

**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

October 29, 2021

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. via teleconference. A quorum was established.

Members Present

Mr. Joseph H. Badal, Chair
Mr. Guadalupe Garcia, Vice Chair
Mr. Steven E. Morgan, Secretary/Treasurer
Ms. Heather Benavidez, designee of Hon. Tim Eichenberg, NM State Treasurer
Mr. Alan Fowler

Members Excused

Ms. Roxanna Meyers

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair

Guests Present

Ms. Anne Beckett
Mr. Robert Valdiviez
Mr. Joshua Smith
Charles Wollmann, Director, Communications, Legislative & Client Relations; State
Investment Counsel (SIC)
Chris Cassidy, Investment Analyst, SIC
Richard Pugmire, Principal, Mercer Alternatives

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Morgan moved acceptance of the agenda, as published. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.

BOARD MINUTES FOR SEPTEMBER 24, 2021

Mr. Garcia moved acceptance of the minutes of the September 24, 2021, meeting, as presented. Ms. Benavidez seconded the motion, which passed unanimously by roll call vote.

STATE INVESTMENT COUNCIL (SIC) EQUITY INVESTMENT PROGRAM OVERVIEW:

-- CHARLES WOLLMANN, DIRECTOR, COMMUNICATIONS, LEGISLATIVE & CLIENT RELATIONS, SIC

-- CHRIS CASSIDY, INVESTMENT ANALYST, SIC

-- RICHARD PUGMIRE, PRINCIPAL, MERCER ALTERNATIVES

Mr. Cassidy stated that he and colleague David Lee run the SIC's private equity and venture capital program, which includes the New Mexico program. He introduced Richard Pugmire, from Mercer, their consultant for both programs.

Mr. Cassidy made a slide presentation. He noted that this presentation was made before the Legislative Finance Committee this week.

Mr. Cassidy stated that the SIC is trying to build a pool of 20-30 managers that make sense for New Mexico, i.e., who are investing in sectors that relate to the New Mexico economy and who have the value-add expertise to help those early stage local companies as they try to grow and potentially achieve a national or global presence. He commented that this is a lot of work, and all of these companies need help recruiting talent, being introduced to customers, and figuring out their growth plan, sales and marketing plan, and so forth.

Mr. Cassidy commented that, if the New Mexico program comprises \$10 million out of \$130 million of the overall portfolio, it gets the benefit diversification of some of the other investments in the portfolio. To the extent that a New Mexico investment doesn't work out for whatever reason, it doesn't drive the returns of the portfolio, and it still gets the benefit of the capital and the expertise of the manager.

Mr. Wollmann noted that the SIC this week approved two New Mexico emerging manager funds, so it is not inactive in this space.

Mr. Pugmire stated that, since inception, the program has generated 1.7 percent IRR and 1.13X MOIC. Over the last two years, the SIC has made seven new commitments to three of the existing managers and four new managers for \$60 million.

Chairman Badal asked what percentage of funds have been committed to the program to date. Mr. Cassidy responded that it was 8 to 8.5 percent the last time they measured it, although investments made in the last 12-18 months will increase that. In addition, some of the managers in the portfolio, particularly at the national level, are starting to perform a little better. The cap is 11 percent, and their target is 9 percent, with a target range between 7 percent and 11 percent.

Mr. Wollmann added that the SIC has seen a \$1.5 billion increase in the severance tax fund over the last year or two, although the land grant fund has grown by \$7 billion in that period of time.

Chairman Badal said the NMSBIC's experience in venture capital was not a positive one, but part of the problem was that they were dealing with a much smaller pool of investable funds and were not able to invest a lot of money in any one entity through the NMSBIC's partners. These were also much smaller companies.

Mr. Cassidy said their program has an average-sized commitment from \$5 to \$15 million. The underlying investments are anywhere from \$500,000 to \$10 million. He added that the NMSBIC's

historical experience and what the SIC had in its liquidated portfolio is not dissimilar, with a very concentrated universe of mostly local investors with a constrained opportunity set. The result has been a higher loss ratio with fewer winners.

