

New Mexico Private Equity Investment Program Program Update – August 10, 2018



Investments and Pensions Oversight Committee

Presented by Sun Mountain Capital

New Mexico Private Equity Investment Program: History

- The New Mexico Private Equity Investment Program (“NMPEIP” or “Program”) was established in 1993 to make investments into private equity funds which in turn invest into NM-based companies
- For many years the Program was managed as a differential rate (below market rate) program
- Since 2004, the Program has been managed with financial returns as the primary focus
 - Fiduciary-based approach with economic development benefits as a secondary consideration
 - “Prudent Investor” investment standard vs. differential rate investments
- Financial returns significantly improved since 2007¹
- With Sun Mountain as the Program Advisor no third party marketers or placement agents have been used and no placement fees have been paid

NMPEIP Q1 2018 Performance Summary: Program Status

- In the first quarter, the Program had net deployed capital of \$288.9 million versus the STPF statutory 9% cap of \$456.2 million
- Net deployed capital represents 5.7% of the Severance Tax Permanent Fund (“STPF”)
- The NMSIC has added 8 funds to the NMPEIP over the past three years, highlighting an increase in New Mexico investing activity
- The total legacy (pre-SMC) portfolio represents \$47.8 million, or 13% of the total portfolio’s NAV as of 1Q18
- During the first quarter, fund managers called \$11.4 million and distributed \$4.2 million

NMPEIP Q1 2018 Performance Summary: Financial Performance

- The financial performance of the Program continues to be adversely impacted by investments made before 2007 when Sun Mountain Capital began its role as program advisor

Fund Group	Internal Rate of Return			
	1 yr	3 yr	5 yr	Inception
NMPEIP Aggregate	12.0%	8.6%	9.2%	1.8%
Since 2007	15.4%	14.6%	13.8%	8.8%
Fund Investments*	10.7%	3.6%	8.7%	4.5%
Co-Investment Fund**	16.1%	16.8%	14.8%	9.6%
Legacy Portfolio***	-4.9%	-10.1%	-2.5%	-3.6%

*Inclusive of vSpring III, EV IV, EV V, NM Catalyst Fund, PVP II, Psilos Subsidiary, TCI III, KSF IV

** Combined performance of all SMC managed Co-Investment tranches

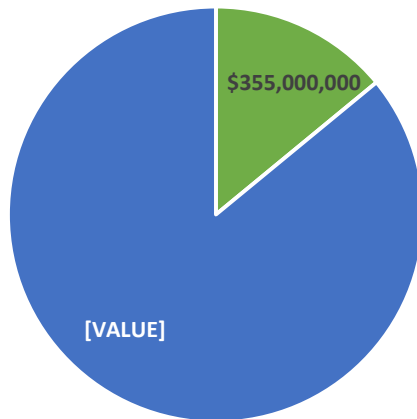
***Excludes all SMC Co-Investment Tranches and Fund Investments since 2007

- Since SMC began its role as advisor, Program performance is in line with national benchmarks

NMPEIP Economic Impact – Since Inception*

- Each dollar invested by an NMPEIP fund into a NM-based company is attracting \$6.1 of outside investment
- The SIC's investment in the New Mexico startup ecosystem is showing results

\$2.53 billion invested into NM companies



- Funds with NMPEIP Investment
- Investment into NM Companies caused by NMPEIP Participation

Program Highlights since Inception

- 38 Funds have received a commitment
- 78 New Mexico-based companies funded
- New Mexico is attracting national-caliber investors to its companies
- Over \$2.5 billion invested into these companies

NMPEIP Economic Impact in Q1 2018*

- Program continues to have a significant economic impact on the New Mexico economy

<i>NMPEIP Impact Summary as of 3/31/18</i>		
Categorization of NM Portfolio Companies		
Active Companies	35	45%
Companies Exited at a Gain	15	19%
Companies Exited at a Loss	28	36%
Number of Companies funded	78	100%
NM Economic Impact	Q1 2018	Past 12 Months
NM Purchases	\$25,941,069	\$128,372,050
NM Payroll	\$30,473,623	\$145,699,265
NM Economic Impact in Q3 2017	\$56,414,692	\$274,071,315
Total Current Full-Time Jobs		1,560
Average Annual Salary of Jobs Created		\$78,137
Average Annual Salary in New Mexico ¹		\$44,160

Source: Survey of participating NMPEIP fund managers and NM companies for active companies and most recent verified data for exited companies

