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# INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE: NMSIC NEW MEXICO PRIVATE EQUITY INVESTMENT PROGRAM

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August 18, 2023



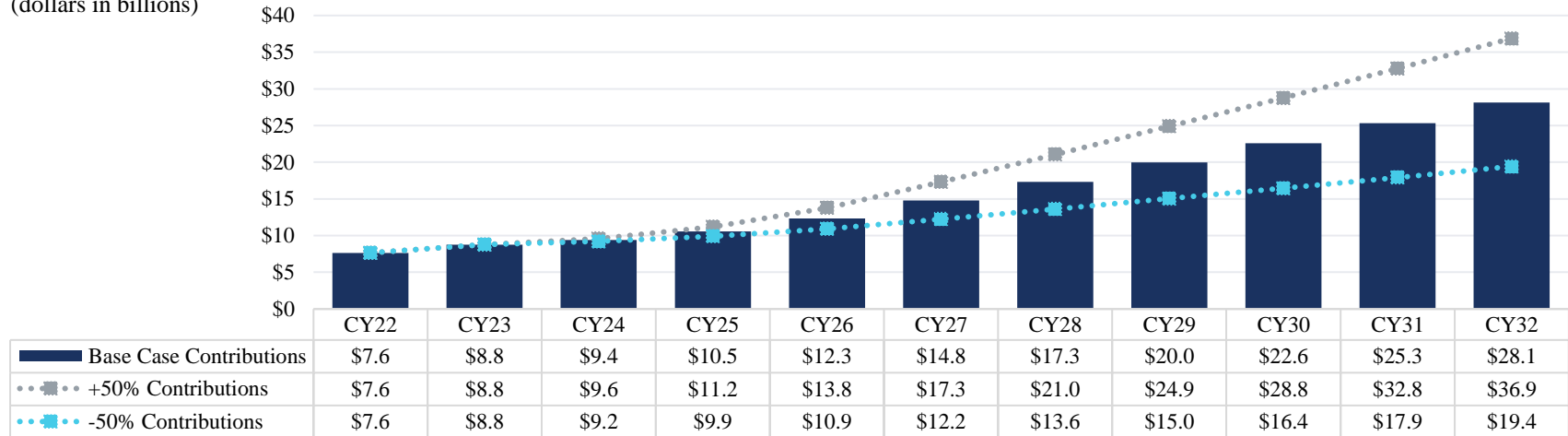
# STPF: SEEKING A DOUBLE BOTTOM-LINE VIA ECONOMICALLY-TARGETED INVESTMENTS (ETI)

- The STPF is the only SIC-managed NM fund that is legally authorized to make differential rate investments (which under NMSA 1978 Section 7-27-5): “...are intended to stimulate the economy of New Mexico and to provide income to the severance tax permanent fund.”
- 7-27-5.14 Findings & purpose: “The legislature finds that the health of the New Mexico economy is heavily dependent on the establishment and expansion of small businesses and that the lack of available private equity is an impediment to the start-up and growth of businesses in the state. The legislature further finds that the commercialization of technology conceived in the universities and the federal scientific and engineering laboratories and test facilities in the state is likely to occur elsewhere unless sources of local private equity are developed...”
- Up to 11% of the STPF (which was valued at ~\$8.4 billion as of 6/30/23) may be invested in NM Private Equity (NMPEIP)
- Recent SIC activity: America’s Frontier Fund (\$100M), Playground Ventures (\$35M), Lux Ventures VIII (\$62.5M), and Crosslink X (\$35M) & possibly more in August
- Ongoing NM venture ecosystem developments:
  - Ramping growth forecast for the STPF – which organically grows amount of capital available
  - NM Finance Authority Venture Capital Program (\$50M)
  - State Small Business Credit Initiative 2.0, overseen by NMFA & EDD (\$74M)

