



## **Investment Reform Recommendations**

### Recommendations:

- Require a minimum percentage (7 percent) of severance tax permanent fund investment in New Mexico companies
- Require the State Investment Council to publish actual figures for NM company investments, not the total invested over the lifetime of the New Mexico program, commitments or the “cause to be invested” amounts
- Investments should be made by investing in funds managed by professional investors, avoiding the political pitfalls of direct investment



## Notes:

- When the statute was enacted the legislature recognized that “the health of the New Mexico economy is heavily dependent on the establishment and expansion of small businesses and that the lack of available private equity is an impediment to the start-up and growth of businesses in the state” (7-27-5.14)
- Furthermore, the *New Mexico private equity funds and business investments* (7-27-5.15) statute states that the “council shall make investments in New Mexico private equity funds or New Mexico businesses whose investments or enterprises enhance the **economic development objectives** of the state”
- Although the statute allows for a maximum of 9% of the market value of the severance tax fund the SIC has a current target of 5% (and counts commitments, which are not actual investments, towards that total).
- SIC has internally adopted a “Prudent Investor Rule” policy to manage the New Mexico program, which may override the legislative purpose of the statute to “provide a mechanism whereby the establishment of locally managed private equity funds, whose investment policies are supportive of the economic welfare of New Mexico, will be stimulated”
- If our recommendations are adopted, for every 1% increase in funds invested, New Mexico would see an additional \$38 million dedicated to the New Mexico program

#### **7-27-5.14. Findings and Purpose.**

The legislature finds that the health of the New Mexico economy is heavily dependent on the establishment and expansion of small businesses and that the lack of available private equity is an impediment to the start-up and growth of businesses in the state. The legislature further finds that the commercialization of technology conceived in the universities and the federal scientific and engineering laboratories and test facilities in the state is likely to occur elsewhere unless sources of local private equity are developed. The purpose of Section 7-27-5.15 NMSA 1978 is to provide a mechanism whereby the establishment of locally managed private equity funds, whose investment policies are supportive of the economic welfare of New Mexico, will be stimulated.

History: 1978 Comp., § 7-27-5.14, enacted by Laws 1990, ch. 126, § 4; 2001, ch. 252, § 9.