

Amended & Restated Investment Policy

New Mexico Small Business Investment Corporation

Adopted by Board August 13, 2012

Amended May 24, 2013

Amended July 24, 2015

Reviewed May 20, 2016

INTRODUCTION

The powers and duties of the Small Business Investment Corporation, d/b/a the New Mexico Small Business Investment Corporation (“NMSBIC”), are defined in the New Mexico Small Business Investment Act, Sections 58-29-1 et. seq. NMSA 1978 (the “Act”). The NMSBIC is funded through an allocation from the New Mexico severance tax permanent fund as provided in Section 7-27-5.15(F) NMSA 1978.

All investments of the funds of the NMSBIC are to be invested prudently and in accordance with the Act. Guidance from the Office of the Attorney General of the State of New Mexico with respect to the investment of NMSBIC funds suggests that with respect to the investment of its funds, the NMSBIC should exercise reason and care, paying attention to possible hazards in balancing: (1) the safety of the investment (i.e., the risk to principal); (2) the yield (i.e., the rate and regularity of the return); (3) the diversification of the overall investment portfolio (as to minimize the loss that would occur from a downturn in one particular sector of the economy), and (4) the stimulative effect of the investment on the economy of New Mexico on a continuing basis. The order of these items is not indicative of their importance. [See, Letter from Attorney General of New Mexico to NMSBIC, dated July 18, 2003].

As a tax-exempt organization, the NMSBIC need not consider the effect that state or federal income taxes may have on the returns, except to the extent that an investment may result in unrelated business income under the Internal Revenue Code.

The purpose of this Amended and Restated Investment Policy (the “Investment Policy”) is to describe the criteria and factors to be considered by the NMSBIC with respect investment of NMSBIC funds in furtherance of its statutory purposes and in light of its duties to make prudent investments. This Investment Policy amends and restates in its entirety the NMSBIC Amended & Restated Investment Policy adopted by the NMSBIC Board of Directors on August 13, 2012, as amended on May 24, 2013 and July 24, 2015.

Key Contact for Investment Policy

Russell Cummins, Executive Director/Investment Advisor
New Mexico Small Business Investment Corporation

INVESTMENT OBJECTIVES AND GUIDELINES FOR CURRENTLY AVAILABLE FUNDS

The NMSBIC shall invest funds that are currently available to the NMSBIC (“Currently Available Funds”) and not invested in Permitted Investments (as defined below) in short-term investments in a manner designed to generate income for the NMSBIC while protecting the principal value of the invested funds. The following are considered appropriate investments for Currently Available Funds:

- 1) Cash Equivalent Vehicles

- a) Money Market Funds or Stable Value Funds that have internal maturities of one year or less and invest in the securities and have the characteristics described in sections 2) to section 4) below.
 - b) Management fees charged for these vehicles will be negotiated by the NMSBIC and will not exceed the average fees for such vehicles as reported by Morningstar Investor Services.
- 2) Individual Securities
- a) U.S. Treasury Securities and notes or debentures issued by U.S. Government sponsored agencies.
 - b) A1 (S&P) or P1 (Moody's) rated Commercial Paper.
 - c) Repurchase Agreements (REPOS). No such Agreement shall be invested in unless the Agreement is fully secured by U.S. Treasury Securities, notes and debentures issued by U.S. Government sponsored agencies, A1 (S&P) or P1 (Moody's) Commercial Paper, Corporate Obligations rated AA or better or Asset Backed Securities rated AAA. The Market Value of this collateral must equal at least 102% of the invested amount.
 - d) Bankers Acceptances of banks with minimum assets of two billion U.S. dollars and rated A (S&P) and A2 (Moody's) or higher if less than two years maturity or AA (S&P) and Aa2 (Moody's) if greater than two years maturity.
 - e) Deposits in New Mexico financial institutions that are certified and designated by the New Mexico State Treasurer, with deposit balances in excess of deposit insurance provided by the Federal Deposit Insurance Corporation collateralized in accordance with 2.60.4 NMAC. New Mexico financial institutions that are certified and designated by the New Mexico State Treasurer, and collateral requirements, shall be based information published in the monthly State Treasurer's Investment Committee (STIC) Binder at www.nmsto.gov.
 - f) Corporate Obligations rated A (S&P) and A2 (Moody's) or higher if less than two years maturity or AA (S&P) and Aa2 (Moody's) if greater than two years maturity. The aggregate market value of all corporate obligations shall not exceed 35% of the aggregate market value of all short-term investments.
- 3) New Mexico State Investment Council (NMSIC) US Core Plus Bonds Investment Pool, in accordance with a Joint Powers Agreement between the NMSBIC and NMSIC.
- 4) No investment in the securities of any one issuer shall constitute more than 5% of the aggregate market total of all Currently Available Funds or \$500,000, whichever is greater, provided that there is no investment limit in the securities of any one issuer of U.S. Treasury Securities or notes or debentures issued by U.S. Government sponsored agencies, or bank deposits/CDs that are fully insured by the Federal Deposit Insurance Corporation, or bank deposits/CDs that are collateralized in accordance with 2.60.4 NMAC.

