



## Investment Performance Quarterly Report, Third Quarter, FY24

State investment balances have increased by \$11 billion, or 15.8 percent compared with this time last year. Investments benefited from a resilient economy and strong market conditions with forecasters cautiously optimistic for a “soft landing,” where inflation eases without the economy tipping into recession. One-year returns were strong for all funds, a notable improvement from the challenging environment throughout FY23. The state’s risk-averse allocations generally performed worse than peer funds in the quarter and one-year period amid strong markets.

### Investment Performance Highlights

- The value of New Mexico’s combined investment holdings grew by \$3.6 billion quarter-over-quarter, to an ending balance of \$81.15 billion, with across-the-board gains bolstered by contributions of excess oil and gas revenues to the ECTF and the STPF. For the year, funds increased by \$11 billion, or 15.8 percent. Over the last five years, the state’s combined investment holdings grew \$29.9 billion, or 58.2 percent.
- One-year returns were strong for all funds, ranging from 8.2 percent (STPF) to 9.5 percent (LGPF). Average investment returns over the last 10 years ranged from 6.1 percent (PERA) to 7.6 percent (ERB).
- The LGPF, STPF, and ECTF benefited from inflows of oil and gas taxes and royalties. STPF performance is lowered by the allocation to New Mexico investments, which typically provide a lower return. ERB and PERA balances were moderated by benefit payments greater than contributions typical for pension funds.
- All funds met their long-term return targets for the one-year period. ERB outperformed its long-term target in every period and continues to be the top-performing large investment fund in most short- and long-term periods. The STPF only met its long-term target in the one-year period.<sup>1</sup>

**THIS REPORT** details the comparative investment performance of the three investment agencies: the Educational Retirement Board (ERB), the Public Employees Retirement Association (PERA), and the State Investment Council (SIC), which manages the land grant permanent fund (LGPF), the severance tax permanent fund (STPF), and the early childhood education and care trust fund (ECTF).

Agency performance and market environment information are derived from the investment performance reports submitted by PERA, ERB, and SIC.

#### Aggregate Value of New Mexico Investment Holdings

**\$81.15 billion**

Note: does not include general fund investments.

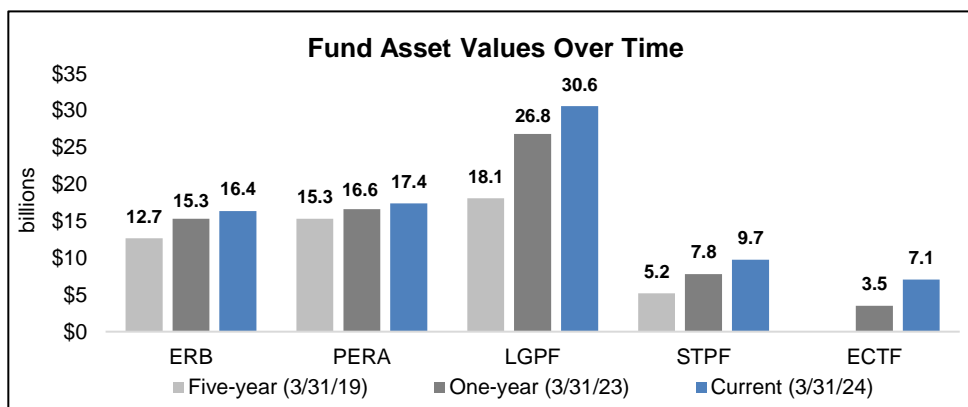
#### Annual Combined Growth of all Funds

**\$11 billion  
15.8%**

Note: does not include general fund investments.

#### 5-Year Annualized Returns

Fund	Returns
ERB	8.29
LGPF	7.73
PERA	6.68
STPF	5.97



<sup>1</sup> The funds’ long-term return targets are 7.25 percent (PERA), 7 percent (ERB), 7 percent (LGPF), and 6.75 percent (STPF).

### About the Funds

PERA and ERB manage state pension funds that offer members guaranteed life-long monthly benefits after retirement. Both members and employers make contributions. PERA members are New Mexico public employees. ERB members are New Mexico public education employees. The pension funds are invested to generate income that covers the gap between contributions and benefit payments. Pension funds offer a major benefit to state employees and are often cited as a major benefit of a career in the public sector. However, they also represent one of the state's largest long-term liabilities, and the health of the funds is important to monitor.

