NEW MEXICO STATE INVESTMENT COUNCIL

PREPARED FOR INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE

Representative Cynthia Borrego, Chair
Senator Roberto “Bobby” J. Gonzales, Vice Chair

Albuquerque Sunset Skyline
(Photo: New Mexico True)

Investing in New Mexico through the
STRATEGIC VENTURE CAPITAL PROGRAM

Investments & Pensions Oversight Committee
November 5, 2025

WHAT WE DO

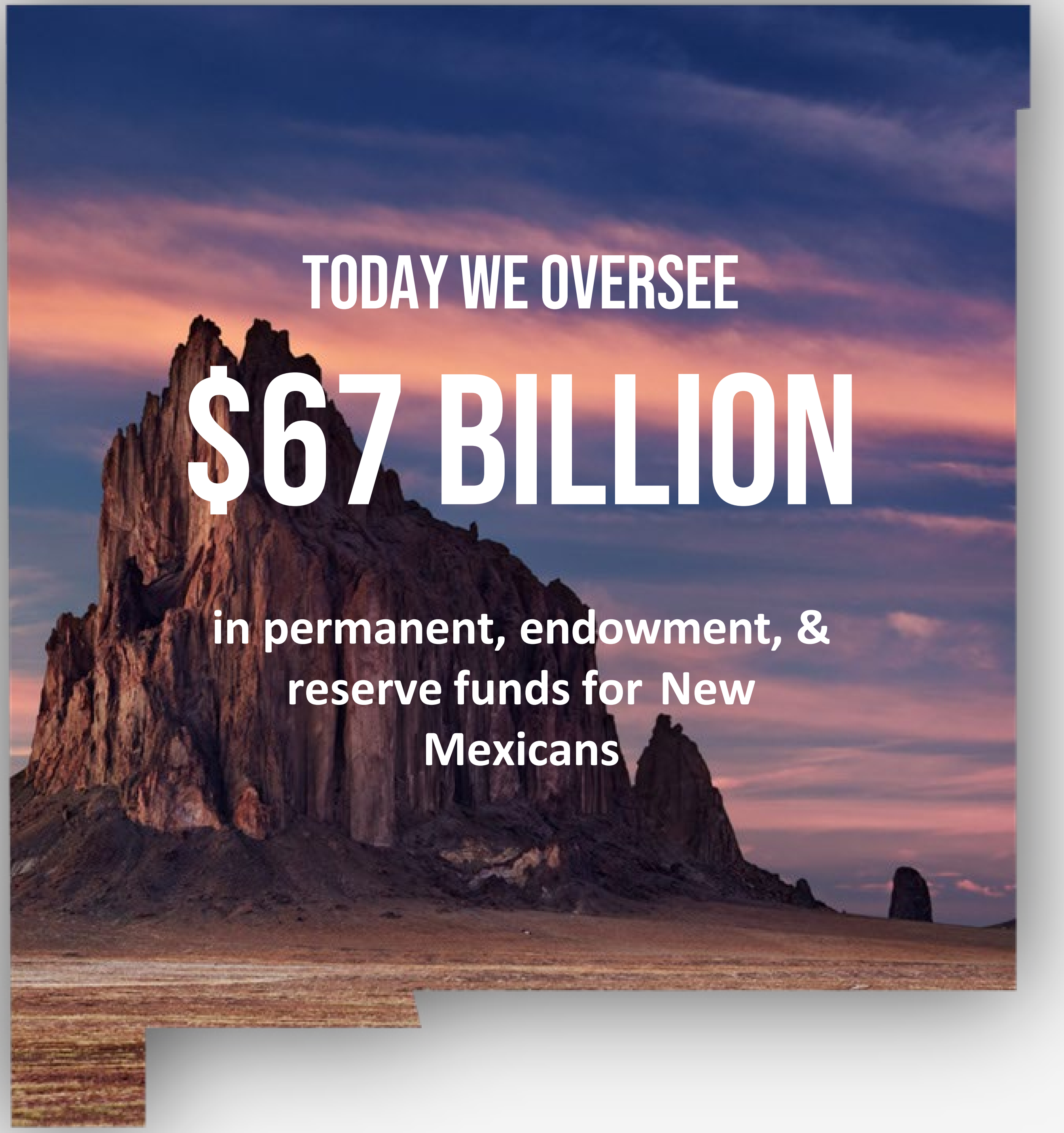
The New Mexico State Investment Council is one of the largest sovereign wealth funds in the U.S. We grow revenue resulting from oil and gas, a nonrenewable resource, into a renewable funding source that serves New Mexicans today and for generations to come.

