

**PROPOSED REGULATION OF  
THE STATE TREASURER**

**LCB File No. R046-23**

October 6, 2023

EXPLANATION – Matter in *italics* is new; matter in brackets ~~omitted material~~ is material to be omitted.

AUTHORITY: §§ 1-9, NRS 355.285.

A REGULATION relating to public investments; establishing a limit on the percentage of funds available to the Nevada Capital Investment Corporation that is invested in an initial single investment or position; establishing a limit on the number of members of the Business Leadership Council appointed by the Board of Directors of the Corporation; authorizing the Council to establish subcommittees; requiring the Council to prepare an annual report for the Board regarding the status of small businesses in this State; requiring the Board to distribute the annual report to the Governor and the Director of the Legislative Counsel Bureau; expanding the applicability of certain provisions to all funds in which the Corporation invests; revising provisions relating to direct investments and co-investments made by the Corporation and establishing certain criteria on which such investments must be based; setting forth the duties of the Board in making such investments and the duties of companies, strategic investors, private equity funds, venture capital funds or other fund managers with which the Board elects to make such investments; removing the limit on the amount of money the Corporation is authorized to invest in direct investments and co-investments; repealing provisions relating to the Fund of Funds Manager; and providing other matters properly relating thereto.

**Legislative Counsel’s Digest:**

Existing law authorizes the State Treasurer to adopt such regulations as he or she deems necessary to carry out the provisions of law relating to investment in a corporation for public benefit that provides private equity funding for certain businesses. Existing law also requires the State Treasurer to adopt regulations establishing limits on the amount or percentage of investment in a single venture capital project or by a fund manager. (NRS 355.285) **Section 1** of this regulation requires the Board of Directors of the Nevada Capital Investment Corporation (hereinafter “Board”) to ensure that no initial single investment or position in a business exceeds 25 percent of the total amount of funds available to the Nevada Capital Investment Corporation (hereinafter “Corporation”).

Existing law authorizes the State Treasurer to adopt regulations establishing a Business Leadership Council (hereinafter “Council”). (NRS 355.285) Existing regulations accordingly establish the Council and authorize the Board to appoint as many members of the Council,

consisting of business leaders and representatives of business development groups, as the Board deems appropriate. Existing regulations also set forth the actions in which the Council is authorized to engage. (NAC 355.250) **Section 3** of this regulation instead limits the Board to appoint up to nine members of the Council as the Board deems appropriate. **Section 3** also authorizes the Council to establish any subcommittees necessary to carry out the business of the Council, as specified by the Board. **Section 3** additionally requires: (1) the Council to prepare an annual report for the Board regarding the status of small businesses in this State; and (2) the Board to distribute the report to the Governor and the Director of the Legislative Counsel Bureau.

Existing regulations establish provisions relating to private equity funds in which the Corporation invests. (NAC 355.330) **Section 7** of this regulation makes such provisions applicable to all funds in which the Corporation invests.

Existing regulations authorize the Corporation to place direct investments and co-investments with strategic investors upon the approval of a two-thirds majority of the members of the Board, with the State Treasurer being in the majority. (NAC 355.340) **Section 8** of this regulation instead requires the Corporation to place such investments with companies, strategic investors, private equity funds, venture capital funds and other fund managers upon the approval of a majority of the members of the Board, with the State Treasurer being in the majority. **Section 8** also provides that any such investments must be based on: (1) primarily, the probability that a business will succeed and the expected investment return; and (2) secondarily, the diversification of the economic base of, and the generation and retention of jobs and investment in, this State. **Section 8** additionally establishes the duties of the Board in making such investments and the duties of any company, strategic investor, private equity fund, venture capital fund or other fund manager with which the Board elects to make such investments. Finally, **section 8** removes the provision of existing regulations that limits the Corporation from investing more than \$10 million in direct investments and co-investments.