¹ Source: New Mexico wage and salary disbursements and total wage and salary employees from the U.S. Dept. of Commerce, Bureau of Economic Analysis

78 New Mexico Companies Funded Since Program Inception

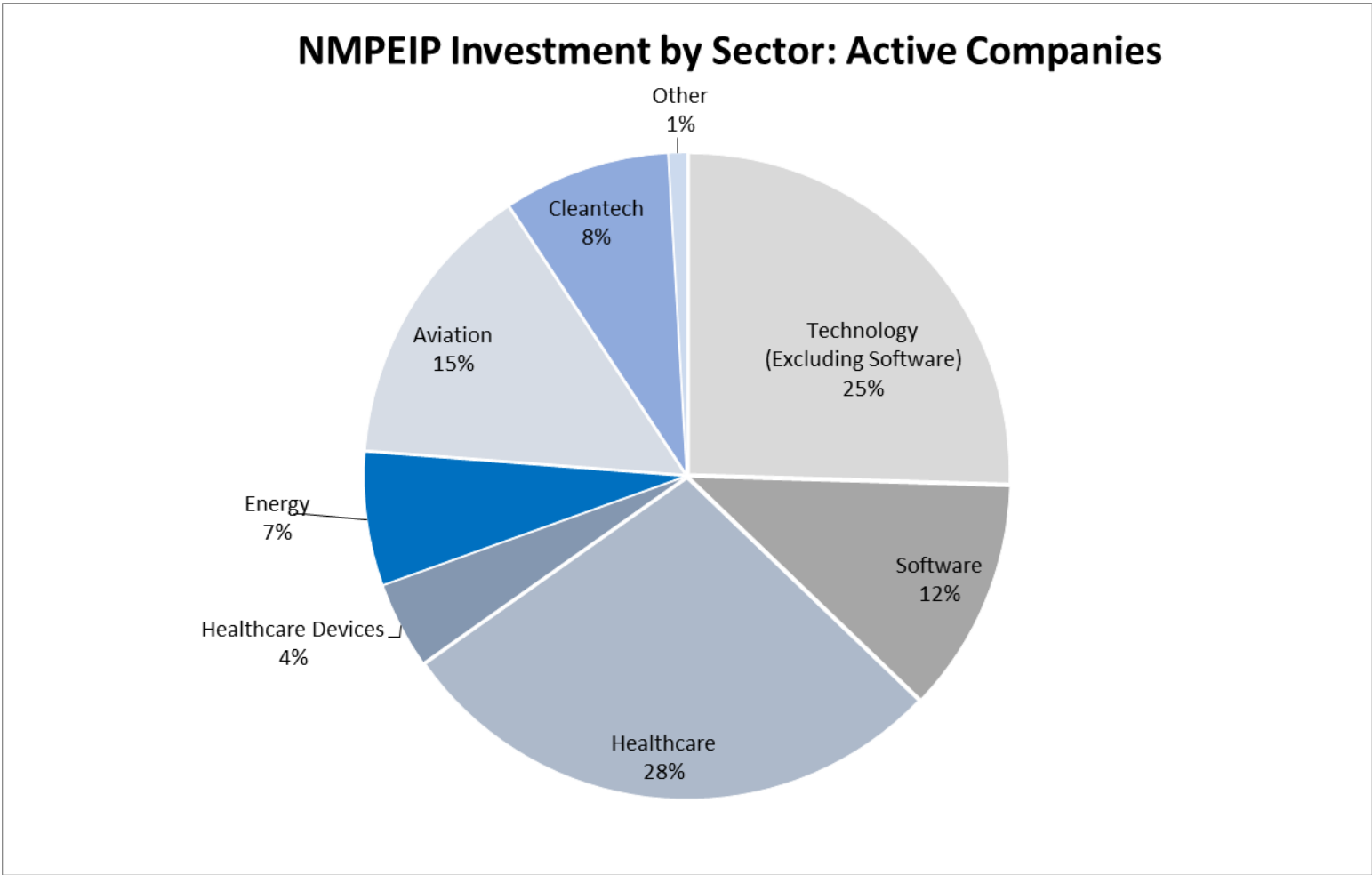
35 Active New Mexico Companies as of 3/31/18

