

NEW MEXICO
FINANCE AUTHORITY

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Presentation to NMFA Oversight Committee

NMFA Venture Capital Program Rules & Investment Policy Overview

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- ◆ **Venture Capital Program Fund Update**
- ◆ **Rules governing the Venture Capital Program Fund**
- ◆ **NMFA Venture Capital Investment Policy**

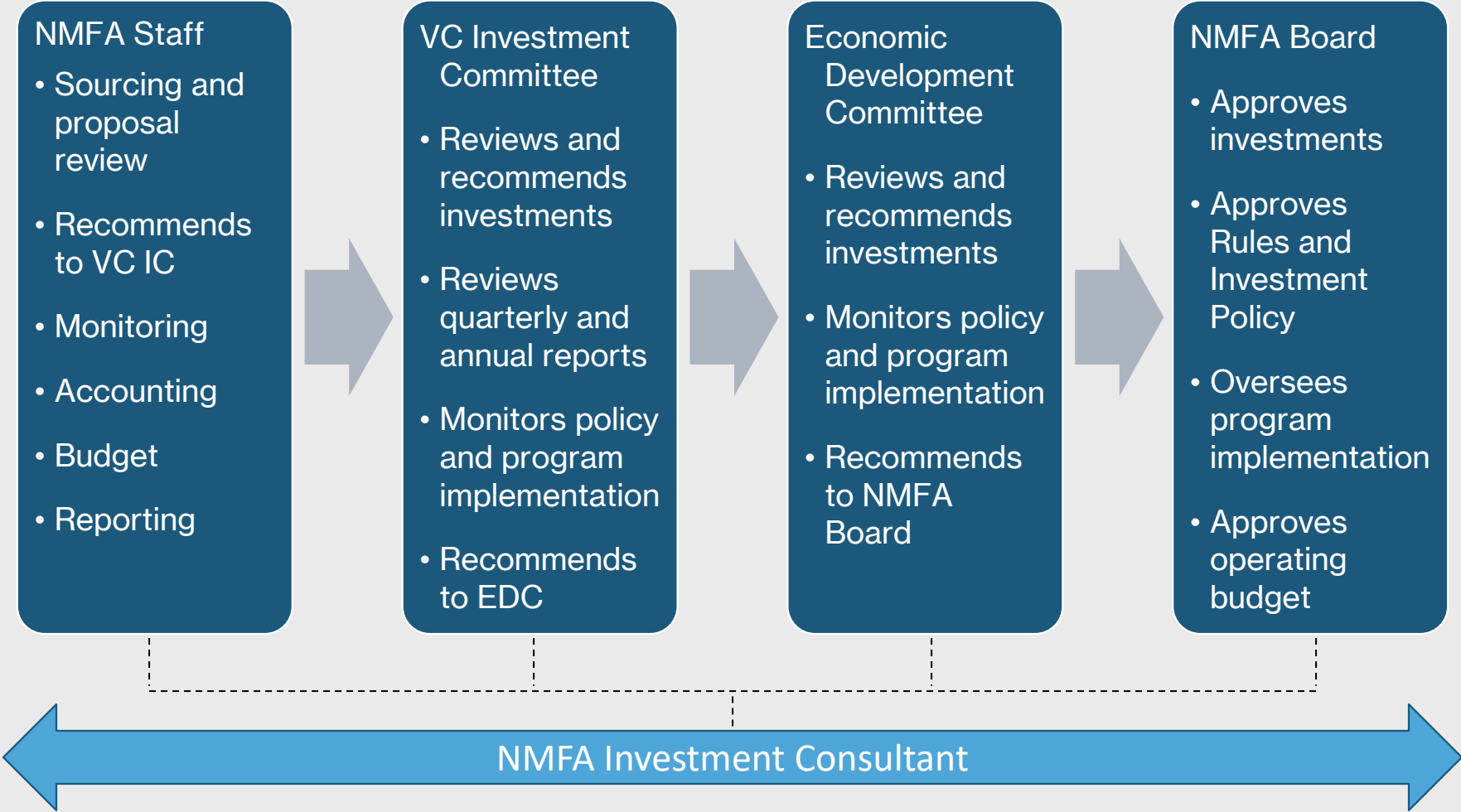
- ◆ **The Venture Capital Program Act – 2022 HB 104/a & 2023 SB 402**
 - Sponsored by Representatives Meredith A. Dixon, Linda Serrato, Javier Martinez and Antonio Maestas and Senator Martin Hickey
 - Creates in the NMFA the Venture Capital Program Fund and authorizes the NMFA Board to:
 - make investments in **New Mexico businesses** that enhance economic development objectives of the state and create new job opportunities
 - Investments are made for the purpose of providing capital for start-up, expansion, product or market development, recapitalization or early-stage development.
 - Investments are made as equity or debt through:
 - **Direct Investment**
 - **Venture private equity funds** – an entity that makes, manages or sources potential investments. Has at least one full-time, experienced manager
 - Investment in one business cannot exceed 10% and in one industry cannot exceed 30%
 - Report annually on investment activity and economic development impact
 - \$35 million appropriated in FY2022 & \$15 million from 2023's HB2




