



New Mexico Private Equity Investment Program

Fourth Quarter Update Report

May 17, 2010

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CAPITAL

New Mexico Private Equity Investment Program Update

- Program is in compliance
 - \$250.5 million drawn versus statutory cap of \$319.4 million
- Freeze on new commitments, instituted in Q4 2008 due to market volatility and declining market valuations, continued through 2009
 - Optimistic that Program can begin making new commitments in Q3 2010
- Financial performance has been negatively impacted by market conditions
 - Private equity market generally lags public markets by 6 to 9 months as private investors digest the effect of market conditions at a slower pace than public market participants
- Program had a significant impact on the New Mexico economy in 2009
 - \$139 million of payroll and purchases

Program Status Overview

Unaudited Performance Data as of 12/31/09	
NMPEIP Commitment Target	\$351.3
Capital Committed (Gross)	\$369.6
Capital Committed (Net)	\$330.4
<i>% of Target</i>	94.1%
Number of Fund Commitments	28
Capital Drawn	\$289.8
Distributions Received	\$39.3
Capital Drawn (Net)	\$250.5
<i>% Funded</i>	78.4%
<i>% of Statutory Target</i>	78.4%
Program Returns as of 12/31/09	
Portfolio Carrying Value	\$195.4
Portfolio IRR	-12.3%
Portfolio Multiple of Invested Capital	0.7x

¹ NMPEIP Target calculated by taking 9% of the Severance Tax Permanent Fund (\$3.55 billion as of 12/31/09) and applying a 1.1x multiplier

² Return data provided by NMSIC

Summary of Partnership Commitments

All Fund Commitment Summary As of 12/31/09	Commitment		Funded	Percent	Investment Value (\$) ¹			Return ¹	
	Year	Dollars	To Date	Funded	Realized	Unrealized	Total	Multiple	IRR
ARCH Venture Fund II, L.P.	1993	1.2	1.2	100%	4.32	0.00	4.32	3.53	44.5%
ARCH Venture Fund III, L.P.	1996	4.0	4.0	100%	3.49	0.20	3.69	0.92	-1.2%
CVM Equity Fund V, L.P.	1998	3.0	3.0	100%	1.23	0.94	2.18	0.73	-3.6%
Murphree Venture Partners IV, L.P.	1998	4.0	4.0	100%	0.70	0.80	1.50	0.37	-10.2%
Tullis/Dickerson Capital Focus II, L.P.	1998	5.0	5.0	100%	0.94	2.17	3.10	0.62	-5.3%
Valley Ventures II, L.P.	1998	3.0	3.0	100%	0.31	2.35	2.65	0.88	-1.3%
Vestor Partners, L.P.	1998	2.5	2.5	100%	0.58	0.70	1.28	0.51	-8.1%
International Venture Fund I, L.P.	2000	5.0	5.1	100%	0.00	1.36	1.36	0.27	-16.5%
Murphree Venture Partners V, L.P.	2000	3.0	3.0	100%	0.22	2.54	2.76	0.92	-2.6%
Red River Ventures, L.P.	2000	7.2	6.3	88%	3.13	1.98	5.11	0.81	-4.8%
Tullis/Dickerson Capital Focus III, L.P.	2001	15.0	15.0	100%	10.25	6.65	16.90	1.13	4.4%
Wasatch Venture Fund III, LLC	2001	8.7	8.2	94%	4.31	3.91	8.22	1.00	0.1%
Valley Ventures III, L.P.	2002	6.7	6.3	93%	1.02	1.84	2.86	0.46	-16.5%
Altira Technology Fund IV, L.P.	2003	10.0	10.0	100%	0.96	10.29	11.25	1.13	3.2%
Blue Sage Capital, L.P.	2003	10.0	7.6	76%	0.72	6.63	7.34	0.97	-0.9%
ITU Ventures West I, L.P.	2003	15.0	15.0	100%	2.64	6.40	9.05	0.60	-15.0%
vSpring II, L.P.	2003	20.0	19.8	99%	0.00	12.75	12.75	0.64	-11.4%
Flywheel I, L.P.	2004	15.0	13.7	91%	0.02	14.69	14.71	1.08	2.4%
New Mexico Co-Investment Partners, L.P.	2004	62.0	62.0	100%	3.59	7.67	11.26	0.18	-37.6%
Verge I, L.P.	2004	10.0	8.0	80%	0.00	6.76	6.76	0.85	-5.7%
Wasatch New Mexico Fund, LLC	2004	12.0	10.7	90%	0.00	7.46	7.46	0.69	-12.4%
ITU Ventures III NM, L.P.	2005	2.3	2.3	99%	0.08	0.00	0.04	NM	-74.7%
Psilos Group Partners IIIB, L.P.	2005	15.0	9.5	63%	0.09	9.40	1.00	NM	-0.1%
Village Ventures Fund II-B, L.P.	2006	15.0	10.1	67%	0.26	8.50	0.90	NM	-7.4%
NMSIC Co-Investment Fund, L.P. (Classic)	2007	30.0	8.0	27%	0.00	7.86	7.86	NM	NM
NMSIC Co-Investment Fund, L.P. (Focused)	2007	60.0	34.0	57%	0.40	21.27	21.66	NM	NM
EPIC Venture Fund IV, LLC	2008	10.0	3.2	32%	0.00	2.71	2.71	NM	NM
vSpring III, L.P.	2008	15.0	9.4	63%	0.00	8.32	8.32	NM	NM
Program Totals		\$369.60	\$289.84	78.4%	\$39.26	\$156.14	\$195.40	0.7x	-12.3%