Agilvax	Comet Solutions	JackRabbit Systems	Skorprios Technologies
Altela	Consolidated Energy	Nanocrystal	Southwest Med Tech
American Clay	Descartes Labs	Noribachi	Sundrop
Armonica	Enerpulse	Nuvita	Teucrium Trading
Aspen Avionics	Exagen Diagnostics	Respira Therapeutics	TriLumina
Avisa Pharma	Figaro	Robotic Skies	TruTouch Technologies
BayoTech	Good Planet Labs	RiskSense	Vibrant
Boomtime	Growstone	SBA Materials	xF Technologies
BounceChat	Holochip	Seamless Medical	

Exited New Mexico Companies as of 3/31/18

Advent Solar	Elisar Software	MicroOptical Devices	Seattle Fish Company
Altaview Technologies	Entrada	MIOX	Seclarity
Amtech	Infantelligence	NanoMR	Surfact Technologies
Avasca	InnovASIC	OnQueue Technologies	TCI Medical
Azano	Intellicyt	Patchwork Systems	Tred
Bioreason	Introbotics	Phase-I	VeraLight
Controlled Recovery	Iosil Energy	POSLavu	Vertical Power
Desert Power	Kinetisis	Protalex	WellKeeper
Dining Gift Services	Lumidigm	ProtoHIT	Zia Laser
Earthstone	Mesofuel	Puente Partners	ZTEC Instruments
Eclipse Aviation	Metaphor	Quasar	

Capital Invested by Sector: Active NMPEIP Program Sector Concentration



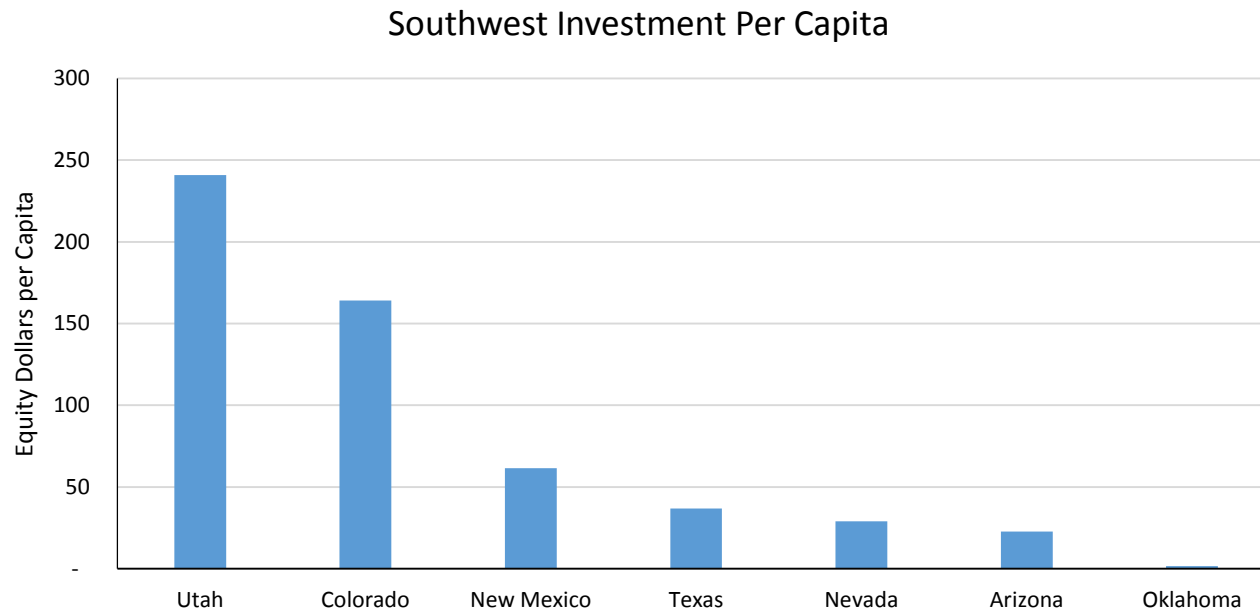
New Mexico Company Highlights

- Over \$128 million of venture capital dollars were invested into New Mexico-based companies in 2017* which puts New Mexico 24th in the nation
- Multiple \$5 million+ Investment Rounds



New Mexico Ranks Higher Per Capita for Venture Capital

- On a per-capita basis, New Mexico Ranks 15th in the nation, with \$62 per person deployed in 2017*
 - New Mexico ranks 3rd in the Southwest Region**