# SEVERANCE TAX PERMANENT FUND OUTLOOK

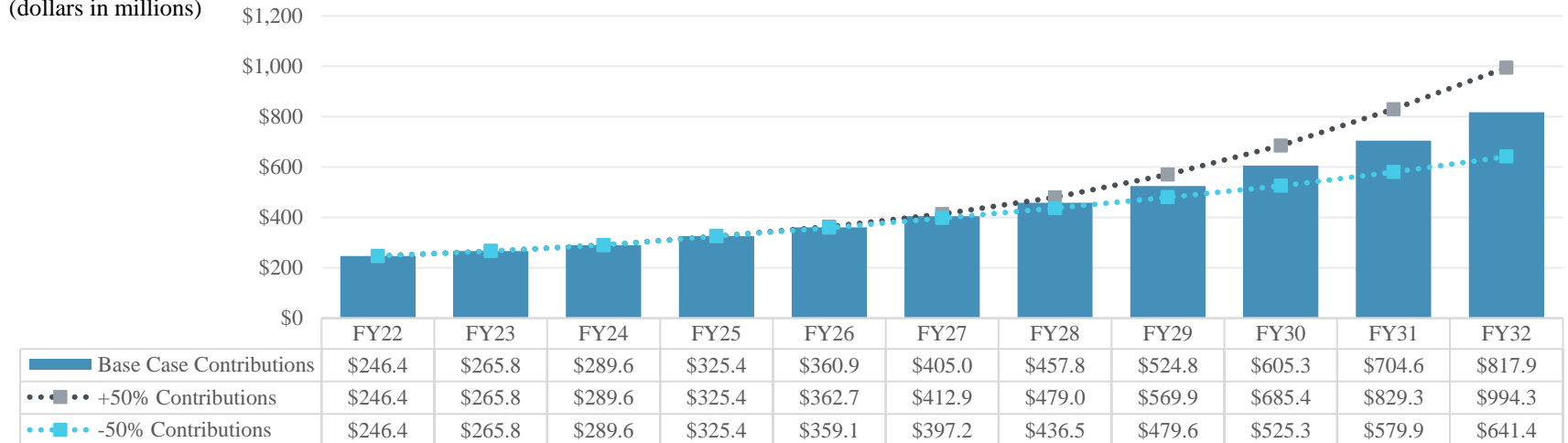
## Severance Tax Permanent Fund (STPF) Portfolio Value Estimates

(dollars in billions)



## Severance Tax Permanent Fund (STPF) Distribution Estimates

(dollars in millions)



# Strategies In Private Equity Investments Over a Company's Life Cycle

Development

Early Growth

Accelerated Growth

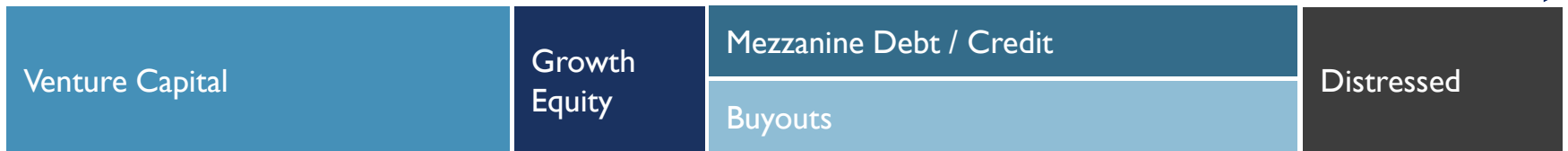
Maturity

Decline

Focus Area of the New Mexico Private Equity Investment Program ("NMPEIP")

- Each stage of the business life cycle requires a specialized skill set.
- Most private equity strategies focus on a particular stage of the business life cycle.