Source: NM State Investment Council

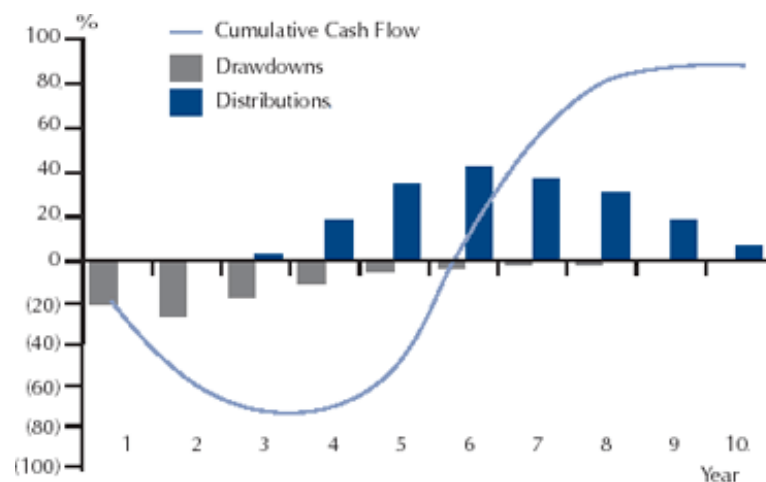
Notes:

1) Investment Values and Return calculations based upon asset values from 12/31/09

2) New Mexico Co-Investment Partners, L.P. data includes one SIC direct investment for reporting purposes