We **manage 14 funds** benefiting public services – mainly education.

We will distribute **$2.6B to the state** this year, and **a total $38B** will be sent back to the state **over the next decade**.

Public schools will receive $1.3B in distributions from the Land Grand Permanent Fund in FY25 – paying for **28% of all K-12 education** in New Mexico.

New Mexico will be the first state with free universal childcare, paid for through the Early Childhood Trust Fund we oversee, which has grown from $300M to $10B today – in just 5 years.



PROGRAM STAFF

Meet our Private Equity Team

Chris Cassidy, Director of Private Equity & Venture Capital

Bruce Brown, Head of Strategic Climate Initiatives

Keith Flynn, Private Equity Analyst

Ifeyinwa Oguagha, Investment Attorney

THE STRATEGIC VENTURE CAPITAL PROGRAM

New Mexico has a rich history of innovation, world-class research institutions, and talented professionals across industries, and the State Investment Council is leveraging a key opportunity to invest resources in areas of **advanced energy, aerospace and defense, and deep tech**, where New Mexico can lead – and win.

> Over the past 2.5 years, we have committed
>
> **$1.7 BILLION**
>
> to 30+ top-tier fund managers with an interest in expanding to New Mexico.

8VC
AIRBUS VENTURES
AMERICA'S FRONTIER FUND
ANTLER
ANZU PARTNERS
At One Ventures
builders | vc
CROSSLINK CAPITAL
DCVC
J2ventures
khosla ventures
LUX
Lightspeed
LOWERCARBON CAPITAL
NEXTfrontier CAPITAL
OUTLANDER
playground
upfront
ROOT/VENTURES
TK MediaTech Ventures
UP.PARTNERS VENTURES | LABS | SUMMIT
[DANGEROUS]

OUR APPROACH

Today's program evolved from the New Mexico Private Equity Investment Program, managed for over three decades with the intent of promoting tech transfer and commercialization from the state's national labs and research institutions. Today's market-rate Strategic Venture Capital Program only commits New Mexico's dollars to top VCs with proven track records and large well-diversified portfolios – with the intent to produce a **Double Bottom Line:**

1

Returns that grow New Mexico's sovereign wealth fund and the benefits it delivers.

2

A broader scope of economic opportunities that can both help New Mexico companies grow and create or attract new ones.

J2 Ventures presenting a new fund to the council at our September 2025 meeting.

OUR STRATEGY DRAWS FROM BEST PRACTICES

With our external advisor, global financial consulting firm Mercer, we developed the Strategic Venture Capital Program based on best practices for:

1. The creation of successful economic development programs; and
2. The construction of institutional venture capital portfolios based on the unique characteristics of the asset class and its risk profile.

We approached development of the program with an entrepreneurial spirit by:

Building awareness

about New Mexico’s untapped potential.

Recruiting top firms

to participate in the program.

Collecting feedback

from participants, particularly startup founders.

Providing funding options

and VC expertise for companies at every stage of development.

Kasha-Katuwe Tent Rocks National Monument (Photo: New Mexico True)

WHY ECONOMIC DEVELOPMENT PROGRAMS TYPICALLY FAIL

- Not set up to earn market returns
- Place arbitrary, counterproductive constraints on businesses
- Try to recreate, rather than partner with, Silicon Valley
- Mismatch between program and other local resources, including too many disconnected efforts
- It is about more than capital – success requires engagement of other participants in ecosystem to succeed

"I think the reason why there's a graveyard 10 miles long of, like, civically funded, you know, incubators or whatever you wanna call them, is their priority is economic development. It's not generating fund returns.

The best founders, the second they smell a whiff of economic development or ulterior motive, they're just gone."

Source: The Peel Podcast, "Why Founders are Moving to Chattanooga, Tennessee to Lock-In," Cam Doody at Brickyard.