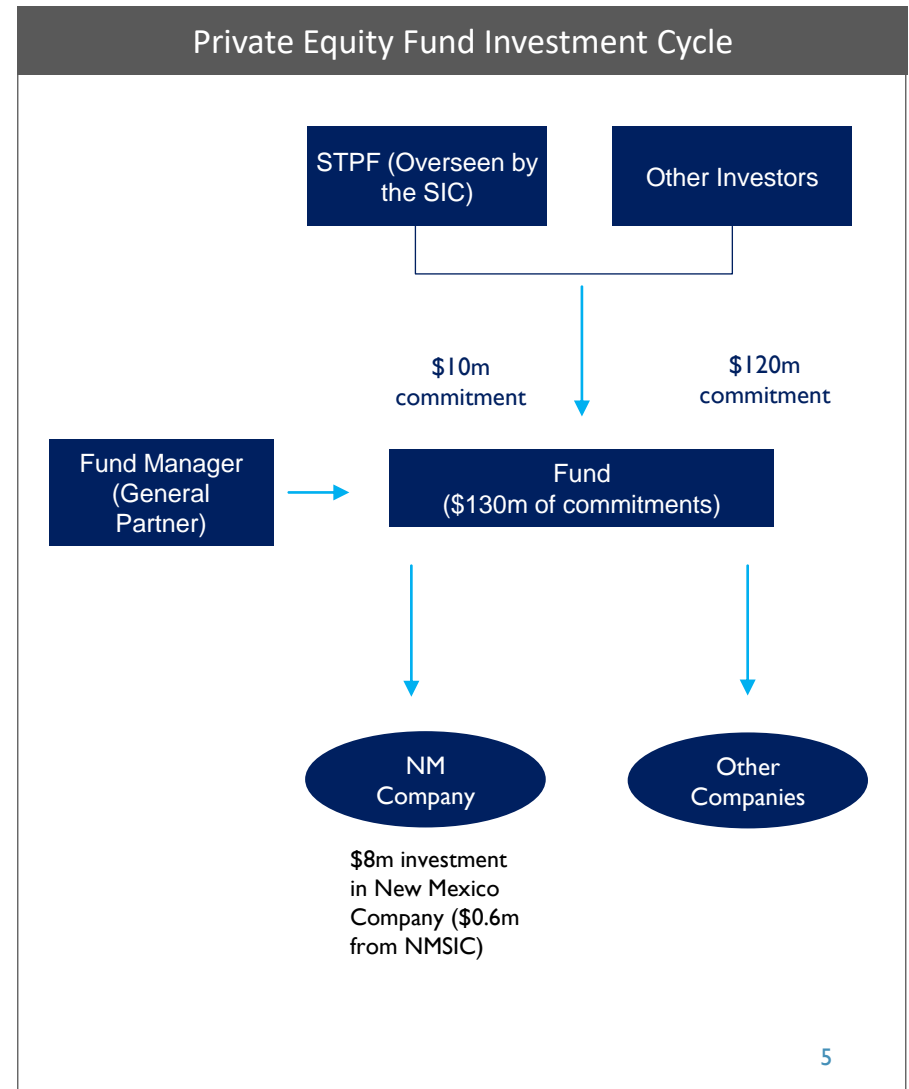
Stage



For illustration purposes only

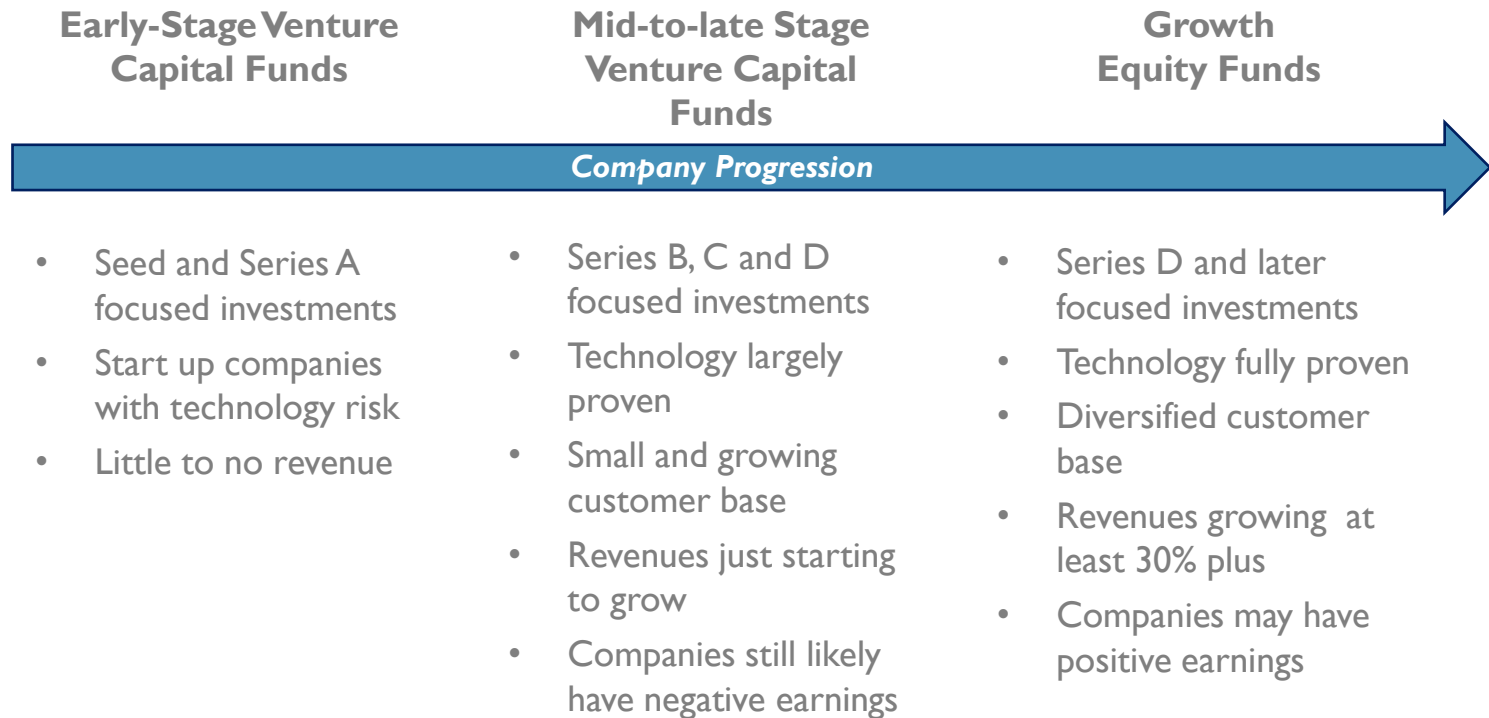
# How NMPEIP Benefits New Mexico Companies

- The New Mexico State Investment Council (“SIC”) commits to a fund using capital from the Severance Tax Permanent Fund (“STPF”)
- The fund manager uses the pool of fund capital to invest in a number of companies over two to four years
- All fund investors invest in the fund’s companies (i.e., when there is an investment in a New Mexico company, SIC and other investors’ capital is used)
- The fund manager focuses on creating value at companies so they can be realized at a higher value
- Potential value-add initiatives provided by the fund manager include:
  - Customer/co-investor introductions
  - Recruit talent to augment the management team
  - Identify add-on acquisitions
  - Review and assist with strategy and organic growth plans



