investment Program

- The New Mexico State Investment Council (“SIC”) has the authority to allocate a portion of the assets of the Severance Tax Permanent Fund (“STPF”) to investments in private equity funds that invest in New Mexico based companies (“Funds”) and/or co-investments directly in New Mexico companies (“CoInvestments”). The maximum target allocation to New Mexico private equity is 9% of the STPF by statute (Section 7-27-5.15 NMSA 1978)
- Current target is 5% - roughly \$250M to invest
- Includes new Catalyst Fund



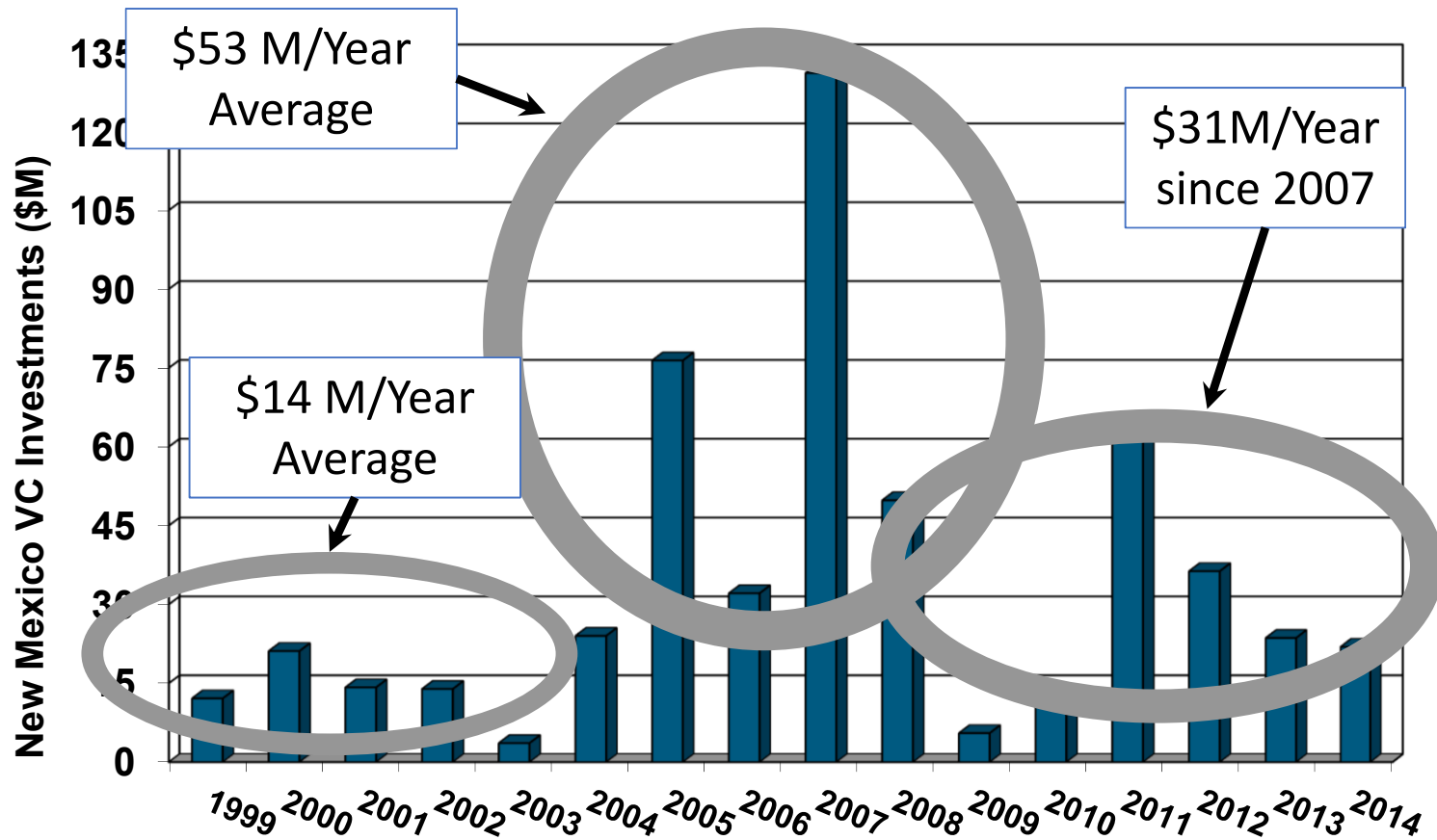
NM SIC Commitments to NM VC Firms



Numbers courtesy of Sun Mountain Capital/NM SIC

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NM VC Investments



Numbers courtesy of PriceWaterhouseCoopers/NVCA

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VC Backed Companies in New Mexico



**Descartes
Labs**



LAVU®

ASPEN  AVIONICS

boomtime



PEIP v. National Benchmark

Vintage	NMPEIP Net IRR	Preqin Quartile
1993	44.8%	Second
1994	N/A	--
1995	N/A	--
1996	(0.9%)	Fourth
1997	N/A	--
1998	(20.6%)	Fourth
1999	N/A	--
2000	(7.4%)	Third
2001	1.7%	Third
2002	(2.1%)	Third
2003	(20.6%)	Fourth
2004	(3.9%)	Third
2005	(2.7%)	Third
2006	9.7%	Second
2007	4.0%	Third
2008	9.9%	Second
2009	N/A	--
2010	N/A	--
2011	N/A	--
2012	N/A	--
2013*	1.87x	First
2014*	1.39x	First
2015*	1.50x	First
2016**	N/A	--

How do Our Returns Compare?

