



NEW MEXICO STATE INVESTMENT COUNCIL



SIC INVESTMENTS & PORTFOLIO EXPOSURE TO NEW MEXICO COMPANIES AND ASSETS

OVERVIEW FOR THE COUNCIL

APRIL 25, 2017



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- Following discussions at a recent Investment Council meeting, staff has analyzed the SIC's portfolio to better gauge our exposure to all investments located in New Mexico.
- Many of these investments are not readily apparent, as they often exist as underlying portfolio assets, held by external managers in real estate, real return and private equity strategies.
- These asset classes – real estate, real return and national private equity - represent 26% of the SIC's \$21.5 billion portfolio.
- While not specifically designed to deliver an intentional “double bottom line” of financial returns and economic development benefits, these investments can have considerable impact on our state.



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- Real Return Portfolio
 - Real Assets (agriculture, energy, infrastructure, timber)
 - ✦ The SIC targets 12% of its total portfolio for Real Return strategies, which include global investments in both financial products and hard assets, providing portfolio diversification while creating steady income.
 - ✦ Many of SIC's real-return managers have invested in New Mexico-located assets. Those assets have a current holding value of **\$1.17 billion**, though SIC's shares are only a small portion of that, or about \$11 million as of April 2017.
 - ✦ These 'hard' assets include oil pipeline, processing, and extraction companies, primarily driven by activity in the Permian and Delaware basins in southeast NM.



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- Real Return Portfolio
 - Financial Assets (MLPs, structured credit, floating rate loans)
 - ✦ NMSIC's Master Limited Partnership (MLP) portfolio includes **27 companies** with New Mexico operations.
 - ✦ Those companies – most are publicly traded - have an estimated value of **\$1.67 billion**. SIC's ownership percentage of those companies is a fraction of that overall value, or about \$30.5 million as of April 2017.
 - ✦ These include pipeline construction/operation companies, natural gas processing plants, oilfield service companies, oil/gas storage facilities and a wind power generation company.



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- Private Equity Portfolio
 - National & New Mexico Private Equity
 - ✦ The SIC targets 12% of its total portfolio for national/international private equity funds.
 - ✦ While the National Private Equity Program has invested previously in funds which later made investments in New Mexico companies, at this time, no SIC National PE managers have exposure to NM-based assets.
 - ✦ The New Mexico Private Equity Investment Program (NMPEIP) was created in statute in 1993, and is legally authorized to invest up to 9% of the Severance Tax Permanent Fund in New Mexico companies.
 - ✦ NMPEIP investments are allowed to achieve differential rate, or “below-market” returns, as they should compensate for lower returns through job and industry creation for the state.
 - ✦ The Council’s current direction, however, is to prioritize financial returns over economic development aspects of investments.



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- New Mexico Private Equity
 - The NMPEIP has a current target allocation of 5% of the STPF for New Mexico Private Equity Investments (\$235 million)
 - ✦ The NMPEIP has invested in **73 New Mexico companies** via 19 investment funds since inception in 1993.
 - ✦ 28 of those companies are currently active in New Mexico, with a market value of **\$1.18 billion** (the SIC owns \$248.1 million of that).
 - ✦ NMPEIP investments have helped to attract **\$1.99 billion** in NM investments from outside investors; this translates to \$6 for every NMPEIP dollar invested.
 - ✦ NMPEIP companies include startups in healthcare, software, aviation, cleantech, technology and energy.



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- New Mexico Catalyst Fund
 - In 2016 the SIC initiated the NM Catalyst Fund to fill an existing need in the state's investment ecosystem
 - ✦ The NM Catalyst Fund will commit **\$20-million** in early-stage/seed investments through local Venture Capital Funds over the next 5 years.
 - ✦ Those local VC funds must, at minimum, match the Catalyst commitment, which will at least double the investment capital available to **\$40 million**.
 - ✦ Those ~10 funds will then invest with up to **50 New Mexico early stage/seed companies**, seeking significant portfolio and geographic diversity.



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- Small Business Investment Corporation (SBIC)
 - Though not controlled by the SIC, investments made by the SBIC reside in the Severance Tax Permanent Fund and impact STPF returns
 - ✦ By statute, the SBIC is granted 1% of the STPF (currently \$47 million), to encourage NM business expansion and job creation.
 - ✦ Investments are classified as differential rate.
 - ✦ SBIC has ceased broad equity fund investing following early losses, currently marked at \$8 million.
 - ✦ The SBIC currently has **\$17.9 million** deployed in small business loans to **621 New Mexico companies**.
 - ✦ The SBIC currently has **\$11.4 million** of equity investments across **21 New Mexico companies**.