



# **New Mexico Private Equity Investment Program**

**Q4 2014 Review**

**Presented to the Investments and Pensions Oversight Committee**

July 21, 2015



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## New Mexico Private Equity Investment Program Overview

- The New Mexico Private Equity Investment Program (“NMPEIP” or “Program”) was established in 1993 to make investments into venture capital funds which in turn invest into companies based in New Mexico
- From 1993-2003, 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 have improved since 2004
- 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 Financial Performance Improvement

## 1993-2003 vs. 2004-Present

Metric	1993-2003	2004-Present	Difference
Internal Rate of Return	-18.2%	4.7%	+22.9%
Since Inception Returns	\$-56.5M	\$51.7M	\$108.2M
Distributions to the SIC	\$5.0M	\$127.5M	\$122.5M
Non-Program Investment Into NM-based Companies	\$0.5B	\$1.4B	+180%

Source: Invient

Program focused on economic development

Program focused on financial returns  
Advisor - Sun Mountain Capital



## 2014 Program Highlights

### Distributions

- The NMSIC received over \$20 million in distributions from 11 different funds in the Program
- Significant distributions were received from Village Ventures, NMSIC Classic Fund, Verge Fund, Blue Sage Capital, and Wasatch Ventures

### Notable Exits

- 2 New Mexico-based companies had successful exits in 2014
  - Lumidigm
  - WellKeeper
- 2 portfolio companies had successful Initial Public Offerings in 2014
  - OnDeck Capital
  - Vital Therapies

### Small Company Support

- Working with NMSU Arrowhead Center, UNM STC, Sandia and Los Alamos National Labs to support technology transfer
- Working with BioSciences Center, ABQid, Technology Ventures, Fatpipe, and other New Mexico-based organizations to foster small company creation and growth

### Investment Activity

- 2 new fund commitments totaling \$50 million were made by the Program
  - As per the approved pacing plan
- 3 new investments made in NM-based companies by portfolio funds
- 8 funds are currently under review for potential investment in 2015



## Historical NM Investment Activity Levels

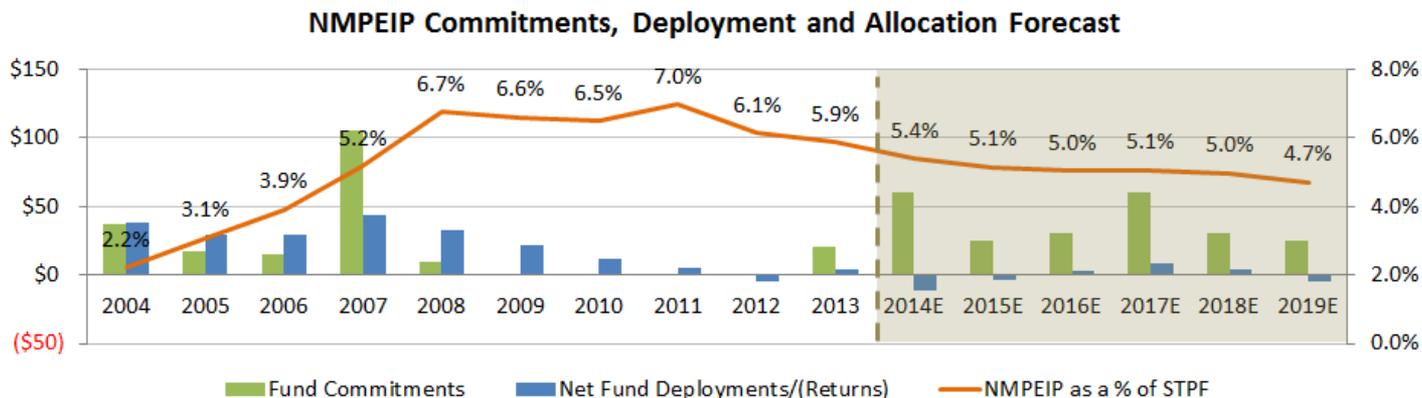


Metric	2011	2012	2013	2014	2015*
NMPEIP Investment (\$M)	\$24.6	\$22.6	\$25.4	\$20.6	\$8.8
External Investment (\$M)	\$63.2	\$18.5	\$85.2	\$41.2	\$48.7
Total NM Investment (\$M)	\$87.8	\$41.1	\$110.6	\$61.8	\$57.5
# of Companies Receiving Funding	23	18	26	15	12

\*Preliminary 2015 investment data as of 6/30/15, prior annual data is for calendar year