CONSTRUCTION OF INSTITUTIONAL VENTURE CAPITAL PORTFOLIOS

- High dispersion of fund returns
- High expected average returns
- Cyclicality, both in terms of the economic cycle and innovation cycles, and significant drawdowns
- Power law distribution = small number of “home runs” offsets high loss ratios expected for startups
- J-curve, longer holding periods
- Performance persistence
- Venture capital = “rocket fuel” for a small percentage of small businesses and startups that need equity financing to fuel rapid expansion (i.e., “scalable startups”)

- Institutional venture capital portfolios need to be sufficiently diversified by stage, sector, geography, and vintage and have an adequate number of underlying portfolio companies to:
  - reduce risk; and
  - increase the odds of the portfolio having significant winners, which drive most of the asset class’s financial returns.

In practice, this means that the SIC needs to invest in a diversified portfolio of venture capital funds.

White Sands National Park
(Photo: New Mexico True)

KEY BEST PRACTICES OF SUCCESSFUL ECONOMIC DEVELOPMENT PROGRAMS

- Require a substantial amount of funds to be raised from nonpublic sources.
- Use private-sector criteria for assessing prospective firms and funds.
- Focus on solid groups in industries with real local strength, avoid protracted financing of substandard firms that cannot raise private funds, and reduce local presence requirements to boost flexibility.
- Engage national and international investors for stronger capital access.
- Develop programs that encourage innovation and adaptability.
- Regularly review and update program rules to reflect changing market conditions, even if it means reevaluating or eliminating certain participant categories.
- Avoid funding dozens of groups immediately; start with a handful and scale based on market feedback.
- Build awareness by educating outsiders about the local market's potential.
- Recognize long lead times for public venture initiatives.
- Leverage local academic and research resources.

Source: "Boulevard of Broken Dreams: Why Public Efforts to Boost Entrepreneurship and Venture Capital Have Failed – and What to Do About It," by Josh Lerner, 2009. For more detail, please see the section in the Appendix 7a titled "Best Practices of Successful Economic Programs" on pages 129 to 134.

Many regions experience a mismatch between low entrepreneurial activity and strong scientific research capabilities. Tech transfer offices play a critical role; however, they often focus on maximizing short-term returns from licensing, favoring established corporations over start-ups.

This leads to an emphasis on transactions with established corporations that can make substantial up-front payments, even though licensing new technologies to startups can yield substantial returns in the long run, both to the institution and the region.