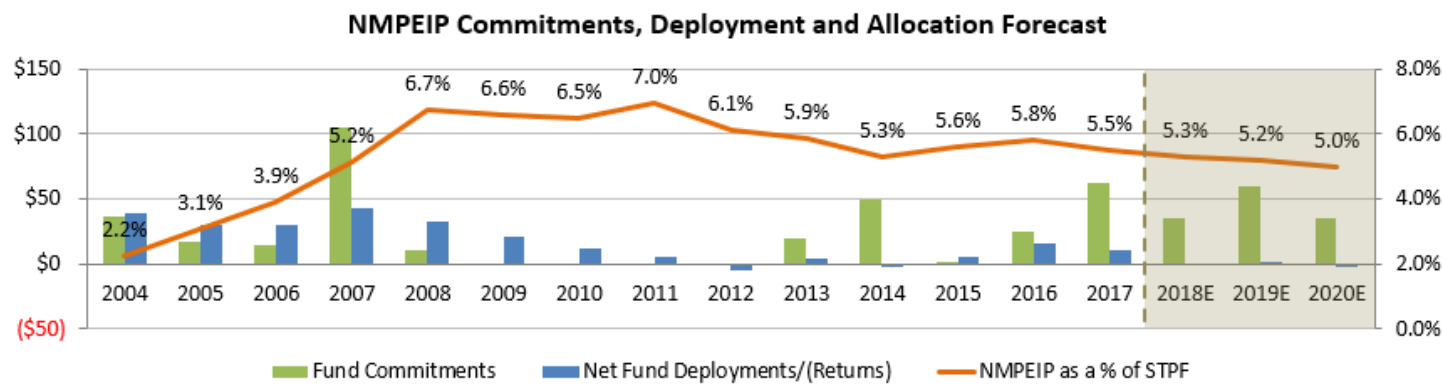


*Data from Thomson Reuters' Q4 2017 Report

** Southwest Region defined as Arizona, Colorado, Nevada, New Mexico, Oklahoma, Texas, and Utah

NMPEIP Pacing Update

- In 2014 the SIC approved a pacing plan calling for an allocation of 5% of the STPF and \$30-\$35 million of annual commitments.
 - Since 2014, the average annual deployment has been \$35.5 million
- The Program is on pace to achieve its long-term allocation of 5.0% given anticipated distributions and forecasted commitment pacing



- Following a statutory changes approved in 2016, Sun Mountain has seen a significant increase in the number of high quality funds in the pipeline
- 4 prospective funds progressing through due diligence
 - Expect to remain in line with target allocation

Catalyst Fund Update

- Investment commitments are on track with Catalyst Fund pacing plan*
 - 5 funds have publicly closed on investment commitments from the Catalyst Fund
 - Arrowhead Innovation Fund (Las Cruces)
 - Tramway Venture Partners (Albuquerque)
 - Cottonwood Technology Fund (Santa Fe)
 - ABQid (Albuquerque)
 - NMA Ventures (Albuquerque)
 - 1 fund has received a commitment that is not yet public
 - 3 funds are in early stages of due diligence
 - Catalyst Fund has capacity to make roughly 2 more fund commitments
- Catalyst Fund portfolio characteristics
 - Funds that have received commitments feature experienced investors in the general partner or on their investment committees
 - Broad industry diversification
 - Geographic diversity

Summary of Key Points for New Mexico Program

- Program is currently tracking to the pacing plan approved by the SIC
 - The number of qualified investment opportunities has continued to increase due to the 2016 change in the NMPEIP program requirements and improved VC landscape
- We are evaluating potential new fund commitments for the Program
 - Currently 4 funds are in advanced stages of due diligence for a potential commitment from the NMPEIP
- Since SMC's involvement as the Program's advisor, the financial returns have improved significantly, but since inception financial returns are still impacted by the legacy portfolio
- Program is having a positive impact on the New Mexico economy

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Economic development data including employment, payroll and dollars spent in the State of New Mexico is collected quarterly for both active companies in the New Mexico Private Equity Investment Program (“NMPEIP”) as well as those in which portfolio funds no longer have an active interest. For active companies, Sun Mountain Capital Advisors, L.L.C. conducts quarterly surveys of fund managers to collect economic development data. For companies no longer obligated to report to NMPEIP fund managers, data is based on the most recent and materially reliable of 1) last reported data, 2) direct outreach to companies to collect data or 3) independently verified data provided by third party entities. Annually, Sun Mountain Capital Advisors, L.L.C. reviews fund manager data submissions by directly contacting a sampling of underlying portfolio companies to verify accuracy of data.

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