Ms. Beckett asked what industries are popular with the fund managers the SIC is working with.

Mr. Pugmire responded that their venture capital managers mostly look at information technology, but the SIC also wants managers that will look at ancillary technologies. Software is the hot sector right now in venture capital, and the feeling is that a really good company might move to another state. The SIC wants funds that are looking for more science-backed companies, such as biotech, but they are also open to managers that look at a wide variety of industries. The food industry is a potential area for growth, although a lot of the companies that focus on the food industry are more buyout focused because the high growth opportunities aren't there with venture capital.

FINANCIAL REPORTS AS OF AUGUST 31, 2021 AND SEPTEMBER 30, 2021

Mr. Cummins presented highlights:

- The LGIP account increased to \$29 million in September, and the NMSBIC deposited another \$2 million this month, so the account now stands at \$31 million.
- The DreamSpring PPP lending program, which was once at \$35 million, is down to about \$9 million in PPP loans outstanding.
- NMSBIC is ahead of budget on interest income, primarily on the investment in bonds with the SIC. Interest income on the lending program is exceeding operating costs, which is one of the NMSBIC's strategic goals.
- Funds available for investment as of September 30 are about \$20 million. At one point, the balance was close to zero, but as PPP loans are forgiven by SBA and paid to the NMSBIC, available funds have increased. Assuming the NMSBIC gets the additional \$9 million in PPP loans in the next few months, available funds could increase to \$29 million.
- Based on the growth in the Severance Tax Permanent Fund in the last fiscal year, the NMSBIC could receive another \$16 million contribution from the fund in the next few months, potentially increasing available funds to about \$45 million.
- Last week, the NMSBIC remitted \$639,000 to the Severance Tax Permanent Fund in Net Excess Funds for the year ended June 30, 2021.

Chairman Badal encouraged board members to consider other entities that the NMSBIC might add as cooperative partners, as the NMSBIC's existing cooperative partners have only so much lending capacity.

Mr. Fowler moved to approve the Financial Reports of August 31 and September 30, 2021, as presented. Mr. Morgan seconded the motion, which passed unanimously by roll call vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Mr. Cummins reported that committed funds are at \$77 million. Of that, there is \$33 million outstanding under the traditional lending program, about \$10 million in the COVID-19 lending program, almost all of which is with The Loan Fund; and \$9 million outstanding in PPP loans. Total outstanding loans are about \$52 million.

RENEWAL OF WEBSITE MAINTENANCE CONTRACT WITH HOLLY COMPANY

Mr. Cummins recommended renewal of the website maintenance contract with The Holly Company for one year, from December 1, 2021, to December 1, 2022, with the same terms as the previous year, with no change in pricing (\$2,000 per year plus NM Gross Receipts tax), plus expenses, which are typically around \$300 per year.

Mr. Garcia so moved. Ms. Benavidez seconded the motion, which passed unanimously by roll call vote.

ELECTION OF NMSBIC OFFICERS

Chairman Badal stated that the NMSBIC put out feelers asking if any other board members would be interested, and there were no takers. The slate of officers is on page 40.

Mr. Garcia moved that the following persons be elected to the following NMSBIC board positions: Joseph Badal as Chair and President; Alan Fowler as Vice Chair and Vice President; Steve Morgan as Secretary/Treasurer; and Russell Cummins as Executive Director/Investment Advisor, for the next 12 months. Ms. Benavidez seconded the motion, which passed unanimously by roll call vote.

BANK AUTHORIZED SIGNORS RESOLUTION

Mr. Fowler moved that NMSBIC officers Chair and President, Vice Chair and Vice President, Secretary/Treasurer, be named as authorized signors on all NMSBIC bank accounts, with two signors required on bank account transactions, and that the board authorizes the changing of signature cards to reflect the new officers, and that current signors will continue to be authorized to sign until such time as the changes are made to bank accounts. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

OPEN MEETINGS ACT RESOLUTION

Mr. Cummins reviewed the rules as listed on page 41, and explained that the rules are adopted each year.