## Forecasted Investment Activity



- Approved pacing plan calls for the following:
  - Average of 3 fund commitments per year
  - \$5 to \$10 million per fund commitment
  - Co-Investment Fund refresh every 3 years
- Program’s net deployed capital represents 5.3% of the Severance Tax Permanent Fund (“STPF”), on schedule to achieve the SIC-approved long term target allocation of 5.0%
- Allocation will be reviewed annually as part of Sun Mountain Capital’s pacing update



## Summary of Program Economic Impact in 2014

<b>NMPEIP Impact Summary as of 12/31/14</b>		
<b>Total Investment in New Mexico Portfolio Companies</b>		
A) Investment by Funds with NMPEIP Participation		\$296,660,455
B) External Investment Caused by Funds with NMPEIP Participation		\$1,894,805,572
<b>Total VC Investment in NM Companies</b>		<b>\$2,191,466,027</b>
<i>Investment Multiplier (B / A)</i>		6.4x
<b>Categorization of NM Portfolio Companies</b>		
Active Companies	37	52.9%
Companies Exited at a Gain	11	15.7%
Companies Exited at a Loss	22	31.4%
<b>Number of Companies funded</b>	<b>70</b>	<b>100.0%</b>
<b>NM Economic Impact</b>		<b>Q4 2014</b>
NM Purchases		\$21,688,340
NM Payroll		\$24,273,815
<b>NM Economic Impact</b>		<b>\$45,962,155</b>
Total Current Full-Time Jobs		1,379
Average Salary of Jobs Created		\$70,410
Average Salary in New Mexico <sup>1</sup>		\$41,799

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

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



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## Summary of Key Points

- Program is currently tracking to the pacing plan approved by the SIC
- Multiple fund managers undergoing active due diligence for potential commitment
- Program financial returns are improving steadily from the 1993-2003 era
  - Since 2004, NMPEIP investments have performed in line with national VC benchmarks and have produced a positive financial return for the Severance Tax Permanent Fund
- Program is having a positive impact on the New Mexico economy



# Appendix



# Since 2004 NMPEIP Vintages Tracking National Benchmark Returns

- Since 2004, performance has tracked a national venture capital benchmark
  - 67% of vintages are above median

<u>2004-Present</u>	<u>Vintage</u>
1 <sup>st</sup> quartile:	17%
2 <sup>nd</sup> quartile:	50%
3 <sup>rd</sup> quartile:	17%
4 <sup>th</sup> quartile:	17%

- From 1993-2003, only 14% of vintages are above median

<u>1993-2003</u>	<u>Vintage</u>
1 <sup>st</sup> quartile:	0%
2 <sup>nd</sup> quartile:	14%
3 <sup>rd</sup> quartile:	57%
4 <sup>th</sup> quartile:	29%

NMPEIP v. National Benchmark

Vintage	NMPEIP Net IRR	Preqin Quartile
1993	44.8%	Second
1994	N/A	--
1995	N/A	--
1996	(0.8%)	Third
1997	N/A	--
1998	(20.6%)	Fourth
1999	N/A	--
2000	(6.5%)	Third
2001	2.4%	Third
2002	(2.9%)	Third
2003	(21.3%)	Fourth
2004	(4.4%)	Fourth
2005	(1.6%)	Second
2006	19.9%	First
2007	2.4%	Third
2008	16.8%	Second
2009	N/A	--
2010	N/A	--
2011	N/A	--
2012	N/A	--
2013*	1.4x	Second
2014	N/M	--

\*IRR considered not meaningful due to short time horizon so quartile is based on multiple of invested capital

Source: Inviert reporting (as of 12/31/14) and Preqin Database benchmarking (as of 12/31/14)

Note: Fund Performance Benchmark composed of venture capital funds based in North America and smaller than \$300 million in size Benchmark reviewed and approved by LP Capital Advisors and State Investment Office staff

Note: No fund commitments were made in years labeled "N/A"