Implementation Update



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- ◆ NMFA will operate the Venture Capital Program Fund with the support of Meketa Investment Group, approved by the NMFA Board in June 2023
- ◆ Rules and Venture Capital Investment Policy adopted by NMFA Board in July 2023
- ◆ First investments in venture private equity funds expected August-October 2023
 - Anchor investments in new funds focusing on New Mexico businesses
 - Investments in funds with sector and thematic alignment



Agency			
Program Size*	~\$640 million	~\$20-60 million	~\$35-50 million
Strategy	<ul style="list-style-type: none"> • Pre-seed through Series A, Equity • Sector focus on Technology/tech transfer; Frontier Technologies • Best-in-class manager selection 	<ul style="list-style-type: none"> • Early to later stage, Equity • NMEDD focus sectors: aerospace, biosciences, cybersecurity, film/TV, outdoor recreation, sustainable ag., intelligent manufacturing, global trade, sustainable & green economy • Target businesses owned by socially and economically disadvantaged individuals (SEDI) and very small businesses (VSB) 	<ul style="list-style-type: none"> • Early through growth, Equity and/or alternative instruments (revenue-based financing, venture debt) • Diversified sectors • Target underserved entrepreneurs and communities • Leverage new private investors (e.g., impact investors and foundations)
Structure	<ul style="list-style-type: none"> • Four approaches including VC Fund investments, VC Fund-of-Funds for emerging NM managers, and direct investment pools 	<ul style="list-style-type: none"> • VC Fund-of-funds focusing on established and emerging NM managers <ul style="list-style-type: none"> – \$20m must deploy every three years – \$1.7m of additional technical assistance 	<ul style="list-style-type: none"> • New local Funds with differentiated strategies: (1) traditional VC into more diversified sectors; (2) non-traditional VC • Additional TBD
\$ Returns	Venture capital market-rate returns	Capital preservation	Capital preservation
Impact	<ul style="list-style-type: none"> • #, \$ invested in new/NM companies • Employment (# jobs, payroll) • \$ Co-invested by outside investors 	<ul style="list-style-type: none"> • At least 57% of portfolio deployed to SEDI and 6% to VSB 	<ul style="list-style-type: none"> • #, \$ invested in new/NM companies • Employment (# jobs, salaries, industry, benefits, demographic served) • \$ Co-invested by outside investors

*NMPEIP total value of active commitments as of 11/2022; EDD size excludes \$9m allocated to collateral support

	Next Street / Mission Driven Finance	Sun Mountain Capital
Offices	Chicago, New York / San Diego	Santa Fe, Seattle, Madison, Mexico City
Incepted	2005 / 2016	2006
Employees	68 / 25	9
Description	Next Street and Mission Driven Finance represent a mission-driven partnership with deep knowledge of community development, capital markets, and investment vehicles, and a shared vision to transform how capital is delivered to underserved communities	Sun Mountain Capital is an investment manager focusing on geographically targeted, mission driven investment programs led by experienced investment professionals with global expertise as investors and entrepreneurs
Current AUM	\$80 million under management/administration	\$700 million
SEC Status	Exempt Investment Advisor; plans to register in 2023	Registered Investment Advisor
Client Types	Corporations, CDFIs, Government, Foundations, Private Institutions	Government, Development Banks, Private Institutions, HNW
Asset Classes	Private Equity, Private Debt, Real Assets, Equity-like Debt (Revenue-Based Financing)	Private Equity, Private Debt
Strategies	Direct equity and debt in target geographies (over 20 US cities/states) or sectors/themes (inclusive entrepreneurship; early childhood; immigrants and refugees; environmental justice)	Venture capital fund-of-funds and direct investments in target geographies (New Mexico, Wisconsin, Mexico); Sector expertise in technology and technology transfer

Source: Offeror presentations and websites ([Next Street](#), [Mission Driven Finance](#), [Sun Mountain Capital](#))

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Rule Framework – Summary

◆ Eligible Investments

- Venture Private Equity Funds

◆ Investment Parameters

- One Venture Private Equity Fund cannot exceed twenty percent (20%)
- One industry cannot exceed thirty percent (30%)
- One New Mexico Business cannot exceed ten percent (10%) of the Fund
- One New Mexico Business cannot exceed fifty-one percent (51%) of the total investment capital in the business
- Investment commitments issued by NMFA will be for a term determined by the NMFA, not to exceed fifteen (15) years, including all extensions
- Requires matching commitment in an amount at least equal to the total investment made by the Fund unless in an underserved industry targeted for economic development purposes or benefiting an underserved or disadvantaged community
- Legal documents incorporate terms no less favorable than with the Institutional Limited Partners Association (“ILPA”) standard terms

◆ Conflicts of Interest

- NMFA Staff and Board members are bound by the terms of the NMFA Code of Conduct
- NMFA staff and members of the Venture Capital Investment Committee, Economic Development Committee and NMFA Board shall disclose personal financial interests in proposed Venture Private Equity Funds or New Mexico Businesses and where an actual or potential for a perceived conflict of interest exists shall recuse themselves from the investment review and approval process for a proposed investment
- Venture Private Equity Funds and New Mexico Businesses seeking investment from the Fund may not seek to influence investment recommendations of NMFA staff, Committee or Board members involved in the investment approval process outside of participation in the investment proposal review and due diligence process