Mr. Morgan moved to accept the Open Meetings Act Resolution as presented on page 41 of the board packet. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.

BOARD CONFLICT OF INTEREST CERTIFICATIONS INFORMATION

Mr. McDonald explained that it is required that members review the Conflict of Interest policy annually and return a signed certification that they have no conflicts. He said he has responses from Treasurer Eichenberg and Ms. Benavidez.

Chairman Badal and Mr. Fowler both indicated that they have sent in their certifications.

NMSBIC PROPOSED BOARD MEETING SCHEDULE FOR 2022

Mr. Cummins reviewed the proposed meeting schedule and noted that all meetings are scheduled to commence at 9:00 a.m.

- Friday, February 25, 2022
- Friday, April 29, 2022
- Friday, June 24, 2022
- Friday, August 26, 2022
- Friday, September 23, 2022 [Limited Agenda, Call-in Meeting]
- Friday, October 28, 2022
- Wednesday, December 7, 2022

Chairman Badal recommended that, if things open up, the board consider holding a couple of meetings virtually in order to minimize travel.

BOARD CONTINUING EDUCATION – INVEST US/CE LAB POVERTY ALLEVIATION PROGRAM:

-- **DEBORAH BURNS, MANAGING PARTNER, INVEST US**

-- **SARAH CRICHLAW, EXECUTIVE DIRECTOR CE LAB**

Mr. Cummins stated that Ms. Burns and Ms. Crichlow are present to discuss an opportunity that would potentially provide a significant amount of charitable funding in New Mexico to help alleviate poverty.

Ms. Burns said that after she became CEO of investUS, she became aware of lots of financeable projects in the state but with no financial intermediaries or financial resources in the state to bring capital to the state. Since then, they have partnered with NMEDD in education and in efforts to get opportunity zones developed in the state. This latest philanthropic group is very exciting; they are an offshore philanthropic group that does both commercial and philanthropic investments, and she feels there is a lot of opportunity to do lots of business with them in the state through investUS. She said the mission of investUS is to obtain new private investment capital sources from outside New Mexico that are willing to make debt and equity investments in New Mexico businesses, municipalities, and real estate projects for the purposes of job creation, economic growth, and meeting community needs, especially in underserved communities. To that end, they work in an advisory capacity in the state with municipalities to educate New Mexicans on how to access these sources of capital. She added that Mark Lautman and Robert Singer are cofounders of investUS, and there are 20 members that include Dale Dekker, Stu Rose, Paul Silverman, several attorneys and others in the community that are aligned to this mission. She went on the board of CELab in 2018 because she saw a lot of opportunity in what they were doing to facilitate what she was doing.

Ms. Crichtow introduced herself as Executive Director of Community Economics Lab (CELab), which began as a think tank to tackle the biggest problems facing economic and workforce development around the world. It was cofounded by her father, Mark Lautman, and Bill Knauf in 2009. They did not have staff until 2018, when she and Ms. Burns joined the board and made the decision to build the organization. CELab became involved with Circles USA and founder Scott Miller, which has been successful in getting a lot of families out of poverty. It operates in 30-40 states, with chapters in New Mexico in the past. They combine circle groups of families journeying out of poverty with service providers who are needed.

Ms. Burns said that it became immediately clear that there needed to be a technology component for accessibility, efficiency, and scalability for Circles USA to be effective. She commented that volunteer groups and multiple programs across many areas of services and programs can be overwhelming in an analog fashion.

Ms. Crichlow stated that they came across an organization in Tennessee that has developed a program called Well Being that integrates with service providers in the ecosystem and makes them accessible to all of the service providers. This will add a friendly user face and create a platform that is easy for everyone from case managers to the people who are receiving the services. This technology platform will enable funders to determine the amount of funds needed. In addition, it is important to target youth. The poverty alleviation centers will provide opportunity to break down generational poverty cycles.