## 70 New Mexico Companies

<i>New Mexico Companies as of 12/31/14</i>			
Advent Solar	Elisar Software	MIOX	Skorpios Technologies
Agilvax	Enerpulse	Nanocrystal	Southwest Med Tech
Altaview Technologies	Entrada	NanoMR	Sundrop
Altela	Exagen Diagnostics	Noribachi	Surfact Technologies
American Clay	Figaro	Nuvita	TCI Medical
Amtech	Growstone	OnQueue Technologies	Teucium Trading
Aspen Avionics	Holochip	Patchwork Systems	Tred
Avasca	Infantelligence	Phase-I	TriLumina
Avisa Pharma	InnovASIC	POSLavu	TruTouch Technologies
Bioreason	Intellicyt	Protalex	VeraLight
Boomtime	Introbotics	ProtoHIT	Vertical Power
Comet Solutions	Iosil Energy	Puente Partners	Vibrant
Consolidated Energy	JackRabbit Systems	Quasar	WellKeeper
Controlled Recovery	Kinetisis	Respira Therapeutics	xF Technologies
Desert Power	Lumidigm	SBA Materials	Zia Laser
Dining Gift Services	Mesofuel	Seamless Medical	ZTEC Instruments
Earthstone	Metaphor	Seattle Fish Company	
Eclipse Aviation	MicroOptical Devices	Secularity	

### *Status Key*

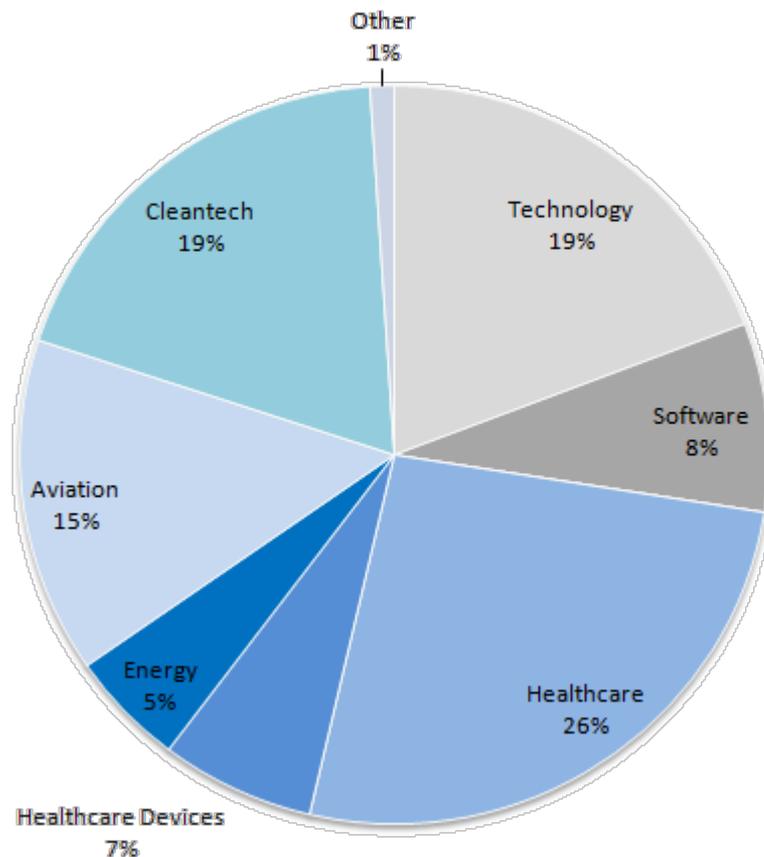
Active (37)	Exited at a Gain (11)	Exited at a Loss (22)
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Note: NMPEIP participants and the SIC directly have invested in 68 New Mexico-based companies, with 2 additional companies funded by SIC National Program participants



## Capital Invested by Sector: Active NMPEIP Program Sector Concentration

### NMPEIP Investment by Sector: Active Companies





# NMPEIP Status Overview and Summary of Partnership Commitments

Unaudited Performance Data as of 12/31/14	
Number of Fund Commitments	30
Capital Committed (Total)	\$442.1
Capital Committed (Net of Dist.'s Received)	\$309.6
Capital Drawn	\$381.3
% of Capital Committed (Total)	86.2%
Distributions Received	\$132.5
% of Capital Drawn	34.7%
Outstanding Deployed Capital	\$248.8
Outstanding Deployed Capital as % of STPF	5.3%
Portfolio Carrying Value	\$241.6
Total Portfolio Value	\$374.1
% of Capital Drawn	98.1%
Portfolio Multiple of Invested Capital	1.0x
Portfolio IRR	-0.4%

Note: Returns calculated using reported Carrying Values as of 12/31/14 and data provided by Inviest  
 Severance Tax Permanent Fund ("STPF") currently \$4,696.094 million as of 12/31/14

