

Immediate Release
Bland
7/30/03

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State Investment Officer Institutes Due Diligence Guidelines, Strengthens Safeguards and Severs Ties with Anila Fund and Pacific Corporate Group

Albuquerque: State Investment Officer Gary Bland, at the instructions of Governor Richardson, will institute additional safeguards and review existing practices, procedures and current consultant performances in regard to all state investments.

Bland has severed ties with Anila and terminated the state relationship with the Pacific Corporate Group, hired by the previous administration to provide due diligence research for the state investment office. "The system worked and the state has no liability. I will strengthen the system," Bland said.

"The safeguards in place during the previous administration and the due diligence done on perspective investments were not adequate. I am moving quickly to correct his situation," Bland said.

The State Investment Officer, Gary Bland, has advised the State Investment Council and members of the Private Equity Investment Committee that the state has terminated its relationship with Pacific Corporate Group, and determined not to proceed with its proposed investment in the Anila Funds.

"Prior to the signing of any agreement, continued due diligence is required by my office. I exercised my judgment in severing ties with Anila prior to the exchange of any funds or the execution of any contract," Bland said.

The Pacific Corporate Group had been retained by the previous administration to perform due diligence on prospective private equity investments through the State Investment Office.

Pacific Corporate Group began their analysis of Anila last fall for the previous administration and concluded their process this March.

State Investment Officer Gary Bland said he was not satisfied with the Anila Fund or the due diligence provided by the Pacific Corporate Group. Bland said he would consider all possible actions in regard to the Pacific Corporate Group once a complete review of the matter is concluded including possible litigation if warranted.

Bland said he is pleased with the state oversight of private-equity partnerships, and he is recommending additional safeguards to protect state funds in the future. Bland announced that he is taking steps to strengthen the process to review the consultant's due-diligence efforts.

Bland said, "the practices in place during the previous administration were not sufficiently strong to protect investors and to allow for decisions to be made based on all the facts."

Bland also announced that an additional adviser has been retained to review due-diligence on pending investments on three private-equity funds.

The decision to sever the state's relationship with the Anila Group means the state will not proceed with an investment in PowerWAN or the proposed Anila venture capital fund, and if a new partner cannot be located to replace Anila, it may also impact Mesa's funding from New Mexico for its plan to purchase the Philips Semiconductor plant in Albuquerque.

"What has happened with Anila is what our process is designed to do," Bland said. "We continue to complete our research and set conditions to be met all through our review process - as potential investments travel to our advisory council and then on to the full investment board," he said.

"Eventually, before we actually fund anything, it is my decision - based on all facts before me - whether or not we ultimately move forward with an investment. And, in the case of Anila, we have decided not to," said Bland. "All our conditions have not been met and we do not have a sufficient comfort level with the investment."

"While we wish to be aggressive on investments that benefit our economy in New Mexico, we also have to protect our return on investment," said Bland. "Our new private equity fund is exciting, but the enthusiasm with which we move forward must be tempered with processes that ensure protection of our people's resources," he said.

Anila, a venture capital entity based out of California, came before the State Investment Council as part of three separate deals.

The first was in December 2002 when Anila applied for \$15 million in funding to be part of the State's regional venture capital program.

The second investment Anila was participating in was the Mesa Semiconductor deal. Anila was to be the lead investor. The proposal before the State Investment Council was for Mesa to purchase Philips' Semiconductor's Albuquerque facility, continuing its manufacturing under new organization and management - and creating 300 new jobs out of Philips' plant closure which would terminate 600 jobs. The added \$15 million State Investment Council investment directly in Mesa may still be approved by

Bland, if Mesa meets a list of conditions, including replacement of Anila with a different lead investment firm.

And third, Anila came before the State Investment Council in July as part of the PowerWAN \$4 million proposed funding - a deal that will now be cancelled by Bland given the lack of confidence in the ultimate investment.

Bland pointed out that because the State Investment Council's actions are a completely public state process, every step has been scrutinized and is transparent - something that within "normal" private financing venture capital circles would not be done.

But Bland added more needs to be done in order to tighten the approval process. As a result, New Mexico's State Investment Council, Finance Authority and Economic Development Departments have come together to set up a definable, timely and equitable process for fund applicants. The process will also protect the people's investment interests, he said.

"For Invest New Mexico private equity proposals, the State's Economic Development Department, paired with financial screening consultants, will be the intake agency for potential deals," said Homans. "This continues to add strength and valuable input into the process - and also allows us to clearly focus this fund on viable economic-based business that create jobs," he said. All investments will still be subject to rigorous review by State Investment Office staff and consultants.

Bland indicated that the State Investment Council's due diligence and other processes continue to be fortified and strengthened, and that it is his job to see that the prospect of new businesses and jobs be balanced with prudent investment. Once NMEDD signs off on a potential deal and forwards it to the Council and/or the Finance Authority, continuing due diligence, background research and caveats for investment are still a large part of the picture before an ultimate decision to invest is made.

Three steps that have been added to the process to bolster it include insertion of a second reviewing advisor, a heightened process for continued monitoring during all stages of our consideration, and increased background checks on principals, said Bland.

In addition, New England Financial Consulting Group will be reviewing all due diligence and financing recommendations previously made by Pacific Corporate Group, said Bland, and the Office will be issuing a Request for Proposals to add one or more new advisors to the screening process.