- You can invest locally in New Mexico and expect the same returns you can expect Nationally
- Investment multiplier of 6.1x

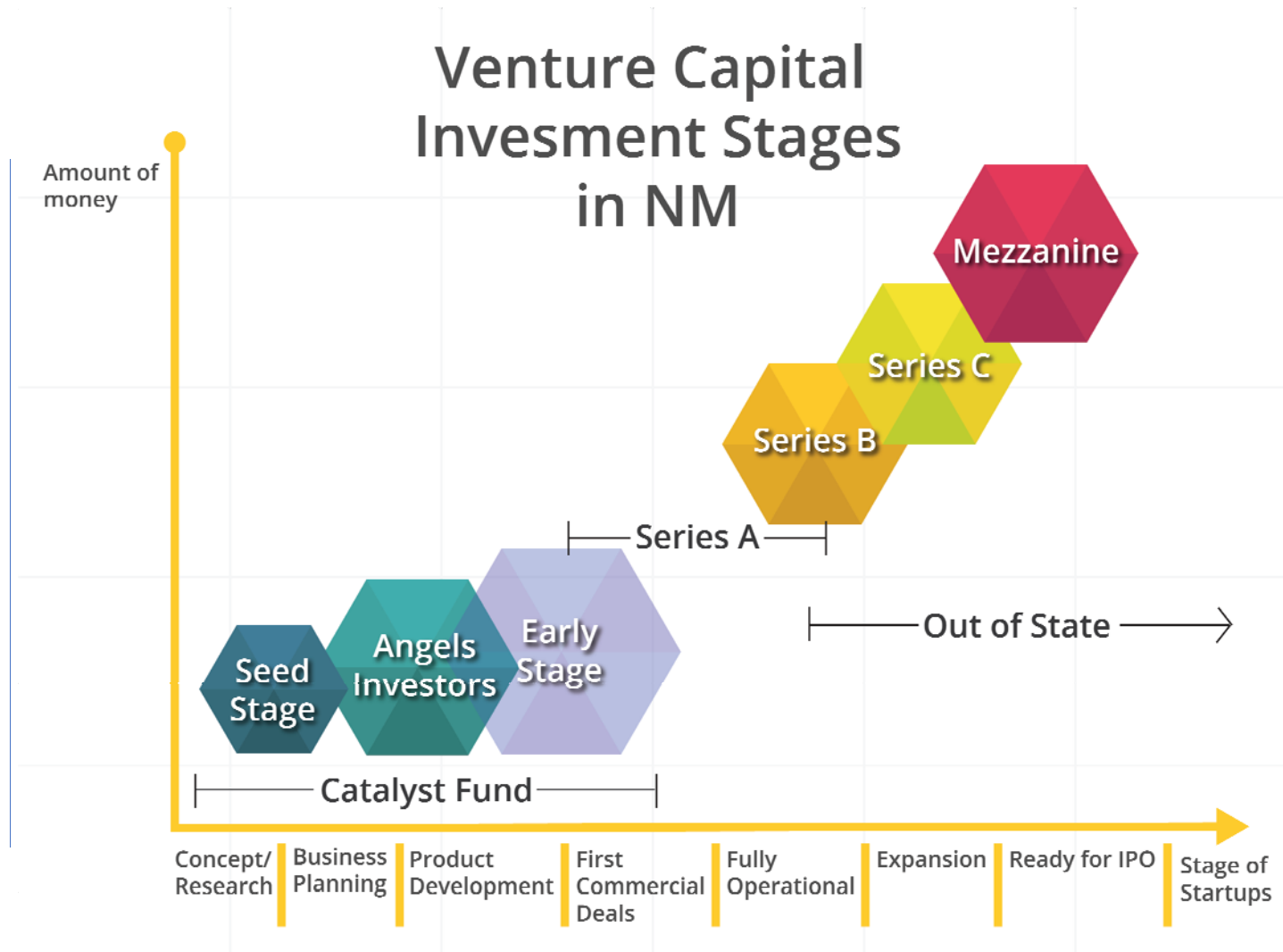


NM VC by the numbers

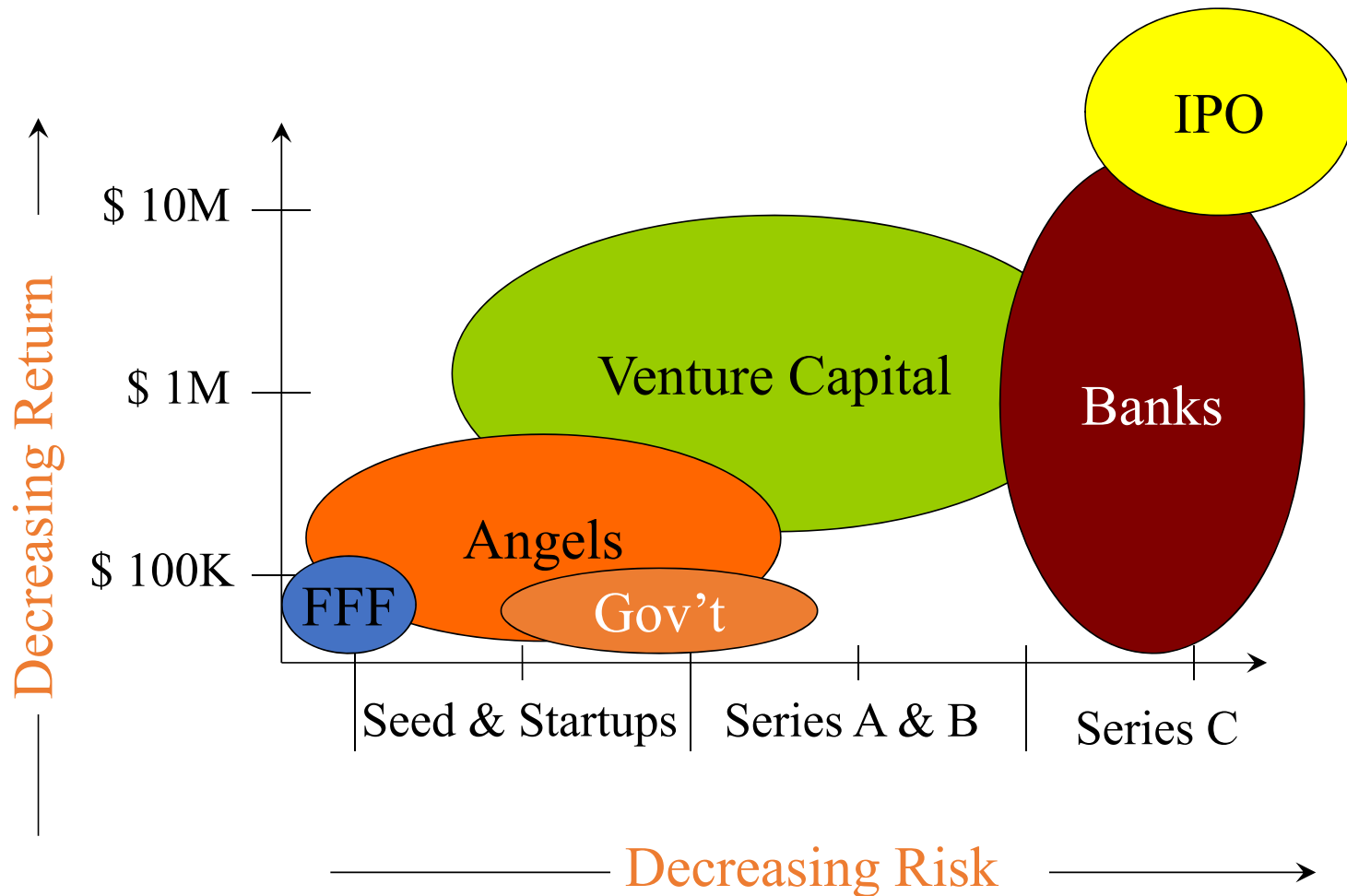
Each \$1 Invested by SIC produces
\$6.1 in total Investment

\$235 Million in SIC commitments
produced over \$1.4B in capital
for NM companies

The Startup Black Hole



Where VCs Sit in Funding Spectrum



But challenges remain....

The logo for Verge FUND, featuring the word "Verge" in a blue serif font and "FUND" in a smaller, green, all-caps sans-serif font to its right.

“Little sustaining benefit to the state will result either from creation of an entrepreneurial ecosystem or from converting ideas into companies if those businesses were to leave the state to grow. Reasons for leaving could include lack of access to capital, policies and taxes that are considered by some to be unreasonable or unfriendly, and merely the belief that New Mexico’s business climate is not conducive to growth.”

- New Mexico Department of Workforce Solutions Economic Research and Analysis Bureau 2015



Recommendations

Expand Angel Tax Credit

- Increase pool of credit
- Make pool available to out-of-state investors

Bring out-of-state dollars into NM to support our start-ups

Make Sale of NM Businesses Exempt from NM Capital Gains Tax

Reward NM entrepreneurs & their employees for taking risks

Spur more institutional investments by the State of NM

Encourage local investment by PERA and ERB

Encourage local investment by other sources:
university endowments and private pensions

*Local Investors drive local investment and only
institutions can support later-stage growth*



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