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## *New Mexico State Investment Fund Surpasses Even Subprime Fiasco*

Numerous media outlets have covered the recent struggles of state pension funds with significant amounts of capital invested in subprime junk bonds. For instance, in late 2007, Bloomberg broke a story on a public investment fund in Florida that suffered particularly damaging losses as a result of poorly researched allocation decisions. The article included the following comments from former chairman of the U.S. Securities and Exchange Commission, Harvey Pitt:

“Investment of public money needs to be carefully conducted and thoroughly researched. This is not the place for seat-of-the-pants judgments. It requires a lot more than jumping on the latest investment du jour to improve your results.”

Though so far it has not been mentioned in connection with recent subprime woes, the State Investment Fund of New Mexico (NMSIC) has been involved in its own troubling investment activities. Last year, Robin Manners West, a senior portfolio manager with the NMSIC, actively participated in a stock promotion designed to inflate the price of a virtually valueless company. Specifically, Ms. West provided baseless comments in an article by Gene Marcial on Research Frontiers, Inc. (“REFR”), a 43 year old stock promotion. Marcial and West have worked together on previous promotions, including Marcial’s 1990 plug of Software Toolworks, Inc, a company whose executives were sanctioned by the SEC in connection with documented violations of securities laws. Ms. West’s comments in BusinessWeek facilitated REFR’s latest scheme, a serious mistake given her position with the state’s investment council.

REFR’s history of promotional activities is well-documented. In 2002, Bill Mann published an article on REFR with The Motley Fool. He called the company “a 35-year-old trick.” According to Mann, “the main product [REFR] sells is the company’s stock.” REFR executives “receive performance bonuses based...on market cap.” Mann concludes his article pointing out that in 2001 REFR’s “two top executives, Robert Saxe and Joseph Harary, received 1.42 million in total compensation” or “10 times the company’s revenue for the same year.”

The “trick,” as Mann refers to it, is to pump REFR’s stock so that REFR executives and their friends can dump it. In Gene Marcial’s article, West made the absurd prediction that REFR’s “big bounce [would] come when REFR’s major licensees, such as DuPont, AirProducts & Chemicals, and Hitachi, sign[ed] up for the light-control technology.” She also claimed that REFR’s stock would “hit 35 in 18 months.” Marcial mentioned that the NMSIC owns REFR shares, but failed to disclose any additional details of the council’s position.

West had no basis for her assertions outside of press releases issued by REFR itself. Moreover, her partial disclosure of the NMSIC’s position may violate the council’s disclosure policy. Not only did West jeopardize state funds by investing them in a notoriously questionable company, she abused her position with the state of New Mexico on behalf of REFR.

Ms. West and members of the council refused to cooperate with inquiries concerning West’s plug in the Marcial piece. Asensio.com submitted an information request to the NMSIC in order to review the organization’s supervisory and

compliance procedures in connection with Ms. West's comments in BusinessWeek. The request expressed asensio.com's disbelief that a state fund could permit one of its portfolio managers to publicly hype such a ridiculous company.

After considerable delay, asensio.com received approximately 2000 pages of documents from the NMSIC. Among the documents provided by the NMSIC was the State of New Mexico State Investment Council Watermark Inventory, an internal inventory of the NMSIC's holdings. According to these documents, the NMSIC had accumulated 538,872 shares of REFR. Despite the NMSIC's large position, NASDAQ does not list the NMSIC among REFR's institutional owners. Clearly the NMSIC does not disclose its positions, so why did the council permit Ms. West to disclose its position in REFR?

The documents also include email correspondences between West and Marcial and West and REFR CEO Joseph Harary. The correspondence between Marcial and West explicitly reveals West's role in promoting REFR's stock. After Marcial's piece appeared online (July 20), West wrote to Marcial:

"Nice job. Really moving the stock (up 15%-17%) today, an overall disastrous day for the market. I admit I haven't read it yet, but I'm happily observing the results."

West's interactions with REFR CEO Joseph Harary raise additional questions. In an email dated June 15, 2007, West actually describes her attempts to peddle REFR's glass device to a buyer in the hotel business:

"I want to let you know that Roger Thomas who, as I told you, is in charge of design for all of Steven Wynn's hotels worldwide, is very interested in seeing a demonstration of SmartGlass. I will let him know that you will be calling him early next week, if that is okay with you. He said that he would be happy to start just by seeing a sales demonstration, but I assume that you would want to meet with him directly. (Do note that I did send him that presentation that you sent me addressing the architectural market.)

"Please let me know how you would like to proceed so that I can make him aware of who will be contacting him, and when."

Details of REFR's dubious history may be learned through reports available at asensio.com. It is difficult not to think the worst when considering REFR's record (See Related Article), Ms. West's promotional comments, and the NMSIC's ill conceived investment in REFR. West abused her position with the NMSIC in order to drive the price of REFR above its value. She gave uninformed investors unjustified confidence in a worthless company. Even more frightening is the NMSIC's lack of interest in the blatant misconduct of its portfolio manager's activities. Ms. West's job is to effectively invest the state's resources as a means to finance important educational programs. The NMSIC must do more to protect the money of New Mexico's hardworking taxpayers and prevent its managers from engaging in outrageous stock promotions.