All Fund Commitment Summary as of 12/31/14	Vintage	Commitment Dollars	Funded To Date	Percent Funded	NM Invest <sup>1</sup>	Investment Value (\$) <sup>2</sup>			Return <sup>2</sup>		Fund Liquidated
						Realized	Unrealized <sup>3</sup>	Total	Multiple	IRR	
ARCH Venture Fund II, L.P.	1993	\$1.2	\$1.2	100.0%	\$67.1	\$4.3	\$0.0	\$4.3	3.53x	44.8%	Yes
ARCH Venture Fund III, L.P.	1996	\$4.0	\$4.0	100.0%	\$0.0	\$3.7	\$0.0	\$3.8	0.95x	-0.8%	In Process
CVM Equity Fund V	1998	\$3.0	\$3.0	100.0%	\$1.1	\$1.7	\$0.0	\$1.7	0.58x	-6.1%	Yes
Murphree Venture Partners IV, L.P.	1998	\$4.0	\$4.0	100.0%	\$4.9	\$0.1	\$0.0	\$0.1	0.02x	-71.8%	Yes
Tullis/Dickerson Capital Focus II, L.P. <sup>4</sup>	1998	\$5.0	\$5.0	100.0%	\$10.1	\$2.4	\$1.6	\$3.9	0.79x	-2.0%	Yes
Valley Ventures II, L.P.	1998	\$3.0	\$3.0	100.0%	\$18.4	\$2.6	\$0.0	\$2.6	0.87x	-1.6%	Yes
Vestor Partners, L.P.	1998	\$2.5	\$2.4	94.0%	\$0.0	\$0.6	\$0.0	\$0.6	0.27x	-16.4%	Yes
International Venture Fund I, L.P.	2000	\$5.0	\$5.0	100.0%	\$9.6	\$0.7	\$0.2	\$1.0	0.19x	-12.7%	Yes
Murphree Venture Partners V, L.P.	2000	\$3.0	\$3.0	100.0%	\$2.2	\$1.0	\$1.9	\$2.9	0.96x	-0.9%	In Process
Red River Ventures, L.P.	2000	\$7.2	\$7.2	100.0%	\$12.8	\$3.9	\$1.6	\$5.5	0.77x	-4.4%	
Tullis/Dickerson Capital Focus III, L.P. <sup>4</sup>	2001	\$15.0	\$15.0	100.0%	\$52.0	\$13.3	\$6.2	\$19.4	1.30x	5.8%	
Wasatch Venture Fund III, LLC	2001	\$8.7	\$8.7	100.0%	\$41.5	\$4.6	\$2.4	\$7.1	0.81x	-3.5%	
Altira Technology Fund IV, L.P.	2002	\$10.0	\$10.0	100.0%	\$14.3	\$14.1	\$0.4	\$14.5	1.45x	6.5%	
Blue Sage Capital, L.P.	2002	\$10.0	\$7.6	76.4%	\$10.0	\$23.0	\$7.0	\$30.0	3.92x	22.7%	
ITU Ventures West I, L.P.	2002	\$15.0	\$15.0	100.0%	\$15.3	\$5.9	\$0.1	\$6.0	0.41x	-15.5%	Yes
Valley Ventures III, L.P.	2002	\$6.7	\$6.5	98.0%	\$14.9	\$1.0	\$0.7	\$1.7	0.26x	-18.3%	
New Mexico Co-Investment Partners, L.P. <sup>5</sup>	2003	\$62.0	\$62.0	100.0%	\$163.7	\$12.6	\$0.8	\$13.4	0.22x	-23.5%	In Process
vSpring II, L.P. <sup>4</sup>	2003	\$20.0	\$20.0	100.0%	\$91.9	\$0.0	\$5.1	\$5.1	0.26x	-14.6%	
Flywheel I, L.P.	2004	\$15.0	\$15.0	100.0%	\$52.6	\$9.2	\$5.5	\$14.7	0.98x	-0.3%	
Verge I, L.P.	2004	\$10.0	\$10.0	100.0%	\$54.1	\$3.2	\$6.4	\$9.7	0.97x	-0.7%	
Wasatch New Mexico Fund, LLC	2004	\$12.0	\$12.0	100.0%	\$46.9	\$1.4	\$3.4	\$4.8	0.40x	-12.5%	
ITU Ventures III NM, L.P.	2005	\$2.3	\$2.3	100.0%	\$0.0	\$0.1	\$0.0	\$0.1	0.04x	-73.6%	Yes
Psilos Group Partners IIIB, L.P.	2005	\$15.0	\$15.0	100.0%	\$28.8	\$8.0	\$12.9	\$21.0	1.40x	7.4%	
Village Ventures Fund II-B, L.P.	2006	\$15.0	\$15.3	102.3%	\$3.2	\$8.4	\$32.9	\$41.3	2.69x	19.9%	
NMSIC Co-Investment Fund, L.P. (Classic)	2007	\$30.0	\$29.1	97.1%	\$353.2	\$4.3	\$24.7	\$29.0	0.99x	-0.2%	
NMSIC Co-Investment Fund, L.P. (Focused)	2007	\$62.5	\$61.4	98.1%	\$780.6	\$1.9	\$76.0	\$77.8	1.27x	4.7%	
vSpring III, L.P. <sup>4</sup>	2007	\$15.0	\$15.0	100.0%	\$13.2	\$0.3	\$13.2	\$13.5	0.90x	-2.1%	
EPIC Venture Fund IV, LLC	2008	\$10.0	\$8.0	80.0%	\$7.3	\$0.0	\$16.0	\$16.0	1.95x	16.8%	
NMSIC Co-Investment Fund, L.P. (2013)	2013	\$20.0	\$13.7	68.7%	\$24.1	\$0.0	\$19.2	\$19.3	1.38x	N/M	
NMSIC Co-Investment Fund, L.P. (2014)	2014	\$40.0	\$1.8	4.5%	\$1.6	\$0.0	\$3.2	\$3.2	1.81x	N/M	
EPIC Venture Fund V, LLC <sup>6</sup>	2014	\$10.0	\$0.0	0.0%	\$0.0	\$0.0	\$0.0	\$0.0	N/M	N/M	
<b>Program Totals</b>		<b>\$442.1</b>	<b>\$381.3</b>	<b>86.2%</b>	<b>\$1,895.5</b>	<b>\$132.5</b>	<b>\$241.6</b>	<b>\$374.1</b>	<b>0.98x</b>	<b>-0.4%</b>	<b>9 of 30</b>