Existing regulations provide for the selection of the Fund of Funds Manager, who assists the Corporation in making investments, and set forth the duties of the Fund of Funds Manager. (NAC 355.230, 355.310) **Section 9** of this regulation repeals provisions concerning the selection and duties of the Fund of Funds Manager. **Section 2** of this regulation makes a conforming change by removing a reference to such a repealed provision. **Sections 3-8** of this regulation make conforming changes by removing provisions relating to the Fund of Funds Manager.

**Section 1.** Chapter 355 of NAC is hereby amended by adding thereto a new section to read as follows:

*The Board shall ensure that no initial single investment or position in a business exceeds 25 percent of the total amount of funds available to the Corporation.*

**Sec. 2.** NAC 355.200 is hereby amended to read as follows:

355.200 As used in NAC 355.200 to 355.340, inclusive, unless the context otherwise requires, the words and terms defined in NAC 355.210 ~~{}~~ *and* 355.220 ~~{and 355.230}~~ have the meanings ascribed to them in those sections.

**Sec. 3.** NAC 355.250 is hereby amended to read as follows:

355.250 1. Pursuant to subsection 4 of NRS 355.285, the Business Leadership Council is hereby established.

2. The Board may appoint to the Business Leadership Council leaders of businesses located in this State and representatives of business development groups in this State. The Board may appoint ~~{as many}~~ *up to nine* members of the Council as it deems appropriate.

3. The Business Leadership Council may:

- (a) Provide strategic advice and guidance to ~~{the Fund of Funds Manager and}~~ the Board.
- (b) Nurture and mentor businesses seeking or receiving an investment from the Corporation.
- (c) Provide businesses seeking or receiving an investment from the Corporation with access to the local and international business relationships of the members of the Council.
- (d) Collaborate with the Nevada System of Higher Education , ~~{and}~~ other educational institutions ~~{}~~ *and* the Board ~~{and the Fund of Funds Manager}~~ to develop internship programs pursuant to which students are partnered with businesses in which the Corporation invests.
- (e) *Establish any subcommittees necessary to carry out the business of the Council, as specified by the Board.*
- (f) Provide any other support requested by the Board or the officers of the Corporation to further the goals of the Corporation.

*4. On or before February 1 of each year, the Business Leadership Council shall prepare a report for the Board regarding the status of small businesses in this State. The Board shall distribute the report to the:*

*(a) Governor; and*

*(b) Director of the Legislative Counsel Bureau for transmittal to:*

*(1) The Legislature, if the report is submitted in an odd-numbered year; or*

*(2) The Legislative Commission, if the report is submitted in an even-numbered year.*

**Sec. 4.** NAC 355.260 is hereby amended to read as follows:

355.260 A member of the Board or an officer, employee or agent of the Corporation shall not disclose financial or proprietary information of a business seeking or receiving an investment from the Corporation, or otherwise related to the investments of the Corporation, without the consent of the person or entity that submitted the information, unless:

1. The information is disclosed to:

(a) A member of the Board ; ~~for the Fund of Funds Manager;~~ or

(b) An officer, employee or agent of the Corporation who needs to know the information to carry out his or her duties; or

2. The disclosure of the information is required by chapter 239 or 241 of NRS or other applicable law.

**Sec. 5.** NAC 355.270 is hereby amended to read as follows:

355.270 The Board shall:

1. Adopt a policy concerning the appropriate training of workers and the payment of fair wages and benefits by contractors retained by a business in which the Corporation directly

invests. The officers of the Corporation shall prepare and submit to the Board a draft of such a policy. In drafting the policy, the officers of the Corporation shall:

(a) Define “appropriate training of workers” and “fair wages and benefits” in such a manner that recognizes the practicalities of all markets.

(b) Define “fair wages and benefits” based upon the following criteria:

(1) The nature of a project;

(2) The nature of the jobs or trades required for a project and comparable job or trade classifications;

(3) The scope and complexity of the work; and

(4) Any other factors affecting the relevant markets in the locality in which the business receiving an investment is located.