# VENTURE CAPITAL COMPANY DEVELOPMENT

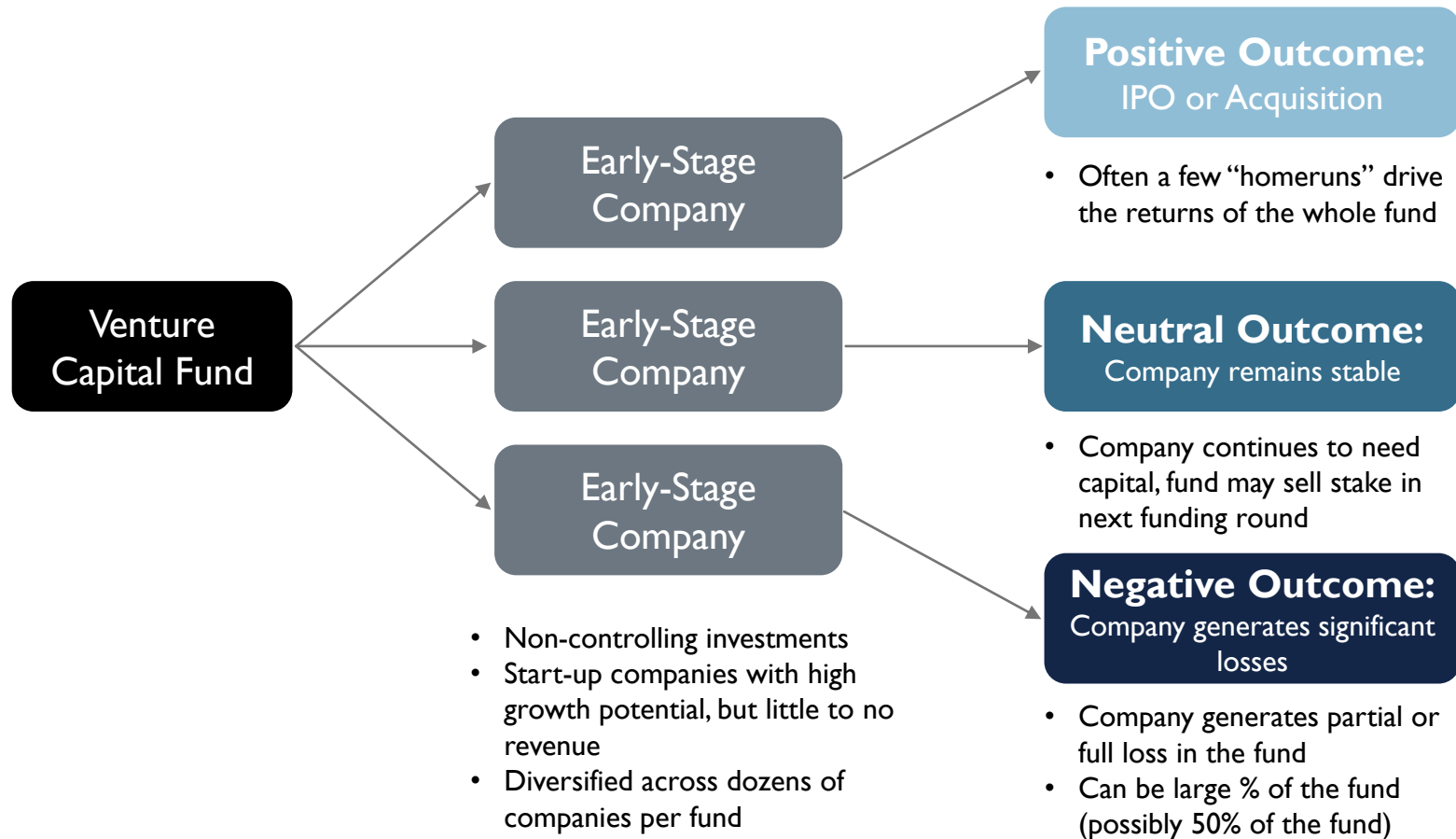
- Successful companies often have to raise multiple rounds of capital, which is typically done after meeting developmental milestones
  - Companies that do not make progress typically pivot operations to a new area or wind down operations
- Companies typically raise capital from multiple sources as there is positive operational progress



# VENTURE CAPITAL RISK

- Venture capital is a volatile asset class where outcomes can be highly variable

## Potential Outcomes of a Venture Capital Investment



# NMPEIP STRUCTURE – FOUR APPROACHES

- Fund Investments
  - Commit to a fund manager who seeks multiple investments according to its investment strategy
- Co-Investment Funds
  - Managed by Sun Mountain Capital to invest alongside other fund managers
- Catalyst Fund
  - Managed by Sun Mountain Capital; \$20 million fund-of-funds that invests in emerging and existing venture capital funds in New Mexico
- Recovery Fund
  - \$100 million fund to make short-term loans to medium-to-large size New Mexico businesses that have been impacted by the COVID-19 pandemic

## NMPEIP Structure and Performance

As of March 31, 2023 (\$ in millions)