Source: Inviest reporting

Notes:

- 1) Includes both direct fund investments and caused to invest dollars into New Mexico companies. Sourced from Inviest reporting, GP reporting and Sun Mountain Capital analysis.
- 2) Variance from total external dollars in New Mexico companies due to exclusion of previously raised capital and accounting for overlapping caused to invest dollar allocations
- 3) Investment Values and Return calculations based upon asset values from 12/31/14
- 4) Fair Market Value as determined by Fund GPs under ASC 820 as of the report date
- 5) Firm managing the fund has changed name: Tullis/Dickerson is now called Tullis Health Investors, vSpring is now called Signal Peak Capital
- 6) New Mexico Co-Investment Partners, L.P. data includes one SIC direct investment for reporting purposes
- 6) EPIC Venture Fund V, LLC not included in multiple or IRR calculations as the fund has not yet begun actively reporting to Inviest



## NMPEIP Carrying Value Quarter Over Quarter

### NM PEIP Changes in Q3 2014 Reported Value

	<i>Early VC</i>	<i>Later VC</i>	<i>Buyout</i>	<i>Total</i>
Reported Valuation as of Q2 2014	\$127.4	\$83.6	\$11.2	<b>\$222.3</b>
Contributions to General Partners	\$5.2	\$0.3	\$0.0	<b>\$5.4</b>
Distributions from General Partners	(\$0.0)	\$0.0	(\$2.4)	<b>(\$2.5)</b>
Change in Value	(\$0.6)	\$5.7	(\$0.1)	<b>\$5.0</b>
<b>Reported Valuation as of Q3 2014</b>	<b>\$132.0</b>	<b>\$89.6</b>	<b>\$8.7</b>	<b>\$230.2</b>

Source: Invient reporting

### NM PEIP Changes in Q4 2014 Reported Value

	<i>Early VC</i>	<i>Later VC</i>	<i>Buyout</i>	<i>Total</i>
Reported Valuation as of Q3 2014	\$132.0	\$89.6	\$8.7	<b>\$230.2</b>
Contributions to General Partners	\$1.7	\$0.2	\$0.0	<b>\$1.9</b>
Distributions from General Partners	(\$0.9)	(\$0.0)	(\$0.2)	<b>(\$1.1)</b>
Change in Value	\$10.8	(\$0.5)	\$0.2	<b>\$10.5</b>
<b>Reported Valuation as of Q4 2014</b>	<b>\$143.6</b>	<b>\$89.3</b>	<b>\$8.6</b>	<b>\$241.6</b>

Source: Invient reporting



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