## Pension Fund Agencies

Pension fund investments grew by \$1.83 billion, or 5.7 percent, between March 2024 and March 2023. Annualized returns for both funds were above their long-term targets in the one-year period, but only the Educational Retirement Board (ERB) exceeded that target in the three-, five-, and 10-year periods. ERB allocated more of its assets to U.S. equity and alternatives while the Public Employees Retirement Association (PERA) allocated more of its portfolio toward fixed income.

Table 1

### Pension Funds Asset Values (net of fees)

Period ending 3/31/2024

Fund	Value as of		Value Change	Percent Change
	3/31/23	3/31/24		
ERB	\$15,333.3	\$16,358.2	\$1,024.9	6.7%
PERA	\$16,600.6	\$17,400.8	\$800.2	4.8%
<b>Total</b>	<b>\$31,933.8</b>	<b>\$33,759.0</b>	<b>\$1,825.2</b>	<b>5.7%</b>

Source: ERB, PERA

**ERB.** ERB's annualized returns outperformed the fund's long-term target of 7 percent in each period, and the fund outperformed its policy index, a performance benchmark, in all but the three-year period. The fund's return in the quarter, which is not annualized, was 2.93 percent while the policy index for that period was 3.38 percent. The fund also had the best risk-to-return measures among all investment funds, with the lowest standard deviation, the best Sharpe ratio, and lowest Beta.

**PERA.** PERA annualized returns outperformed the fund's long-term target of 7.25 percent only in the one-year period. The fund outperformed its policy index in each period except the quarter and one-year. In the one-year period, the fund's relative performance was 3.96 percentage points below the policy index.

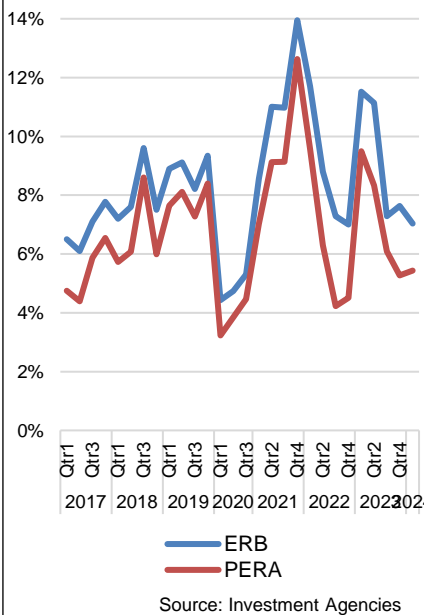
### Member Snapshot

(2023)

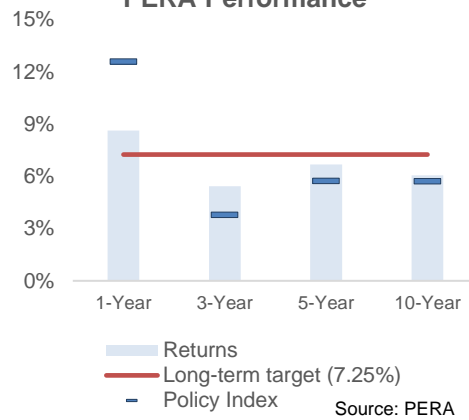
Type	PERA	ERB	Total
Active	55,725	61,503	117,228
Inactive	28,907	54,756	83,663
Retirees	47,069	54,774	101,843
<b>Total</b>	<b>131,701</b>	<b>171,033</b>	<b>302,734</b>

Source: PERA, ERB

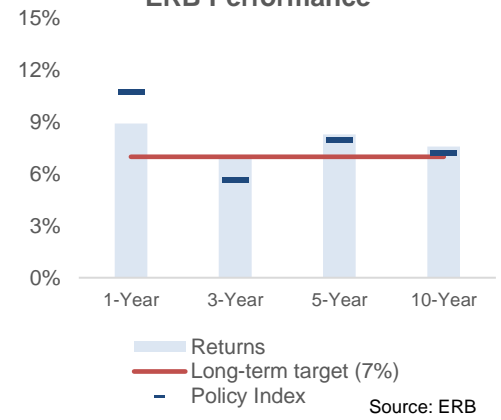
### Historical Three-Year Annualized Returns (calendar year)



