

NEW MEXICO
FINANCE AUTHORITY

1

Presentation to the Science, Technology and Telecommunications Committee

Overview of the NMFA Venture Capital Program

Ryan Marie Decker, Policy & Capital Strategist

October 1, 2024

- ◆ **Venture Capital Program Act** (NMSA 1978, Section 6-33-1 *et seq*) created in the NMFA the Venture Capital Program Fund and authorized the NMFA Board to:
 - Make investments in venture private equity funds or New Mexico businesses that enhance economic development objectives of the state and create new job opportunities
 - Investments are made for the purpose of providing capital for start-up, expansion, product or market development, recapitalization or early-stage development
 - Investments are made as equity or debt in:
 - Venture private equity funds – an entity that makes, manages or sources potential investments, with at least one full-time, experienced manager
 - New Mexico businesses – corporation or limited liability company with principal office and majority of full-time employees in New Mexico, or limited partnership with principal place of business and at least 80% of assets in New Mexico
 - Investment in one business cannot exceed 10% and in one industry cannot exceed 30%
 - Report annually on investment activity and economic development impact
- ◆ Capitalized by state appropriations totaling \$50 million; in partnership with the New Mexico Economic Development Department, NMFA administers an additional ~\$20 million from the State Small Business Credit Initiative (SSBCI) program of the Department of Treasury

Implementation

3

- ◆ NMFA operates the Venture Capital Program according to an Investment Policy that outlines manager qualifications, investment parameters, and program mission and diversification objectives:
 - Create and invest in new, early-stage and expanding New Mexico businesses
 - Create and/or retain quality jobs for New Mexicans
 - Increase investment in diverse sectors of the State's economy
 - Increase access to capital for businesses owned by entrepreneurs from or benefiting Underserved Communities
 - Attract additional private sector investment in early stage and emerging businesses
- ◆ Since inception of the program NMFA staff and Meketa (NMFA's Venture Capital Investment Consultant) have reviewed more than seventy proposals. To achieve the program's mission, the program has made commitments that differ from traditional VC investment programs:
 - Emerging fund managers
 - Anchor investments in new funds focusing on New Mexico businesses (equity or flexible debt)
 - National firms with highly aligned mission and footprint in New Mexico
 - Mix of market rate and differential rate investments

Impacts & Challenges

4

◆ Local Funds

□ Impact

- Investment in local businesses
- Build capacity of locally-based fund ecosystem

□ Risks

- Lack of sector/strategy/investment experience
- Lack of investor base
- Poor track records
- Small fund sizes
- Not fully staffed/high turnover/operationally unsustainable
- Conflicts of interest

◆ National Funds

□ Impact


















- Bring sector/strategy and investment expertise to local ecosystem
- Larger funds; larger investments in each portfolio company
- Attract new private investors to local businesses
- Connect local entrepreneurs with national industry and investor networks
- Balance risk/return profile of portfolio
- Ability to co-invest

□ Risks

- Challenged to make firm \$ commitment to NM unless explicit in fund documentation
- May deploy elsewhere when opportunities more attractive on relative basis

Key Findings: Small Business Funding Needs

5

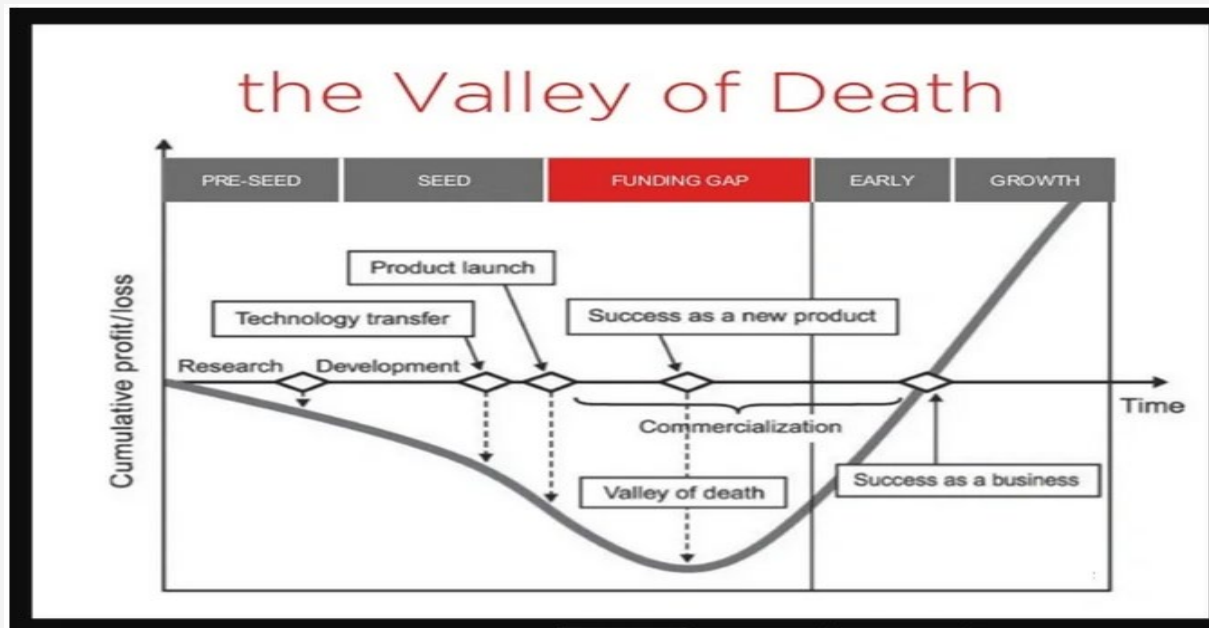
Business Stage	Idea + Seed Stage Revenue \$0	Early Stage Revenue <\$250k	Growth Stage Revenue >\$250k	Maturity Stage Revenue >\$5M	
Characteristics	INITIAL IDEA AND TEAM BUILDING	INITIAL DELIVERY AND MARKET TESTING	INITIAL MARKET TRACTION & BUSINESS MODEL REFINEMENT	PRODUCT MARKET FIT / SCALE	
NM Capital Options for High Growth Industries	   		<p>Impact VC Gap: Limited number of high capacity VC funds intentionally focused on SEDI-owned businesses</p>	   	<p>Late Stage Venture Gap: Limited local options for later rounds of funding for innovation-fueled industries</p>
NM Capital Options for Other Industries	<p>Startup Cash: Cash assistance needed for early-stage Main Street businesses without friends & family wealth.</p> <p>\$500 - \$5,000 per loan/investment</p>	    	<p>No Man's Land: Need for alternative growth capital products that bridge between micro and commercial capital options.</p> <p>\$100,000 - \$250,000 per loan/investment</p>	  	
		<p>Restorative Capital Gap: Limited capital products across the spectrum focused on rural and Native communities due to high transaction costs.</p> <p>Full Range of Loan/Investment Sizes</p>			