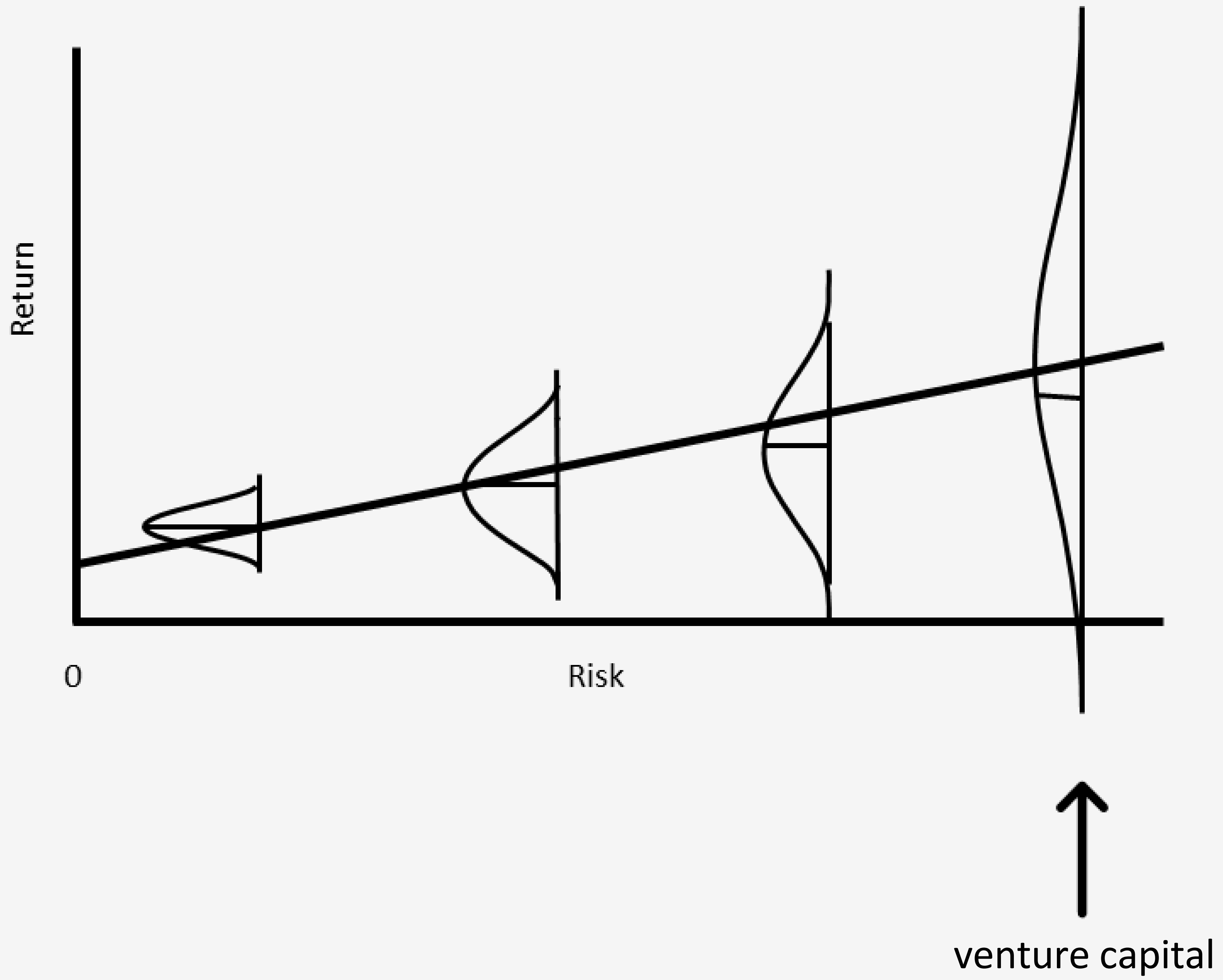
HOW TO THINK ABOUT RISK

What is the relationship between risk and return?

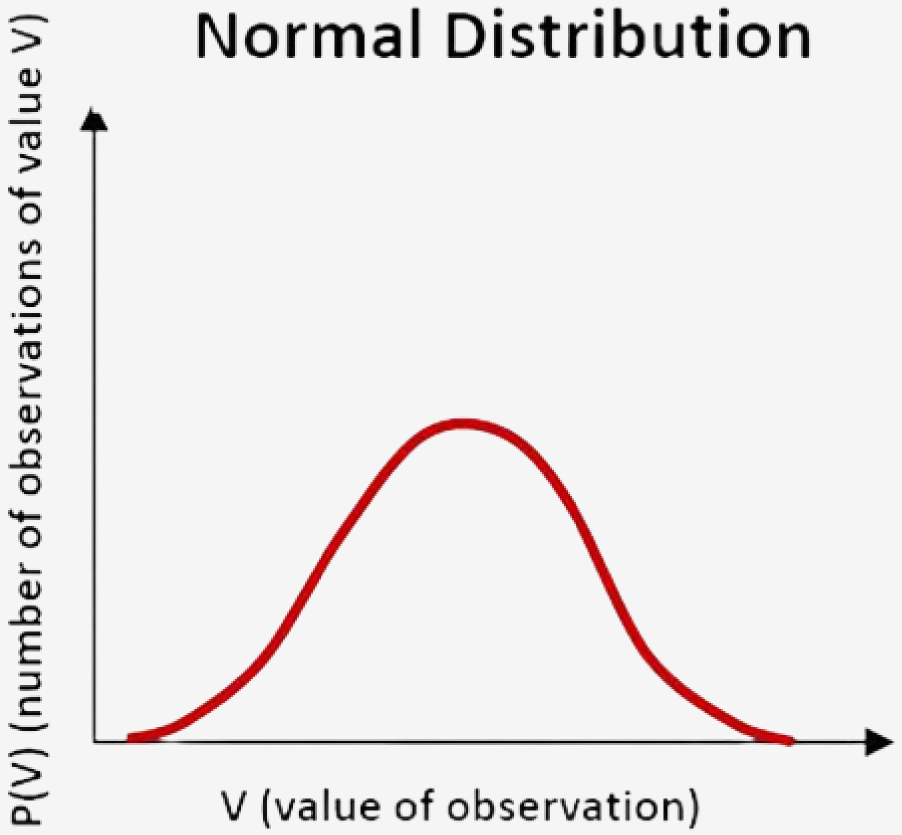
As risk increases:

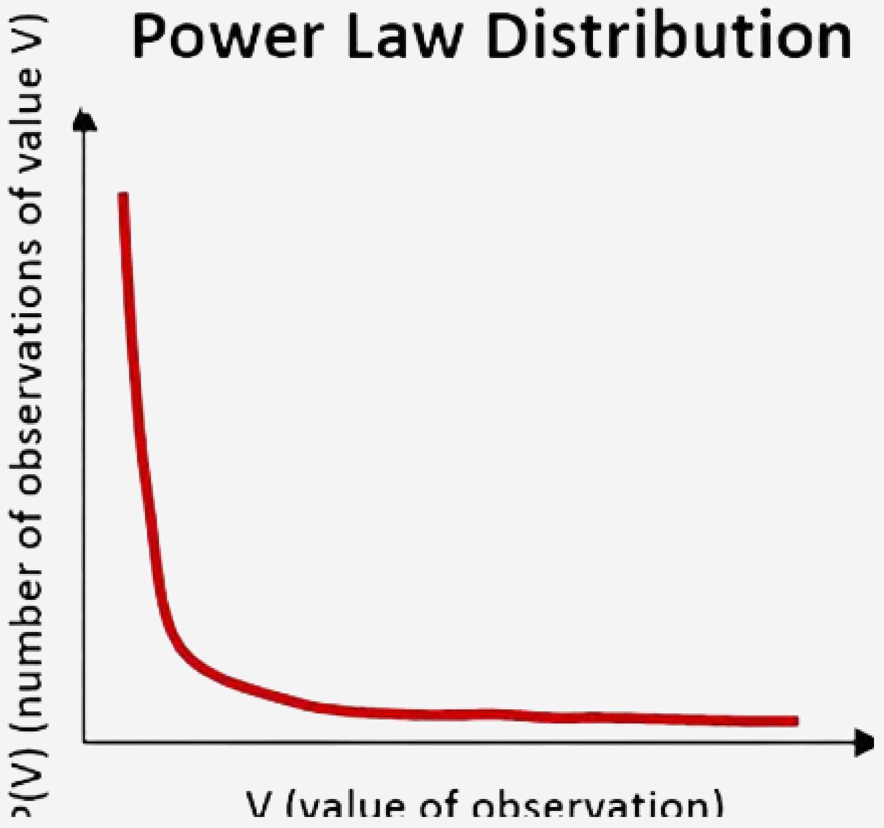
- Expected return rises
- Range of possible outcomes becomes wider
- Worst outcome worsens and ultimately becomes negative

Source: Oaktree, Howard Marks.



NORMAL DISTRIBUTION VS. POWER LAW DISTRIBUTION





Power law distribution (i.e., small number of "home runs" offsets high loss ratios expected for startups)

Venture capital returns do not follow a normal distribution; instead, they are often described by a power law distribution, where a small number of companies generate most of the returns.

This means that most investments will either fail or return minimal profits, while a few will yield substantial gains.

This power law distribution is a key concept in understanding venture capital strategies, emphasizing the importance of finding those rare successful companies.

DIVERSIFICATION IN VENTURE CAPITAL PORTFOLIOS

"Aim to assemble a portfolio of at least 500 companies. This portfolio should also be properly diversified, similarly to any other asset class in the portfolio. Diversify by country, by sector, by stage, and by time and vintage.