Portfolio	# of Funds	Commit.	Contributed	Distributed	NAV	Total Value	Net Multiple <sup>1</sup>	Net IRR <sup>1</sup>
<b>Active Commitments</b>								
Fund Investments	33	\$ 342.8	\$ 235.7	\$ 144.4	\$ 141.2	\$ 285.6	1.21x	2.9%
Co-Investment Funds	5	197.6	207.1	13.2	238.6	251.8	1.22x	2.2%
Catalyst Fund	1	10.0	6.6	0.0	6.9	7.0	1.06x	2.0%
Recovery Fund	1	100.0	94.2	66.5	31.4	97.9	1.04x	2.3%
Sub-total	40	\$ 650.4	\$ 543.6	\$ 224.2	\$ 418.1	\$ 642.3	1.18x	2.6%
<b>Liquidated Funds</b>	15	150.7	151.2	91.6	-	91.6	0.61x	(6.2%)
<b>Grand Total</b>	<b>55</b>	<b>\$ 801.1</b>	<b>\$ 694.7</b>	<b>\$ 315.8</b>	<b>\$ 418.1</b>	<b>\$ 733.9</b>	<b>1.06x</b>	<b>0.7%</b>

Source: Invient.

<sup>1</sup> Performance since inception



# Current NMPEIP Goals and Progress

## NMPEIP Activities

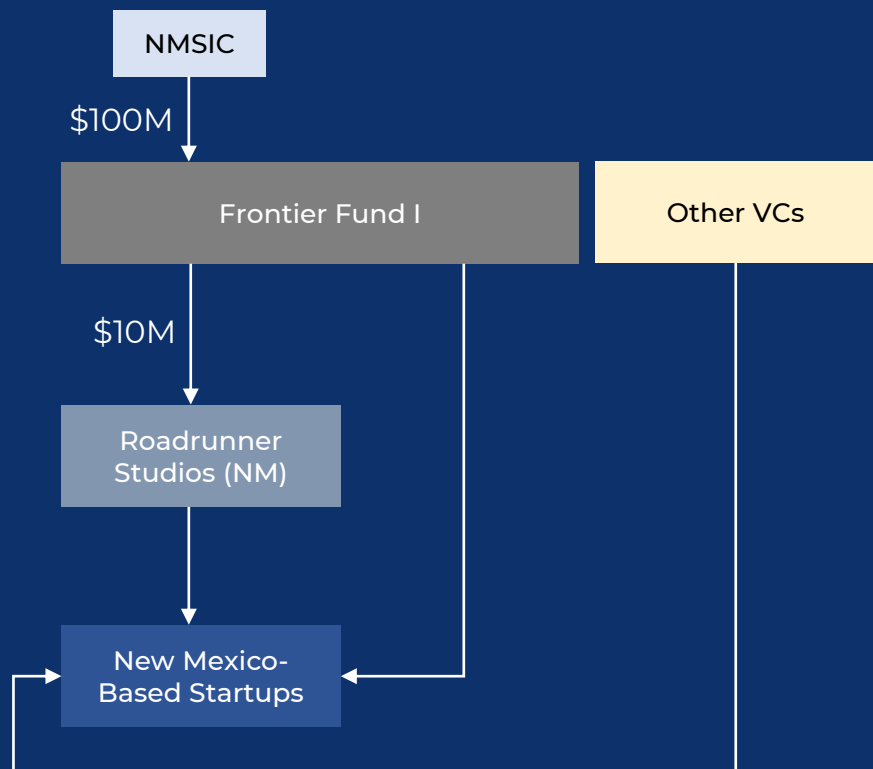
- **Generate a positive economic impact for the State of New Mexico**
  - New Mexico companies have received \$518 million from funds in the NMPEIP <sup>1</sup>
  - Total jobs reported at New Mexico companies in NMPEIP is 4,611 with job growth of 2,026 <sup>1</sup>
- **Earn a positive return on an overall portfolio basis**
  - Overall return as of March 31, 2023 is 0.7% (active commitments have an overall return of 2.6%)
- **Increase the number of managers in NMPEIP**
  - Since 2022, six new fund commitments for \$248 million to three existing NMPEIP managers and three new managers
- **Increase the number of active companies in the portfolio**
  - 15 new NM-based companies received investment through NMPEIP funds over the last two years
- **Help foster a more robust local venture capital community**
  - Commitment to Frontier Fund I which led to the establishment of Roadrunner Studios
  - Continue to introduce New Mexico-based managers to national fund managers for knowledge sharing and potential syndication of investments

<sup>1</sup> Data as of March 31, 2023 and includes New Mexico-based companies in NMPEIP from 2000 to 2023, including both active and realized companies.