(c) Consider local practices concerning specific trades and types of projects to determine a practical standard for determining fair wages in lieu of the standard wage paid for such trade and projects. In addition, the policy may require a business in which the Corporation invests to engage in broad outreach and a competitive bidding process which invites local trades to suggest contractors whom the local trades believe to be responsible and qualified for a specific project.

2. Establish policies and procedures for the Corporation, including, without limitation, policies and procedures for:

(a) The conduct of meetings of the Board.

(b) Legal representation of the Corporation, the members of the Board and the officers of the Corporation.

(c) The allocation of the returns on investments, including, without limitation, allocations to the State Permanent School Fund.

(d) The return of the corpus of investments to investors after a defined investment period of not more than 10 years following the capital drawdown by the manager of a private equity fund, plus any extensions authorized by the partnership agreement of the private equity fund or a majority of the limited partners in the private equity fund.

3. Establish investment guidelines ~~{for the Fund of Funds Manager,}~~ for private equity funds in which the Corporation invests and for direct investments and co-investments by the Corporation, including, without limitation, guidelines for:

(a) The diversification of investments that consider the stage of investment, industry sectors, size of investment and vintage years;

(b) Negotiating and including in each agreement governing a venture capital co-investment made by the Corporation a provision specifying the requirements of the agreement for which a penalty may be imposed and requiring a penalty to be paid to the Corporation if such a requirement is not met;

(c) The fees and other compensation to be paid to the managers of private equity funds in which the Corporation invests;

(d) Contract terms to be negotiated with the managers of private equity funds in which the Corporation invests; and

(e) The selection of investments to be made by the Corporation.

4. Establish investment performance benchmarks and objectives.

5. Establish the roles and responsibilities of the Board, the officers of the Corporation, the Office of the State Treasurer, investment consultants retained by the Corporation, the Office of the Attorney General ~~{, the Fund of Funds Manager}~~ and the managers of private equity funds in which the Corporation invests.

6. Establish reporting requirements ~~{for the Fund of Funds Manager and}~~ for the investments made by the Corporation.
7. Retain an independent audit firm to conduct audits of the Corporation.
8. Collaborate with the Nevada System of Higher Education , ~~{and}~~ other educational institutions ~~{}~~ *and* the Business Leadership Council established by NAC 355.250 ~~{and the Fund of Funds Manager}~~ to develop an internship program pursuant to which students are partnered with businesses in which the Corporation invests.

**Sec. 6.** NAC 355.280 is hereby amended to read as follows:

355.280 The officers of the Corporation shall:

1. Maintain custody of all funds, securities, contracts, bills of exchange and promissory notes of the Corporation, and any assignments of property or money, stocks, bonds, certificates, vouchers, deeds, evidences of indebtedness, indentures and any other property belonging to, or owed by, the Corporation.
2. Carry out the investments of the Corporation by transferring money from the State Permanent School Fund to ~~{the Fund of Funds Manager or other}~~ external asset managers with whom the Corporation is placing investments.
3. On behalf of the Corporation, sign all papers required by law, the bylaws of the Corporation or the Board, or designate a signatory to sign such papers.
4. On behalf of the Corporation, endorse for collection checks, notes and other obligations.
5. Deposit all money to the credit of the Corporation in the banks or depository institutions designated by the Board.
6. Sign all receipts and vouchers for payment made by the Corporation.

7. Enter regularly into the books of the Corporation full and accurate accounts of all money received and paid by the Corporation and, whenever requested by the Board, render a statement of the cash account of the Corporation.

8. Upon reasonable notice and during business hours, provide access to the books of account of the Corporation to a member of the Board who requests such access.

9. If required by the Board, give bond to the Corporation conditioned on the faithful performance of the officer's duties in such a sum, and with such security, as required by the Board. The Corporation shall bear the expense of such a bond.