◆ Reporting

- Investees shall submit reports including but not limited to 1) quarterly complete financial statements; 2) quarterly investment performance report, including economic development metrics; 3) annual audits; 4) annual compliance reports; and 5) annual certification of all representations, warranties, and covenants; and any other information the NMFA reasonably requests

◆ **Emphasis on Underserved Communities**

- Defines *Underserved Communities* and makes increasing access to capital for businesses owned by entrepreneurs from or benefiting Underserved Communities an explicit economic development objective

◆ **Mission and Diversification Objectives**

- Requires venture private equity funds to advance two or more economic development objectives within the state:
 - (1) creation and retention of new and/or early stage businesses;
 - (2) investment in emerging and expanding businesses;
 - (3) create and retain equality jobs for New Mexicans;
 - (4) increase access to capital for businesses owned by or benefiting Underserved Communities;
 - (5) attract additional private sector investment in early stage and emerging businesses

Venture Capital Investment Policy – Key Parameters

◆ Differentiated strategy and return profile

- Targets venture private equity funds investing equity or debt in New Mexico businesses for start-up, expansion, product or market development, recapitalization or early stage business development
- Targets diversification of underlying strategies and instruments and expected to generate more balanced return on portfolio basis relative to traditional venture capital
- Targets funds investing in small businesses, in diverse sectors and in businesses located in Underserved Communities

◆ Eligibility for investment

- Venture private equity funds demonstrating potential to enhance economic development within the state through local business and job creation or expansion, increased access to capital for Underserved Communities and contribution to sector diversification and sustainability of the state's economy

◆ Fund Manager Qualification

- Fund managers must demonstrate various qualifications including but not limited to adequate investment expertise, team capacity, best practice operating standards, compliance practices and operational sustainability.
- Emerging fund managers may meet qualifications based on verifiable past experience

◆ Investment Outside of New Mexico

- Venture private equity funds may invest in companies that do not meet the definition of New Mexico Businesses as long as the fund meets the match requirement

◆ Investment Amounts & Concentration Limits

- The Fund will initially seek to invest in five (5) to ten (10) venture private equity funds
- Investments in funds are expected to range between \$2 million and \$10 million
- Investment in a single fund cannot exceed 20% of the balance of the VCPF

◆ Investment Amounts & Concentration Limits (cont.)

- ❑ VCPF may not be more than 50% of total commitments in a single venture private equity fund if that fund invests at least 80% in New Mexico
- ❑ VCPF may not be more than 20% of total commitments in a single venture private equity fund if that fund invests less than 80% in New Mexico
- ❑ Investments in one New Mexico business shall not exceed 10% of the balance of the VCPF
- ❑ Venture private equity funds must address portfolio concentration limits and are expected to manage single portfolio company concentrations to within 15% of the total portfolio
- ❑ Venture private equity funds investing equity are expected to seek minority non-controlling interests in underlying portfolio companies
- ❑ Investments in any one New Mexico business shall not exceed fifty-one percent (51%) of the total investment capital in the business
- ❑ Investments in any one industry shall not exceed thirty percent (30%) of the balance of the VCPF

◆ Investment Amounts & Concentration Limits (cont.)

- ❑ Investment commitments are not to exceed fifteen (15) years, including all extensions
- ❑ Venture private equity funds are required to invest or secure investment by private third-party investors in an amount at least equal to the total commitment made by the VCPF (a 1:1 match); VCPF may make a total commitment up to a certain amount contingent on the fund raising matching commitments
- ❑ VCPF may invest proceeds of the State Small Business Credit Initiative (SSBCI) award to New Mexico, which seeks to invest in venture capital funds investing in businesses owner or controlled by socially and economically disadvantaged individuals
- ❑ Venture private equity funds and respective fund managers must comply with all relevant state and federal regulations, including but not limited to registration with the Securities and Exchange Commission when required
- ❑ Legal documents shall incorporate terms no less favorable than with the Institutional Limited Partners Association (“ILPA”) standard terms and further provide NMFA all available remedies

◆ Monitoring & Reporting

- ❑ Quarterly financial statements, investment performance reports, market outlook, capital calls, distributions and all fees and expenses charged to the Fund
- ❑ Annual economic impact reporting including data on: new business creation; job creation; job quality; payroll/average salaries; number of companies funded; locations of companies funded; number of companies owned by entrepreneurs representing Underserved Communities; number of sectors invested; and number of companies benefiting Underserved Communities and measures of those benefits
- ❑ Annual audits and compliance reports submitted to relevant regulatory bodies
- ❑ Annual certification attesting that each investment in New Mexico Businesses meets the definition of New Mexico Business as specified in the Venture Capital Program Act Section 6-33-2
- ❑ Annual certification of all representations, warranties, and covenants; any other information the NMFA reasonably requests