Ms. Burns said they are envisioning that this technology platform will allow all of the stakeholders in the community, be they government agencies, United Way, high net worth individuals or businesses to get involved to fund outcomes that they care about, and have a third party validation and documentation that their money is actually going to fund outcomes long whatever they care about in terms of alleviating poverty. She commented that most programs manage poverty rather than focus on actually getting people out of poverty, something that Circles USA has a long track record in accomplishing. They work closely with Circles to determine which organizations are great partners in helping to get people out of poverty. They offer them something that allows them to “let them go,” but still be able to track data on the platform on how they contributed to those people making their progress. She pointed out that organizations like Help New Mexico lose track of people once they refer them to other programs. They don’t know what critical part they played and don’t have any way to report on that. Through this platform, their partners will be able to report on the results of the people they worked with in helping them along their way to good things.

Ms. Burns reported that, this week, they got the formal approval for the full three years of funding at \$20 million per year from this philanthropic group. They haven’t received all of the documents and reviewed them, but the overall structure is one in which, if the NMSBIC approves InvestUS to be its lending partner, investUS would borrow the money and lend it to CELab. CELab would post it as a cash collateral account for the benefit of the philanthropic group, which funds projects in war-torn countries, in Africa, corrupt regimes around the world, and so they want the cash collateral to make sure the money gets spent as represented. To that end, in month 8 of the first year, there will be an audit of disbursements such that, if they have spent all of the money as they said they would, the zero percent loan that the philanthropic group makes to CELab will convert to a grant. This will happen each successive year. Once they have cleared that hurdle in the first year, they will prepare a budget for the second year of \$20 million of funding. This collateral account of \$5 million that they would be borrowing

from the NMSBIC would stay in place all three years and maybe even a few months after that, but be repaid from the cash collateral account that they pledge to the philanthropic group.

Ms. Beckett noted that Sherry Hooper, Executive Director of the Food Depot in Santa Fe, is interested in doing something similar in terms of helping people improve their lives. She commented that they could be a good partner.

Chairman Badal stressed the need to focus on the NMSBIC's mission to create jobs in New Mexico and promote economic development. Alleviating poverty obviously is a pro-economic development activity, but the job creation mission should be kept in mind.

Mr. Cummins referred to a preliminary term sheet (pages 45-46) that forecasts 83 new jobs on New Mexico and estimates 762 jobs for program participants in the first year.

Mr. Cummins also noted that, for all other NMSBIC lending programs, the NMSBIC loans are either 100 percent collateralized or in some cases over-collateralized at 200 percent. The initial proposal from investUS/CELab is for 65 percent (\$3.25 million) of the \$5 million in NMSBIC funding to be cash-collateralized in a senior secured position, and 35 percent (\$1.75 million) to either be unsecured or in a junior lien position. This would be different from what the NMSBIC has typically approved before.

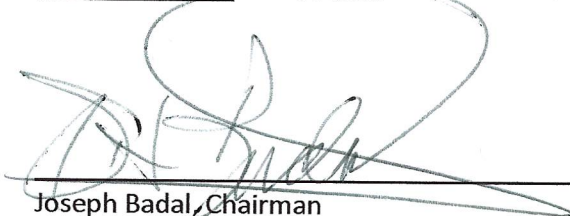
Ms. Burns said the only way the pledge account to the philanthropic group could ever get tapped is if they don't get a clean audit and the loan isn't converted to a grant, or they spend the money on things they shouldn't spend it for. They even have a mechanism to cover any shortfalls, because the last draw is after the audit, so they can actually reduce it from the funder by any amount that is disallowed. She said they don't think there is much chance that the pledge account would ever be touched.

APPOINTMENT OF NEW NMSBIC BOARD MEMBERS, UPDATE

Mr. Cummins reported that he has communicated with the Boards and Commissions office about an estimated timeline on how long this might take, and the Director has indicated that she will get back to him today.

NEXT MEETING: Wednesday, December 8, 2021, 9:00-12:00

ADJOURNMENT: 11:00 a.m.



Joseph Badal, Chairman

December 13, 2021

Date