10. Keep the minutes of all meetings of the Board in accordance with chapter 241 of NRS.

11. If designated by the Board, attend, act and vote at a meeting of the stockholders of a corporation in which the Corporation holds stock. At such a meeting, the officer designated by the Board possesses and may exercise any rights and powers incident to the ownership of such stock.

12. Perform any other duties established by the bylaws of the Corporation.

**Sec. 7.** NAC 355.330 is hereby amended to read as follows:

355.330 1. ~~{Private equity funds}~~ **Funds** in which the Corporation invests:

(a) May include qualified private equity funds **or other investment funds** with an emphasis in venture capital, growth capital, buyout investments, mezzanine financing, distressed debt or secondary investments in private equity.

(b) Must be managed by persons who have at least 10 years of ~~{experience}~~ :

**(1) Experience** in commercial banking, private equity investing, mezzanine funding or venture capital ~~{H}~~ ; **or**

**(2) Other relevant investment experience.**



2. The managers of a ~~private equity~~ fund in which the Corporation invests have a fiduciary duty to the Corporation with respect to the Corporation's investment in the fund.

3. The fee structure of a ~~private equity~~ fund in which the Corporation invests may consist of only a management fee and a performance fee. The management fee may not exceed 2.5 percent of committed capital. The performance fee may not exceed 20 percent of the net profits of the fund and must be distributed in a manner which aligns the interests of the general partner of the ~~private equity~~ fund and the limited partners of the fund.

4. A ~~private equity~~ fund in which the Corporation invests must provide to the ~~Fund of Funds Manager~~ **Board** an annual financial statement prepared by an accredited audit firm.

5. The Corporation must not be a general partner in a ~~private equity~~ fund in which the Corporation invests.

**Sec. 8.** NAC 355.340 is hereby amended to read as follows:

355.340 1. Subject to the requirements of this section, upon the approval of a ~~two-thirds~~ majority of the members of the Board currently serving, with the State Treasurer being in the majority, the Corporation ~~may~~ **shall**:

(a) Place direct investments and co-investments with *companies*, strategic investors ~~H~~, *private equity funds, venture capital funds and other fund managers*.

(b) Commit money for unique private equity investment opportunities in this State.

2. The Board shall adopt policies and procedures governing investments made pursuant to this section. Any investment made pursuant to this section must comply with the policies and procedures adopted pursuant to this subsection. At a minimum, the policies and procedures must establish due diligence controls that provide reasonable assurance that any investments pursuant

to this section are likely to meet the investment performance objectives of the Corporation. The due diligence controls may include, without limitation:

(a) Entering into a contract with an investment advisor, investment consultant or any other person to evaluate an opportunity for an investment pursuant to this section. The Corporation may not enter into such a contract with an investment advisor, investment consultant or other person who has a business or familial relationship with a member of the Board or the management of a fund or business being evaluated or whose independence of judgment may reasonably be affected by a commitment to the interests of another person.

(b) Entering into a partnership with an institutional investor that has invested in the opportunity pursuant to which the Corporation and the institutional investor share analytical resources.

(c) Establishing requirements for the due diligence efforts of the State Treasurer's staff and any subcommittees of the Board that perform due diligence for investments made pursuant to this section.

3. ~~{The Corporation may place}~~ *Any* investments *made* pursuant to this section ~~{with an external asset manager other than the Fund of Funds Manager or through the Fund of Funds Manager in accordance with the agreement between the Corporation and the Fund of Funds Manager.}~~ *must be based on the following criteria:*

*(a) Primarily, the probability that a business will succeed and the expected investment return; and*

*(b) Secondly, the diversification of the economic base of this State and the generation and retention of jobs and investment in this State.*

4. ~~The Corporation may not invest more than \$10 million pursuant to this section.~~ *In making investments with companies, strategic investors, private equity funds, venture capital funds and other fund managers pursuant to this section, the Board shall:*