Source: Inviert for financial performance; fund managers for economic data

## Frontier Fund I

FFI will invest into New Mexico by building a Frontier Tech Venture Studio



*For Illustrative Purposes*

- FFI is a Frontier tech venture fund
- NMSIC committed up to \$100M into FFI
- FFI's first investment is a \$10M equity investment to build Roadrunner Studios
- FFI will invest in companies that come out of the Roadrunner Studios
- Each investment will attract external co-investment

## **An FFI-New Mexico Partnership: Roadrunner Studios \***

Roadrunner Studios creates satellites across the state while also serving as the headquarters and hub of a nationwide Virtual Silicon Valley venture Studio Network

### Roadrunner Studios Capabilities

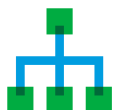
- **National Talent Network + CEO network**
- **Lab access and management**
- **New Mexico talent on staff**
- **Expert networks**
- **Commercialization expertise**
- **Back-end support services (legal, finance, IT)**

*\* Pending trademark approval*

# IMPLEMENTATION CONSIDERATIONS

## PRIVATE MARKETS MANAGER SELECTION – FOUR FACTORS

- SIC Staff and Mercer (Advisor for NMPEIP) have an established process to source, screen and evaluate new fund investments
- Each investment undergoes a full due diligence process that examines multiple characteristics, which can be summarized in the following four factors



### Business Management

- Team expertise and experience
- Team capacity and stability
- Organizational Structure



### Alignment

- Measure of mutual interest between fund managers and investors
- Fund terms for fund under evaluation and changes from previous fund(s)



### Strategy

- Investment focus and process
- Value creation / protection capabilities
- Fund size
- Relevance of track record for the investment strategy



### Track Record

- Sourcing / allocation of capital
- Investment pacing
- Return components
- Realized and unrealized track record

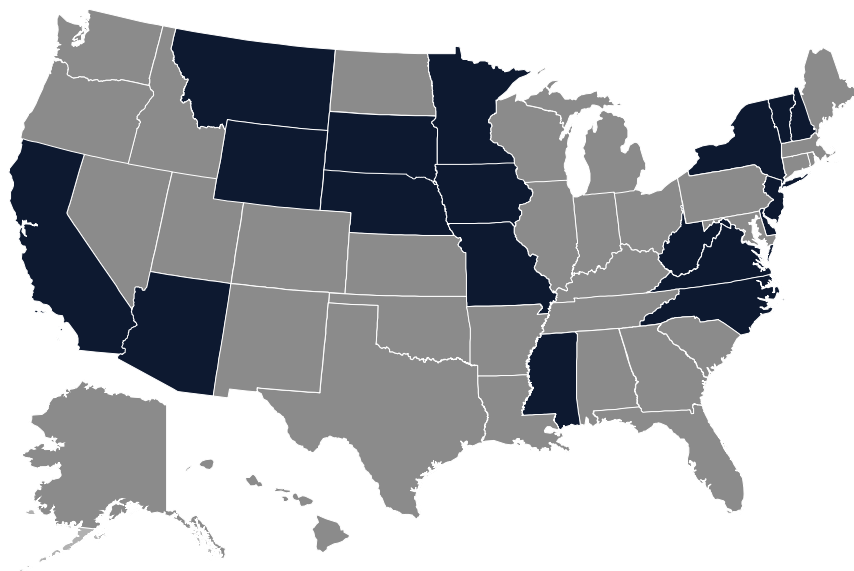
## SUMMARY

- The NMPEIP continues to target experienced fund managers who will target New Mexico-based companies, including local managers
  - Goal is for local companies to have multiple opportunities to raise capital
  - The NMPEIP does not invest directly in companies; fund managers choose which companies receive investments
  