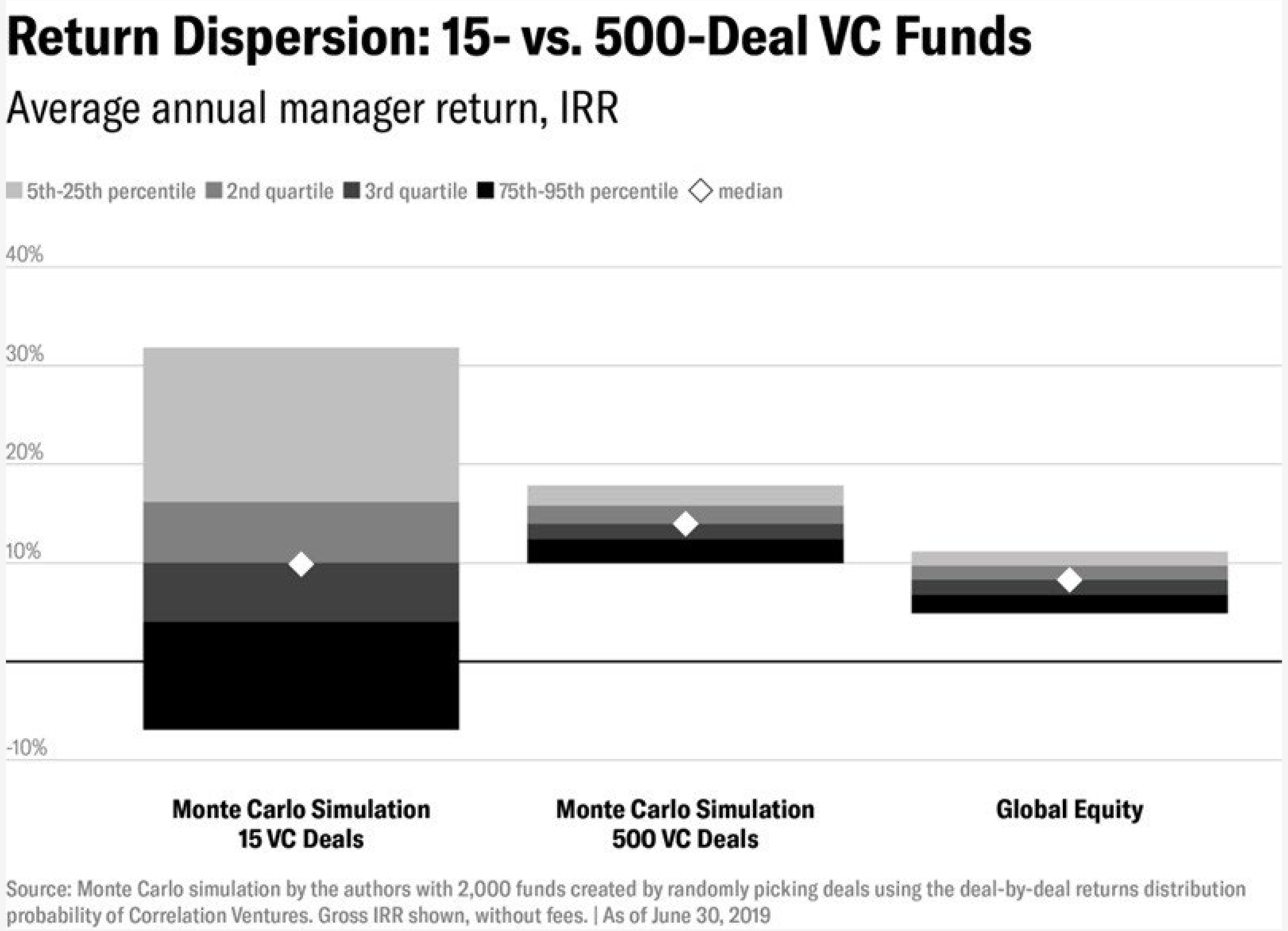
Is Venture Capital a risky asset class? No. *Most VC funds choose to act in a risky manner by not diversifying, but that does not make the asset class risky. To de-risk Venture Capital, CIOs simply need to acknowledge that VC math is different from public markets math. The importance of low-probability, excess-return-generating investments means that proper diversification requires a portfolio of at least 500 startups."*

DIVERSIFICATION IN VENTURE CAPITAL PORTFOLIOS

The Institutional Investor article explains most VC managers insufficiently diversify their funds, reducing their chances to having a portfolio that includes significant winners. Power law dynamics – a few companies contributing a significant percentage of a VC fund's returns – are a strong driver of returns in the asset class.

> **A larger portfolio provides a greater chance of exposure to the winners.**
>
> Fund managers' concerns around diversifying are mainly:
>
> - Diversification would make it hard for them to achieve top-quartile status (due to smaller positions and a lack of fund concentration in their winners).
> - A portfolio of 100+ companies is a lot more challenging to manage than a portfolio of 20-40 companies.

Source: Institutional Investor, "The Pervasive, Head-Scratching, Risk-Exploding Problem With Venture Capital" (September 29, 2020).



The lack of diversiflcation amongst venture portfolios explains the wide dispersion in returns of VC managers, as shown above using a Monte Carlo simulation across a portfolio with 15 companies alongside a portfolio with 500 companies.