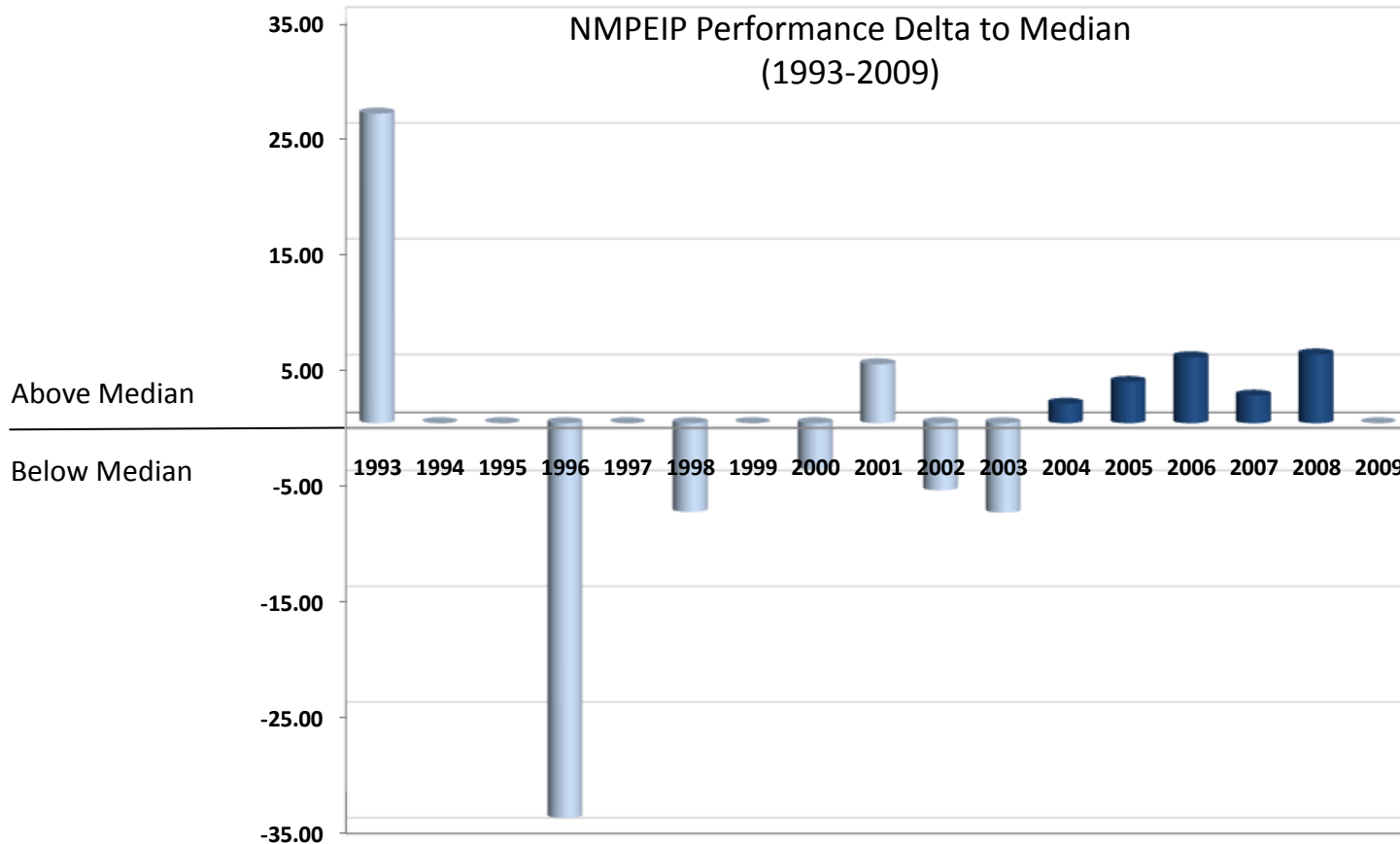
Measuring Program Performance

- Average private equity fund life is 10 years
 - 4 to 5 year investment period – capital is “drawn down”
 - 5 to 6 year harvest period – capital is returned to investors
- J-Curve effect on private equity investment returns
 - Typically, all private equity funds will have negative returns in their early years as money is drawn down
 - This effect reverses in the later years of a fund as distributions are made



Program Returns Still in J-Curve

Program Performance Has Exceeded Benchmarks Since 2004



Program funds finished above median only twice in preceding 7 years in which investments were made.

Significant Economic Impact

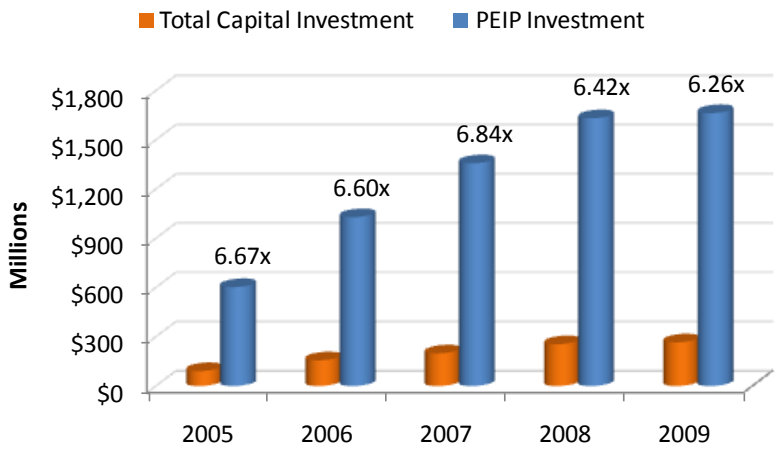
<i>NMPEIP Impact Summary as of 12/31/09</i>	
Capital Investment in NM by sources outside NMPEIP (\$000's)	\$1,662,996
NMPEIP Capital Invested in NM (\$000's)	\$265,595
Investment multiplier (Other Capital/NMPEIP Capital)	6.3x
Number of Companies funded	56
Total Annualized Purchases (\$000's)	\$59,392
Total Annualized Payroll (\$000's)	\$79,809
Annual Economic Impact	\$139,201
Total Current Full-Time Jobs	1,286
Average Salary of Jobs Created	\$62,060
Average Salary in New Mexico ¹	\$32,992

