



New Mexico Private Equity Investment Program

Introduction and Discussion

November 2012



New Mexico Private Equity Investment Program Overview

- The New Mexico Private Equity Investment Program was established in 1993 to make investments in private equity funds which in turn invest in NM-based companies
- From 1993-2003, the Program was managed as a differential rate (below market rate) Program and focused on economic development
 - Program returns suffered; -18.2% from inception through 2003
 - Inconsistent with SIC mission to protect/grow permanent funds
- In 2004, new external consultants were hired and since then the Program has been managed with financial returns as the primary focus
 - Program returns turned positive in Q1 2012 for investments made since 2004
 - Make the Program sustainable and viable for the long term
- Program returns have improved significantly and economic development goals have also been achieved with the new strategy and new team



NMPEIP Update Summary

- Over \$350 million has been committed to 28 different venture capital funds which support New Mexico-based companies
- Since inception, these funds have invested or caused to be invested over \$2 billion in 62 different companies based in New Mexico
 - On average, every \$1 invested in a NM-based company by a Fund in the Program attracts another \$6.60 of investment capital from other funds to NM-based companies
- Program financial performance has been improving steadily since 2004
 - NMPEIP investments have made money for the State in addition to having a very substantial impact on our economy
 - NMPEIP investments have performed in line with national venture capital benchmarks
- Since 2004, no third party marketers or placement agents have been used



NMPEIP Viewed As A Model Program

- Over 40 states have one or more in-state private equity programs
- The NMPEIP is widely regarded as one of the top programs in the country and the leader in introducing best practices that are now used across the industry
 - Side letter requirements
 - Local, “on the ground” personnel
 - Metrics used to track comprehensive program performance
 - Traditional financial return measures: IRR, etc
 - Economic development measures: jobs created, economic impact on State
 - Economic progress measures: average wages and types of jobs created
- Sun Mountain is frequently asked to advise other states and even foreign countries on how to establish successful regional investment programs



Program Has Made No New Fund Investments Since 2008

- 2008 market crash caused program to be put on hold
 - Drop in value of Severance Tax Permanent Fund
 - NMPEIP very close to its statutory cap from 2008-2010 (9% of STPF value)
- Improving financial performance and strong distributions have replenished NMPEIP so it is now in a position to make new commitments
- Council gave Sun Mountain green light to start to review funds again for possible investment and we are actively looking for good investments for the Program
 - Some funds are currently in the due diligence process for potential investment; some have already been rejected
 - Sun Mountain fund review process is very rigorous so it takes time to deploy capital
 - On average, 30 funds are evaluated for every 1 investment made
- Capital has continued to flow into NM-based companies as a result of the earlier commitments made to funds by the Program



Investment in New Mexico companies from NMPEIP: 2009-2012

NMPEIP Investment Activity

(\$ in millions)

<u>Year</u>	<u>NMSIC Co-Investment Fund</u>	<u>Other NMPEIP Funds</u>	<u>“Cause to Invest” Funding</u>	<u>Total New Mexico Investment</u>	<u>Number of New Companies</u>
2009	\$7.2	\$7.0	\$36.1	\$50.3	4
2010	\$6.6	\$4.1	\$29.2	\$39.9	3
2011	\$13.0	\$11.7	\$67.0	\$91.7	1
2012*	\$5.1	\$4.3	\$21.6	\$31.0	2
Total	\$31.8	\$27.2	\$154.0	\$212.9	10

Investment
Average
(2009-2012)

\$8.0

\$6.8

\$38.5

\$53.2

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Active New Mexico Company Sector Concentration – Q3 2012

Technology

Innovasic Semiconductor
Holochip
Lumidigm
Nanocrystal
Nuvita
Skorprios Technologies
TruTouch Technologies
ZTEC Instruments

Software

Boomtime
CoMet Solutions
Dining Gift Services
JackRabbit Systems
OnQueue Technologies
Vibrant

Healthcare

Exagen Diagnostics
ProtoHIT
Puente Partners
Southwest Med Tech

Healthcare Devices

Intellicyt
NanoMR
VeraLight

Therapeutics

Protalex

Energy

Altela
Consolidated Energy
Incitor
Iosil Energy
Sundrop Fuels
WellKeeper

Cleantech

American Clay
Earthstone
Energypulse
Growstone
MIOX
Noribachi

Aviation

Aspen Avionics
Vertical Power

Other

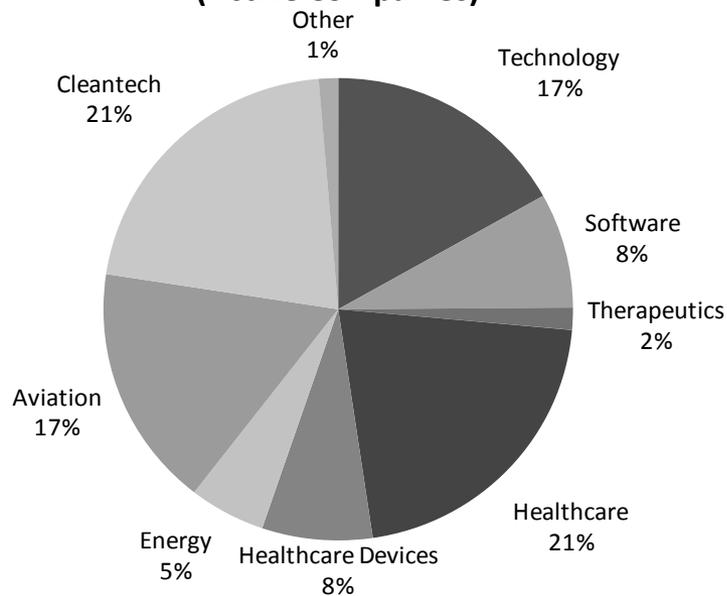
Figaro Systems
Seattle Fish
Teucrium Trading



NMPEIP Investment Amounts by Sector – Q3 2012

- NMPEIP supports a diversified range of innovative New Mexican companies across many sectors

**NMPEIP Investment Amounts by Sector
(Active Companies)**





Economic Impact is Significant

NMPEIP Impact Summary as of 6/30/12		
Investment in NM Companies of Funds with NMPEIP Participation		\$260,200,939
Investment in NM Companies Other than from Funds with NMPEIP Participation		<u>\$1,708,613,268</u>
Investment in NM Companies		\$1,981,877,241
Investment Multiplier (Other/Funds with NMPEIP Participation)		6.6x
Number of Companies funded	<u>62</u>	
Active Companies	38	61.3%
Companies Exited at Gain	7	11.3%
Companies Exited at Loss	17	27.4%
2012 NM Purchases		\$99,873,981
<u>2012 NM Payroll</u>		<u>\$91,132,918</u>
2012 NM Economic Impact		\$191,006,899
Total Current Full-Time Jobs		1,244
Average Salary of Jobs Created		\$73,258
Average Salary in New Mexico ¹		\$34,575

Source: Survey of participating NMPEIP fund managers and NM companies

¹ Source: U.S. Dept. of Commerce, Bureau of Economic Analysis



Next Steps for NMPEIP

- Get the word out that the Program is ready, willing, and able to make new investments
 - Clear direction from the State Investment Council
- Proactively seek out possible investment funds that meet the investment criteria and also have a commitment to New Mexico
 - Current pipeline includes over 40 potential fund investments
- Support and be a catalyst for technology transfer from NM labs and universities to successful commercial businesses
- Continue to drive improved NMPEIP performance