In addition to narrowing of the dispersion of returns for the venture asset class visible in a 500-company portfolio, the dispersion of returns is like that of a diversified Global Equity portfolio.

DIVERSIFICATION IN VENTURE CAPITAL PORTFOLIOS

Investors commit to a fund. In our case, the NMSIC, an institutional investor, commits capital to a VC fund.

VC fund manager uses the pool of funds to invest in a portfolio of companies, including New Mexico companies, over 2-4 years.

Venture capital follows a power law distribution (i.e., small number of “home runs” offsets high loss ratios expected for startups).

It is a common occurrence for startups in a VC fund to fail. However, the NMSIC's goal is to generate returns that benefit a variety of public services for New Mexicans. This can be achieved through partnering with VCs that invest in a diverse portfolio of startups; not solely relying on New Mexico companies to succeed.

Arch Rock Canyon, Aztec, New Mexico (Photo: New Mexico True)

3-PRONGED STRATEGY

1 Deliberate sector focus

The NMSIC should be a world-class investor in New Mexico's strengths: deep tech, climate tech, and aerospace/defense.

Economic Development Potential:

- SIC invests in partners with the best founders.
- Firms provide "capital supply chain."
- Attract founders and companies to NM.

Financial Returns & Risk:

- Diversified top-tier VCs should produce good financial returns.
- Reduced risk relative to previous program iterations.

2 Company creation and attraction engines

In partnership with managers, support creation and development of venture studios, venture labs, & accelerators

Economic Development Potential:

- Capital, infrastructure, and capabilities with national and global connections
- Company creation engines recruit founders and companies to NM.

Financial Returns & Risk:

- Funds and SMAs are with existing managers with track records of success which will recruit founders and companies, increasing potential investment opportunities, reducing risk.

3 Scaling industry

In partnership with managers, invest in SMAs to support companies scaling operations in NM.

Economic Development Potential:

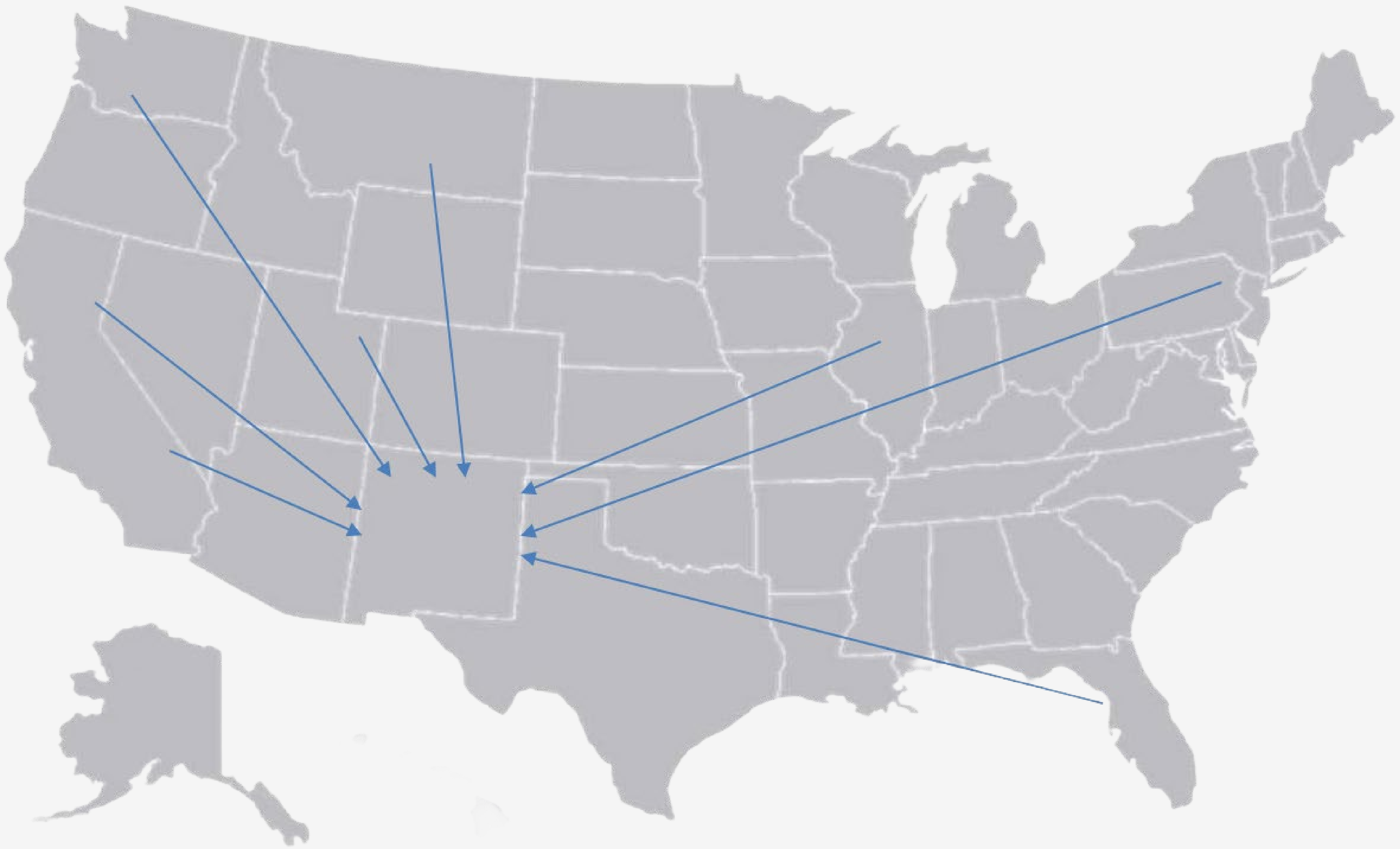
- Targeted investments support near-term, fully-funded projects that build infrastructure in the state.