- 5) The aggregate market value of all Corporate Obligations and Asset Backed Securities shall not exceed 70% of the aggregate market value of all Currently Available Funds. Corporation Obligations in this context do not include commercial paper.

TIME HORIZON

No single investment of Currently Available Funds shall have a final maturity greater than three years, provided that the final maturity limitation does not apply to investments in the NMSIC US Core Plus Bonds Investment Pool.

RISK TOLERANCE

The primary objective for investment of Currently Available Funds is the preservation of the principal of such funds. Given this, little to no risk is desired. This includes both specific (issuer) risk and market (interest rate) risk. The above investment guidelines and constraints squarely address these risks and should minimize the effect of these risks on the principal of invested Currently Available Funds.

SELECTION/RETENTION CRITERIA FOR INVESTMENTS IN CASH EQUIVALENT VEHICLES

Cash Equivalent Vehicles

With respect to the investment of Currently Available Funds in Cash Equivalent Vehicles as permitted above, all investments in Cash Equivalent Vehicles shall be made in pooled investment vehicles, such as money market funds, where the fund's share price is intended to remain constant and the fund's yield is comparable with the current risk-free rate of return.

The following criteria for selecting and retaining any investment in a Cash Equivalent Vehicle:

1. The fund will have an investment track record of no less than three years.
2. The fund's average annualized yield, net of fund level expenses, over a three-year period will be no less than 0.5% below that of the average of all other funds sharing a similar investment objective for an equivalent period.

The NMSBIC will review the performance of each Cash Equivalent Vehicle on an annual basis. The investment vehicle's total returns will be compared with the average returns for all other cash equivalent funds with a similar investment objective for the previous one-, three- and five-year periods.

INVESTMENT POLICIES AND PROCEDURES FOR PERMITTED INVESTMENTS

As provided in Section 58-29-5.1 of the Act, the NMSBIC may make equity or debt investments in New Mexico businesses in conjunction with cooperative agreements with parties with demonstrated capabilities in the provision of financial services and capital to new or expanding businesses ("Permitted Investments"). Given the statutory direction to create new job opportunities to support

new or expanding businesses and to enhance the economic development activities of the State of New Mexico, and as indicated in guidance from the Attorney General of the State of New Mexico, the stimulative effect of an investment on the economy of New Mexico on a continuing basis may be considered as one of the factors in making Permitted Investments; however, the other factors (risk, yield, and diversification) must also be considered.

Composite Investment Benchmarks

1. The yield on the investment.
2. The safety of the investment.
3. The diversification of the overall investment portfolio.
4. The creation of job opportunities to support new or expanding businesses in New Mexico and the stimulative effect on the economy of New Mexico on an on-going basis.