*(a) Prioritize direct investments and co-investments with companies, strategic investors, private equity funds, venture capital funds and other fund managers that are seeking to expand existing businesses within this State or cause new businesses to relocate to this State that:*

*(1) Are engaged in technology, hospitality and gaming, renewable energy, advanced manufacturing or infrastructure or any other industry that has been identified by the Office of Economic Development as part of the economic development strategy for this State; or*

*(2) Compensate employees at a rate above the median income in this State and provide adequate health insurance coverage to employees.*

*(b) To the extent that funds are available, work to prioritize follow-on rounds of investments for a direct investment or co-investment made by the Board with a company, strategic investor, private equity fund, venture capital fund or other fund manager that has exceeded investment benchmarks, as determined by the Board.*

*(c) Ensure that 100 percent of the venture capital direct investments and co-investments of the Corporation are made in businesses that meet the criteria set forth in subsection 6 of NRS 355.285.*

*(d) Ensure that a business relocating to this State and receiving a venture capital direct investment or co-investment is required to:*

*(1) Maintain a presence in this State, as evidenced by the criteria set forth in subsection 6 of NRS 355.285, for a minimum period; and*

*(2) Pay back any investment made by the Corporation if the business fails to maintain such a presence for the minimum period.*

*(e) Ensure that more than 50 percent of the private equity funding provided by the Corporation, after the payment of fees to investment managers, is provided to businesses that meet the criteria set forth in subsection 2 of NRS 355.280, as amended by section 4 of Assembly Bill No. 33, chapter 175, Statutes of Nevada 2023, at page 1034.*

*5. Any company, strategic investor, private equity fund, venture capital fund or other fund manager with which the Board elects to make a direct investment or co-investment pursuant to this section shall:*

*(a) Prepare a draft of the annual report required by paragraph (d) of subsection 7 of NRS 355.270 and submit the draft to the officers of the Corporation for review. The officers of the Corporation shall review the draft of the report and submit it to the Board for approval. The report must provide:*

*(1) An accounting of all money received and expended by the Corporation, including, without limitation, any grants, gifts or donations received by the Corporation; and*

*(2) The name and a brief description of all funds receiving an investment from the Corporation.*

*(b) Perform any other duties established by the contract between the Corporation and the company, strategic investor, private equity fund, venture capital fund or other fund manager.*

**Sec. 9.** NAC 355.230, 355.310 and 355.320 are hereby repealed.

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## TEXT OF REPEALED SECTIONS

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**355.230 “Fund of Funds Manager” defined. (NRS 355.285)** “Fund of Funds Manager” means the person selected by the Board pursuant to NAC 355.310 to assist the Corporation in making investments.

**355.310 Fund of Funds Manager: Selection; duties; fee structure. (NRS 355.285)**

1. In accordance with chapter 333 of NRS and chapter 333 of NAC, the officers of the Corporation shall prepare a request for proposals for the selection of the Fund of Funds Manager and coordinate any activities necessary to present to the Board the proposals submitted in response to the request for proposals. The request for proposals must require that a person submitting a proposal disclose:

- (a) Any conflict of interest;
- (b) All criminal convictions of the person and the principal personnel of the person;
- (c) Any investigations of the person and the principal personnel of the person by the Internal Revenue Service, the Securities and Exchange Commission and any other state or federal agency charged by law with investigating violations of laws relating to taxation or securities; and
- (d) All litigation involving the person and the principal personnel of the person relating to the financial affairs of the person or the principal personnel.

2. The Board shall evaluate proposals submitted in response to the request for proposals prepared pursuant to subsection 1 and select the Fund of Funds Manager based on the criteria

established by the Board. The contract between the Corporation and the Fund of Funds Manager selected by the Board must contain termination and performance clauses which authorize the Board to terminate the contract based on legal, performance and qualitative criteria and any other criteria agreed to by the Board and the Fund of Funds Manager.

3. The Fund of Funds Manager shall:

(a) Establish an office within this State which, at a minimum, is staffed by a part-time employee who actively seeks opportunities to invest in businesses located in this State.