Financial Returns & Risk:

- Typically, growth stage investments.

We're seeing a really exciting change in the investor landscape thanks, by and large, to the State Investment Council, which is really starting to attract venture capital funds to New Mexico who are looking at our companies and looking at our technologies and what's coming out of the labs and the universities."

- **David Kistin**, Manager, Technology and Economic Development at Sandia National Laboratories



WE DON'T INVEST IN COMPANIES – WE INVEST IN FIRMS THAT BRING THEM TO OR GROW THEM IN NEW MEXICO

Our Private Equity team recently attended Pacific Fusion's announcement of its selection of New Mexico for its new research and development facility.

PACIFIC FUSION chose New Mexico over California for its research and development facility, **bringing $1B in economic impact including 200+ high-wage jobs.** It has received investments from our partners Lowercarbon Capital, Lightspeed, DCVC, and UP.Abundance.

XGS ENERGY has committed to building a geothermal plant to power Meta's data center in New Mexico, also **expected to bring $1B in economic impact.** A key investor is Anzu Partners, which we've committed to.

CASTELION is **in the final stages of choosing between Arizona and New Mexico** for its defense manufacturing facility expansion. Our partner Lightspeed is one of the company's investors.

LOWER CARBON CAPITAL

ANZU PARTNERS

Lightspeed

NEW MEXICO COMPANIES CAN GAIN ACCESS TO WORLD-CLASS INVESTORS

From Up.Summit 2025, by AerialOne Digital Studios LLC

Scout Partners and BuildersVC have invested in **UbiQD**, a quantum dot technology startup based in Los Alamos, working to scale.

Crosslink Capital has invested in Albuquerque-based **X-Bow Systems**, a rocket motor tech company that has already expanded across the country.

Up.Abundance has invested in Albuquerque-based early-stage aerospace and defense startup **Space Kinetic Corp.** in addition to bringing new companies to the state.

Khosla Ventures has invested in White Rock-based carbon capture startup **Spiritus Technologies**.

THIS IS ABOUT NEW MEXICO'S FUTURE

- **Our budget request for FY27 is $106.705 million** compared to a FY26 budget of $78.219 million.
- This is because **contractual services have increased** from $68.8 million ($78.8 million after a $10 million BAR) to $93.05 million from FY26 to FY27.
- This is **due to asset growth** through the end of FY27, including continued robust inflows and **the establishment of several new funds** in FY26. All these factors will contribute to **growing returns and inflows**.
- **An increase in staff is the best way to mitigate financial risk and increase returns for New Mexicans**. This was recommended by Ascension, an organization headed by Dr. Ashby Monk, considered one of the premier authorities on sovereign wealth funds in the world.
- Equipped with the necessary resources, the SIC can adeptly grow funding for essential government services while creating a reliable source of revenue to **support New Mexicans for decades to come**.