SIC Investments Performance Spotlight

THIS REPORT details investment performance of the State Investment Council (SIC).

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The three large long-term investment funds managed by the State Investment Council (SIC) grew by $24.2 billion, or 101.6 percent, over the last five years ending in the fourth quarter of FY24. This period of rapid growth for the state's three largest long-term investment funds—the land grant permanent fund (LGPF), the severance tax permanent fund (STPF), and the early childhood education and care fund (ECTF)—has been propelled by excess oil and gas revenues, accounting for 53.8 percent of the funds' five-year growth. Total assets managed by SIC were $57.8 billion in August, more than double what they were five years ago. The number of funds managed by the agency increased from five in 2019 to 12 in August 2024. Over that period, the agency's total budget has grown by 18.9 percent.

A persistent performance challenge is low returns of the STPF. Performance of the STPF is important because it is the primary fund the state relies on to overcome future declining oil and gas revenues. In the most recent quarter, STPF recorded a one-year return of 6.87 percent while LGPF's return was 8.47 percent over that period. This continues a yearslong trend, where STPF returns have been below the LGPF for the last five fiscal years. This performance gap is estimated to cost the general fund $160 million over the next 10 years and grow in the future, with billions in lost balances.

These low returns are the result of differential rate investments into the New Mexico Private Equity Investment Program (NMPEIP)–a legislatively created program that directs a portion of the STPF to New Mexico companies–the Small Business Investment Corporation (SBIC)–which offers loans and makes investments into small businesses in the state–and the small business recovery loan program, designed to offer low-interest loans to businesses that experienced financial hardship early in the pandemic. The in-state private equity program is the largest of these differential rate investments.

Key Points

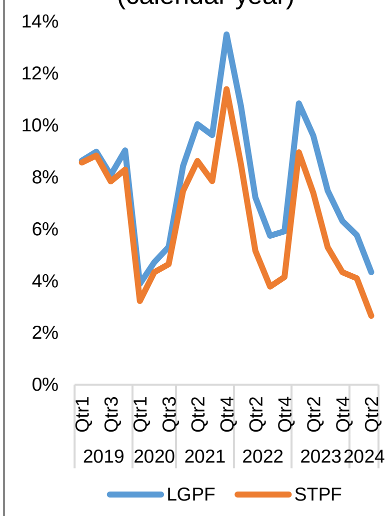
- The market value of the NMPEIP was $454.3 million in July, making it the largest state program designed to create jobs and support businesses.
- The in-state private equity program's internal rate of return (IRR)—a measure of an investment's profitability—was negative 5.5 percent in the five-year period ending 2023. In contrast, private equity investments in national businesses (excluding New Mexico) had an IRR of 15.7 percent over that period.
- The unfavorable returns of the New Mexico private equity program drag overall STPF performance. Among large national public funds over the three-year period, the LGPF was among the best performing, coming in the top 20th percentile in FY24. In contrast, the STPF was in the bottom 70th percentile.
- By FY50, the performance gap—if it persists–will cost the STPF $11 billion compared to what the fund value would be if it returns matched the LGPF's performance.

Returns of SIC-managed Funds
(1-year returns as of 7/31/24)

Fund	Returns
Conservation Legacy	10.35
Early Childhood	9.16
Land Grant	8.30
Rural Libraries	7.40
Tobacco Settlement	6.96
Severance Tax	6.85
Tax Stabilization	4.05

Source: SIC

Historical Three-Year Annualized Returns
(calendar year)



Source: SIC

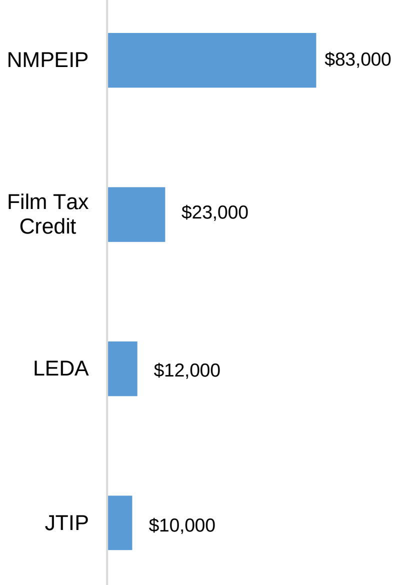
LGPF and STPF Asset Allocation and 1-Year Returns
(as of 6/30/2024)

	LGPF Allocation (returns)	STPF Allocation (returns)
US Equity	19% (24%)	18% (23%)
International Equity	16% (11%)	19% (11%)
Fixed Income	32% (6%)	28% (6%)
Alternatives		
Private Equity	10% (5%)	4% (5%)
*★NM Private Equity**	0% (NA)	4% (-7%)
Real Estate	7% (-9%)	8% (-9%)
Real Assets	7% (10%)	8% (10%)
★ETI	0% (NA)	3% (-5%)
Cash	8% (5%)	8% (5%)

*Returns for the NM Private Equity Program are 5-year annualized returns. Shorter periods can be highly volatile.

Source: SIC RVK Performance Review

5-Year Average General Fund Cost per Job Created



Source: LFC analysis

Performance Gap Between STPF and LGPF

One-year STPF returns have lagged the LGPF by an average of 3.2 percentage points over the last five fiscal years. The gap was similar over returns with a longer time horizon. STPF's five-year average returns were the worst among New Mexico's large investment funds in each quarter since FY22 and have averaged 1.1 percentage points below the LGPF five-year average returns.

Asset Allocation

Performance differences between LGPF and STPF result from their asset allocation. Both funds share a similar asset allocation, with about 30 percent each allocated to three investment classes—public equity, fixed income, and alternative investments—and the rest held as cash. However, the major difference between the STPF and the LGPF is the differential rate investment to the in-state private equity program. The council currently allocates about 4 percent of the STPF to the program, but it has set an interim target allocation of 6 percent. The Legislature has authorized the council to invest up to 11 percent of the STPF. In addition to the in-state private equity program, SIC is required to allocate 2 percent of the STPF to the New Mexico Small Business Investment Corporation (NMSBIC), which also acts as a drag on STPF performance.

Impacts of Performance Gap

The cumulative impact of the STPF-LGPF performance gap is large. By FY50, the balance of the STPF is expected to be $11 billion lower than it would have been had it matched LGPF performance. By FY50, this will translate to about $370 million a year in foregone general fund revenue because STPF distributes 4.7 percent of its five-year average fund value to the general fund.

The opportunity costs of the in-state private equity program are large because the STPF is expected to grow rapidly. Historically, the fund grew around 5 percent annually; in the next 10 years, it's expected to grow at three times that rate due to new distributions to the fund. Because the in-state private equity program is authorized to make up a share of the STPF, the program could grow at that same rate and losses could proliferate without legislative changes.

Benefits

SIC measures the economic impact of the in-state private equity program with estimates of job growth, total payroll, and various other performance measures. Between the first quarter of 2019 and the first quarter of 2024, the program is estimated to have created 1,781 jobs for an average general fund cost per job of about $83 thousand. This general fund cost per job is nearly seven times higher than the average cost per job of LEDA and eight times higher than the average cost per job of JTIP, some of the state's largest direct job creation programs.[1]

[1] This analysis estimates the cost per job by dividing the estimated general fund cost by the total number of jobs created. General fund cost was estimated by projecting general fund revenue foregone because money was allocated to the NMPEIP instead of the STPF, which makes general fund distributions.