Indirect Investments

The NMSBIC may indirectly invest in New Mexico businesses by providing debt or equity capital utilizing cooperative agreements to organizations having the attributes described below, and such investments may be through any one or more of the vehicles or formats also described below:

1. A historical track record that demonstrates successful investing of debt or equity in businesses.
2. The cooperative agreements are with organizations engaged in or proposing to engage in the business of providing business services and debt or equity capital to new and expanding businesses.
3. Headquarters or branch offices within the State of New Mexico staffed by at least one full-time portfolio manager.
4. Staffing of financial professionals who have the demonstrated capabilities to successfully source, underwrite, service and obtain appropriate returns on investments made to businesses and the necessary skills to develop and manage a portfolio.
5. Either have itself the ability to provide training, mentoring, or other business assistance or support services to portfolio companies or have an affiliation or relationship with third party providers of such services.
6. Well-defined and realistic strategies to implement their business plan and the ability to realize successful exits.
7. Committed to investing the NMSBIC's capital in accordance with legislative mandates.
8. An investor communications program for quarterly reporting and provision for annual audited financial statements.

9. Meets Investment Benchmarks.

Approved Indirect Investment Vehicles or Structures

1. Direct loans, individual loan participations, or loan participation pools or agreements.
2. Managed loan or equity portfolios.
3. Co-investment accounts.
4. Limited Partnerships or limited liability company interests.
5. Joint Ventures.

Direct investments

The NMSBIC may directly invest equity or debt in New Mexico businesses. In every instance, however, a direct investment must meet the requirements of Section 59-29-5.1 of the Act that it be made pursuant to a cooperative agreement, as the term “cooperative agreement” is defined in the Act. The determination of what constitutes a “cooperative agreement” with respect to the direct investment shall be made on a case by case basis, and may include such determinations as identification of a proposed investment by a financial professional, like a bank, alternative lender or equity fund, who has the ability and has provided extensive due diligence on the proposed investment. In every instance, the financial professional should have a financial stake in the proposed investment, either as a co-investor or as a lender. Direct investments should have the following characteristics and attributes:

1. Represents an extraordinary opportunity to create jobs or provide other benefits to community where located.
2. Company has qualified management, Board of Directors, and/or provisions for monitoring/oversight by qualified parties.
3. Meets investment benchmarks.
4. Not capable of obtaining capital or suitable terms from other sources.
5. Has been reviewed and evaluated by credible financial professionals.

Approved Direct Investment Vehicles or Structures

1. Common stock, preferred stock or equity linked security.
2. Limited Partnership or limited liability company interest.
3. Senior or subordinate debt.

INVESTMENT MONITORING AND CONTROL PROCEDURES

Reports

1. Each month the NMSBIC Board will be provided with financial reports which include a list of all investments of Currently Available Funds and Permanent Investments held by the NMSBIC, including values for each investment and all transactions affecting assets within the NMSBIC portfolio, including additions and withdrawals.
2. The NMSBIC shall receive no less frequently than on a quarterly basis and within a reasonable period of time within the end of each such quarter the following management reports:
 - a) Portfolio performance results over the last quarter, year, 3 years and 5 years;
 - b) Performance results of comparative benchmarks for the same periods, where possible;
 - c) End of quarter status regarding asset allocation;
 - d) Any recommendations for changes of the above; and
 - e) Any deviations from this Investment Policy.

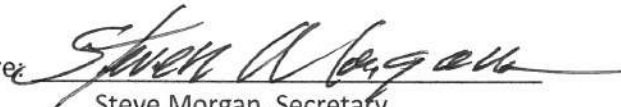
Use of Leverage

The NMSBIC Board may from time to time consider and by Board resolution adopt the use of an investment multiplier of its commitments to venture capital funds as a means to achieve more complete and timely deployment of NMSBIC funds. Venture capital fund commitments are called on a "just in time" basis, which means that a fund gradually invests its committed capital over a 3 to 5 year time frame. By adopting such a policy, the NMSBIC can increase the number of its investments in New Mexico business and do so over a short time frame. This policy would help create more jobs, and help contribute to the intent of the Act to foster economic development. The NMSBIC may from time to time review and adjust by Board resolution the percentage utilized as a multiplier in order to reflect the investments as compared to its capital commitments.

ADOPTION

The undersigned, being Secretary of the NMBIC, hereby certifies that this Investment Policy was adopted by the NMSBIC Board of Directors on May 20, 2016.

Date: 5.20.16

Signature: 

Steve Morgan, Secretary