Source: [New Mexico Small Business Capital Landscape – Summary of Findings \(October 2023\)](#), Next Street

Research Findings: Spin-out Venture Funds

6

- ◆ Research institutions can provide expertise, technical and alumni networks, grant funding and awards, support for prototype development, and host ecosystem events.
- ◆ Research institutions may have their own venture funds or partner with a start-up studio or accelerator.
- ◆ The 'valley of death' is not just about funding; spin-outs require technical experts, management teams, and national networks to build customers and attract follow-on investment.



Source: [Research Findings: Lab & University Spin-Out Venture Funds \(September 2024\)](#), Meketa Investment Group

Research Findings: Spin-out Venture Funds



- ◆ Stanford Office of Technology Transfer was established in 1970 with support for researchers and entrepreneurs.
- ◆ Stanford has at least six university venture funds including the President’s Fund, Athletics Fund, Law School Fund, Engineering School Fund, Medical School Fund, and Graduate School of Business Fund.
- ◆ Formal relationship with Osage University Partners for their entrepreneurial eco-system.

<p>\$59M Licensing Revenue</p>	<p>1,059 • More than \$100K in royalties - 65 • More than \$1MM in royalties - 6 Technologies Generated \$</p>		<p>4,273 Active Technologies</p>
<p>115 Licenses/Options</p>	<p>Stanford FY2023 Office of Technology Licensing As Of Date: March 5th, 2024 Fast Facts</p>		<p>568 New Technologies</p>
<p>27 Startup Companies</p>	<p>2,110 New Industry Research Agreements</p>	<p>586 Total Sponsored Research Agreements</p>	<p>2,461 Active Issued U.S. Patents</p> <p>173 New U.S. Patents Issued</p>

Source: [Research Findings: Lab & University Spin-Out Venture Funds \(September 2024\), Meketa Investment Group](#)

Risks & Considerations

- ◆ Venture requires a lot of ideas and investible companies – risk that local institutions have too few to have enough deal flow for a viable venture fund.
- ◆ Alignment of interest between research institutions and spin-out companies may differ, particularly with respect to technology licensing and royalty agreements, where economics can discourage company creation.
- ◆ Independent funds can leverage support from a wider range of public and private stakeholders and adopt a more optimal GP/fund structure to leverage greater private investment.
- ◆ Difficult to get best VCs to work in a lab/university models; start-ups may find it difficult to build teams if upside is limited by lab/university controls.
- ◆ Need to address the gap around professionalization/management to make spin-outs more viable for investors.

Conclusions

- ◆ New Mexico ecosystem has seen challenges sourcing investible companies.
 - Mixed experience with the Catalyst Fund, a state-backed fund-of-funds program which invested in local venture funds including three university spin-out funds.
 - Overlapping ownership of the same start-ups and too few investible companies have made deployment of capital challenging.
- ◆ There seems to be general dissatisfaction with the way local research institutions are handling technology transfer.
- ◆ NMSIC is currently pursuing a dynamic venture studio funding model at scale (Roadrunner Venture Studios); other similarly themed but smaller funds would unduly compete at this time.

Annual Report 2024 as of 09.30.24



Fund (Vintage)	Manager	Objectives	Total Committed (% of Fund) ¹	Geo- graphy	Mission & Diversification Objectives ²				
					Local Cos.	Local Jobs	Under-served	Diverse Sector	Private \$
Raven II (2022)	Raven Indigenous Capital Partners	Invests in early stage Native-owned companies building sustainable Native economies	\$7.5m (7%)	National					
Tramway III (2023)	Tramway Ventures	Investing in New Mexican early stage medtech, biotech, and healthtech companies	Up to \$7m (18%)	Local					
Dangerous NM I (2024)	Dangerous Ventures	Invests in early-stage New Mexican companies building a sustainable future	Up to \$5m (25%)	Local					
Advance New Mexico (2024)	Mission Driven Finance	Invests gap-filling growth capital (flexible debt) for expanding New Mexico small businesses	Up to \$10m (50%)	Local					
Tiverton II (2024)	Tiverton Advisors	Specialist investing in food and agricultural production sectors	\$5m (1%)	National					
Vamos II (2024)	Vamos Ventures	Invests in Latinx and diverse teams leading scalable, tech-driven companies	\$7.5m (8%)	National					
Rethink III (2024)	Rethink Impact	Investing in women-led businesses using technology to solve the world's biggest problems	\$2m (1%)	National					

1) Total NMFA commitment as %age of target fund size

2) Expect impacted in each objective assessed as low, medium, strong or very strong during due diligence