¹ U.S. Dept. of Commerce, Bureau of Economic Analysis. March 25, 2010

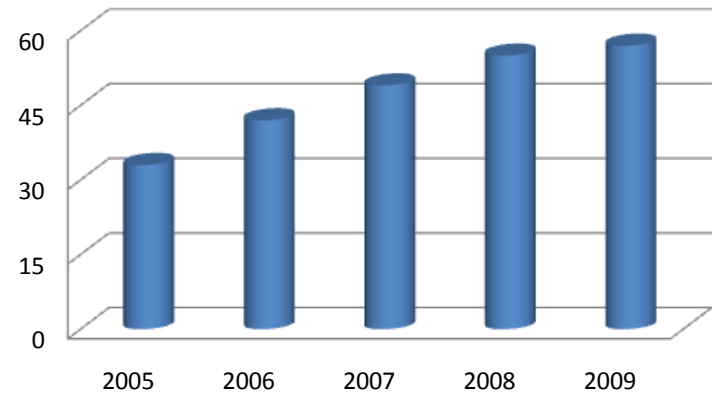


Impacting the New Mexico Economy

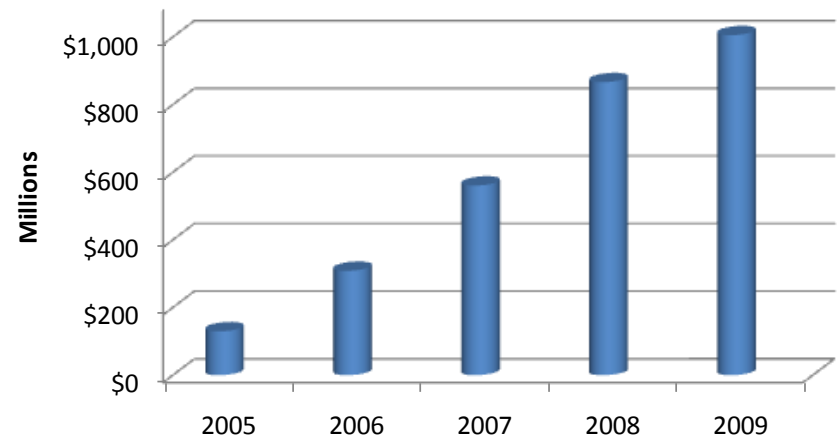
Investment Multiplier



Number of Companies Funded



Cumulative Economic Impact



56 New Mexico Companies Funded by Program

Advent Solar	Eclipse Aviation	Lumidigm	Quasar International
Altaview Technologies	Elisar Software	Mesofuel	Seattle Fish Company
Altela	Enerpulse	Metaphor	Seclarity Corporation
American Clay	Entrada	MicroOptical Devices	Sundrop Fuels
Amtech	Exagen Diagnostics	MIOX	Surflect Technologies
Aspen Avionics	Figaro	Nuvita	TCI Medical
Avasca	Growstones	Noribachi	TRED Displays
Bioreason	Holochip	Nanocrystal	TruTouch Technologies
Boomtime	Infantelligence	NanoMR	VeraLight
Comet Solutions	Innovasic Semiconductor	OnQueue Technologies	Vertical Power
Consolidated Energy	Intellicyt	Patchwork Systems	WellKeeper
Controlled Recovery	Introbotics	Phase-I	Zia Laser
Desert Power	JackRabbit Systems	Protalex	Vibrant
Earthstone	Kinetisis	Puente Partners	ZTEC Instruments

Investment Status as of 12/31/09

Active Companies	38	69.1%
Liquidated Companies	13	23.2%
Exited Companies	5	8.9%

Company Survey Reveals Importance of NMPEIP

- In Q4 2009, Sun Mountain Capital conducted a survey of all 56 New Mexico companies that have received capital through the PEIP
- The purpose of survey was to gauge the importance of PEIP funding to the New Mexico venture capital community and quantify the impact of PEIP funding separate from out of state VC funding
- Results of the survey were overwhelmingly positive
 - **86.5%** of jobs created were credited directly to PEIP funding
 - **94.6%** of companies would either have moved from New Mexico or been located elsewhere if not for Program funding
 - **98.2%** of companies gave very positive feedback on the Program, the participating fund managers, and both their effects on the New Mexico venture capital community

Company CEOs Comment on the Program – Sample Survey Quotes

- “The history and experience of our company is testimony to the value of the NMPEIP program in starting and keeping businesses in New Mexico with great benefits to establishing high wage, high skill jobs in the State. “
 - Dan Meyer, CEO of Comet Solutions Inc.
- “If it weren’t for the funding we would not have been able to attract the number and quantity of investors to make us a viable concern. We would not exist or would have been based in California.”
 - David VanAvermaete, CEO of Veralight Corp.
- “Without NMPEIP funds, the company would not have survived or it would have been moved elsewhere either for fund raising reasons or through a sale. 100% of the jobs would be at risk if not for the NMPEIP.”
 - John Uczekaj, CEO of Aspen Avionics Inc.
- “Not only would our company have never gotten off the ground in 2005, it would now have never been able to weather the economic downturn during 2009.”
 - Ned Godshall, CEO of Altela Inc.
- “It played a critical role in the funding of our company and other companies in our investor’s portfolio. All of the jobs and economic benefits that our company is creating are a result of the NMPEIP program.”
 - Rob Batchko, CEO of Holochip Inc.

Summary of Key Points

- Program returns reflect macroeconomic conditions
- Program likely to start making new commitments in Q3 2010
- Program is having a significant positive impact on the New Mexico economy despite difficult economy; high tech firms are growing and clusters are continuing to evolve
 - Aerospace & Defense
 - Clean Technology
 - Information Technology
 - Life Sciences
- We are continuing our fiduciary approach to managing the Program
 - Improving the caliber of funds in the Program
 - Seeking returns above the benchmark