(b) Establish an investment plan for the Corporation which provides for an asset allocation that:

(1) Invests not more than \$7.5 million of the Corporation's capital in a single business and invests not more than \$10 million or 20 percent of the capital invested by the Corporation in a single private equity fund;

(2) Establishes a diversified portfolio of private equity investments that may include, without limitation, venture capital, growth capital, buyout investments, mezzanine financing, distressed debt or secondary investments in private equity; and

(3) Promotes investments in qualified businesses that pursue the primary goal of providing greater investment returns for the State Permanent School Fund and the secondary goal of promoting economic development and employment in this State.

(c) Select private equity funds in which to invest the Corporation's money and co-investments and direct investments for the Corporation in accordance with the guidelines, policies and procedures established by the Board.

(d) On behalf of the Corporation, negotiate and execute partnership agreements with private equity funds in which the money of the Corporation will be invested and to effectuate co-investments and direct investments for the Corporation.

(e) Manage daily activities associated with the investments of the Corporation.

(f) Develop relationships with important constituencies in this State, including, without limitation, governments, educational institutions, corporations, entrepreneurs, and private equity and venture capital organizations, and foster cooperation among these institutions and organizations.

(g) Work with venture capital and entrepreneurial organizations to organize regional forums and conferences.

(h) In accordance with industry standards for due diligence with respect to private equity funds, perform regular due diligence of private equity funds in which the Corporation is invested.

(i) Provide an annual report to the Board concerning the performance and activities of each private equity fund in which the Corporation is invested and each co-investment and direct investment of the Corporation.

(j) Review the performance of all investments made by the Corporation pursuant to NRS 355.250 to 355.285, inclusive, and NAC 355.200 to 355.340, inclusive.

(k) Execute investment decisions based on the following criteria:

(1) Primarily, the probability that a business will succeed and the expected investment return; and

(2) Secondly, the diversification of the economic base of this State and the generation and retention of jobs and investment in this State.

(l) Ensure that 100 percent of the venture capital co-investments and direct investments of the Corporation are made in businesses that meet the criteria set forth in subsection 6 of NRS 355.285.

(m) Ensure that a business relocating to this State and receiving a venture capital co-investment or direct investment is required:

(1) To maintain a presence in this State, as evidenced by the criteria set forth in subsection 6 of NRS 355.285, for a minimum period; and

(2) To pay back any investment made by the Corporation if the business fails to maintain such a presence for the minimum period.

(n) Ensure that at least 70 percent of the private equity funding provided by the Corporation, after the payment of fees to investment managers, is provided to businesses that meet the criteria set forth in subsection 2 of NRS 355.280.

(o) Prepare a draft of the annual report required by paragraph (d) of subsection 7 of NRS 355.270 and submit the draft to the officers of the Corporation for review. The officers of the Corporation shall review the draft of the report and submit it to the Board for approval. The report must provide:

(1) An accounting of all money received and expended by the Corporation, including, without limitation, any grants, gifts and donations received by the Corporation; and

(2) The name and a brief description of all funds receiving an investment from the Corporation.

(p) Perform any other duties established by the contract between the Corporation and the Fund of Funds Manager.



4. The fee structure for the Fund of Funds Manager may consist of only a management fee and a performance fee. The management fee may not exceed 1 percent of the committed capital. The performance fee may not exceed 10 percent of the profits generated by the Corporation's investments.

**355.320 Use of earnings of certain funds to defray fees of Fund of Funds Manager.**

**(NRS 355.285)** To defray any administrative or management fees charged by the Fund of Funds Manager pursuant to the contract between the Corporation and the Fund of Funds Manager, the Corporation may place money in a fixed income mutual fund or common trust fund approved by the Board. Upon Board approval, the Corporation may use the earnings of the mutual fund or common trust fund to pay the administrative or management fees of the Fund of Funds Manager.