- The strategy seeks to diversify risk across multiple managers and companies rather than a few managers given the volatility of venture capital performance
  - Gaining exposure to multiple companies improves diversification so that the outcome of one company does not drive results
  - Given the high loss ratios in venture capital, diversification increases the likelihood of earning a positive return on a portfolio basis
  
- The NMPEIP focuses both on performance metrics and economic growth metrics to measure success
  
- The SIC has an institutional process to evaluate fund investments, with each fund going through a due diligence process



# Appendix

- Many states have similar investment programs
- New Mexico's program has historically been one of the largest



States with an investment program

States with no known investment program

**New Mexico:** NMPEIP (1993, overseen by State Investment Council) – \$684m (Severance Tax Permanent Fund)

### Other Select State Programs:

- **Alaska:** Alaska Investment Program (2019) – \$200m (Permanent Fund)
- **California:** CalPERS ‘California Initiative’ (2001) – Invested \$1 billion since inception
- **Colorado:** Mile High Fund – \$50m co-investment fund (pension); Greater Colorado Fund (2018) – \$9.1m (Office of Economic Development) – targets rural businesses
- **Florida:** Growth Fund (2009) – \$740m under management (fund and co-investments)
- **Georgia:** Invest Georgia (2013) – \$40m (State of Georgia) – Invests in Georgia-based funds
- **Indiana:** Next Level Fund (2017) – \$250m (state investment portfolio)
- **Iowa:** Iowa Fund of Funds (2002) – \$57 m (tax credits)
- **Ohio:** Ohio Capital Fund (2005) – \$133m; Cintrifuse Fund (corporate investors)
- **Oklahoma:** Oklahoma Capital Investment Board (1994; 2005) – \$100m tax credits
- **Oregon:** Oregon Investment Fund (2005) – \$158m (ORPERF)
- **Michigan:** Michigan Renaissance Fund (2008 - corporate investors)
- **Nevada:** Silver State Opportunity Fund (2013) – \$50m (Permanent Fund)
- **North Dakota:** ND Growth Fund (2021) – \$264m (Legacy Fund)
- **Utah:** Utah Fund of Funds (2006) – \$121m (contingent tax credits)
- **Wisconsin:** Badger Fund of Funds – \$25m

*Based on best available public information. Note that the map and table may not include every investment program in the United States*

# OTHER EXISTING ECONOMIC DEVELOPMENT OPTIONS

- **Economic development funds/programs:**
  - LEDA, JTIP (dollars to incentivize business relocation/expansion & job training in NM)
  
- **State Small Business Credit Initiative (SSBCI)**
  - Department of Treasury funding intended to create businesses and economic growth
  
- **NM Finance Authority's Venture Capital Program**
  - Board approved new policies and procedures in July
  
- **Small Business Investment Corporation (SBIC)**
  - 2% of STPF for business loans through various loan partners
  
- **Start-up Incubators & Accelerators**
  - Often venture capital or university-backed growth and advantage programs for start-ups



# NMPEIP STATUTE OVERVIEW

## Statute Summary for the NMPEIP

<b>NMPEIP Size</b>	<ul style="list-style-type: none"> <li>• No more than 11% of the market value of the STPF</li> <li>• The SIC has set a target of 9%</li> </ul>
<b>Return</b>	<ul style="list-style-type: none"> <li>• “Differential rate investments” are permitted and intended to: 1) stimulate the economy of New Mexico and 2) provide income to STPF</li> <li>• NMPEIP strategy seeks to balance the risk of venture capital with generating a return for the STPF</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• The SIC oversees NMPEIP investment activity, approving all venture fund commitments</li> </ul>
<b>Minimum Requirements</b>	<ul style="list-style-type: none"> <li>• Invest for start-up, expansion, product or market development, recapitalization or similar business purpose;</li> <li>• Seek capital appreciation;</li> <li>• Employ one full-time manager with at least three years of professional experience in a similar strategy;</li> <li>• Invest or cause others to invest an amount in New Mexico companies equal to the commitment made by the SIC; and</li> <li>• The fund accepts investments only from accredited investors with at least \$5 million in overall assets.</li> </ul>

Source: New Mexico Statute 7-27-5 and 7-27-5.15