### PERA Performance



### ERB Performance



## SIC Long-Term Investment Funds

Long-term investment funds, managed by the State Investment Council (SIC), grew by \$9.2 billion, or 24.2 percent, between the third quarter of FY23 and the third quarter of FY24. Annualized returns were above the long-term targets of the LGPF and the STPF

for the one-year period. SIC has not set a long-term target for the ECTF as of the writing of this report. Asset allocations were similar among funds, although the ECTF had 16 percent of its assets in cash equivalents, the highest of any investment fund and 6 percentage points higher than the fund’s target allocation. Large cash balances are likely because of large contributions to the fund in January as well as additional appropriations made from the fund in the last two years.

Table 2

Long-term Investment Funds Asset Values (net of fees)				
Period ending 3/31/2024				
Fund	Value as of		Value Change	Percent Change
	3/31/23	3/31/24		
LGPF	\$26,820.5	\$30,586.6	\$3,766.2	14.0%
STPF	\$7,815.7	\$9,743.5	\$1,927.9	24.7%
ECTF	\$3,531.0	\$7,061.6	\$3,530.7	100.0%
<b>Total</b>	<b>\$38,167.1</b>	<b>\$47,391.8</b>	<b>\$9,224.7</b>	<b>24.2%</b>

Source: SIC

**LGPF.** The LGPF outperformed its long-term target of 7 percent in the one-year and five-year but missed the target in the 10-year, coming in 0.05 percentage points under. The fund tracked very closely to its policy index, a performance benchmark, for each period. Over the year, the fund distributed \$1.3 billion to beneficiaries and received \$2.4 billion in revenues, primarily from royalties paid against the value of oil and gas extracted on state lands. Net non-investment cashflows were \$1.1 billion.

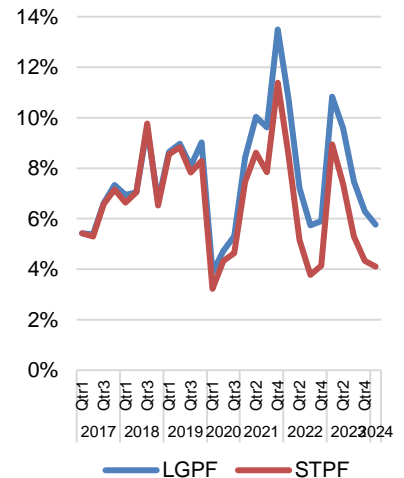
**STPF.** The STPF underperformed its long-term target of 6.75 percent in the three-, five-, and 10-year periods but surpassed the target in the one-year period. The fund outperformed its policy index in the one-year period and tracked closely with it in all other time periods. The fund distributed \$283.7 million to the general fund and received \$1.5 billion in oil and gas revenues for a net non-investment cashflow of \$1.2 billion.

**ECTF.** The ECTF tracked closely with other SIC-managed funds, exceeding its policy index in the three-year period. However, the fund was 0.91 percentage points below its policy index in the three-year period. Of all funds, the ECTF had the largest net non-investment cashflow, benefitting from \$3.2 billion in oil and gas revenues and distributing \$150 million to the general fund from March 2023 to March 2024. Net non-investment cashflow was \$3.1 billion.

### About the Funds

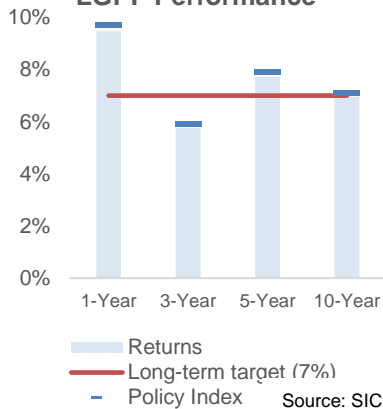
The state’s long-term investment funds have a diverse history. The **land grant permanent fund (LGPF)** is a constitutionally protected fund created at statehood to invest proceeds from the use of natural resources on state lands. The fund receives royalties from state lands and makes distributions to the general fund earmarked for use in public schools. The **severance tax permanent fund (STPF)** is a constitutionally protected fund that receives severance taxes—taxes levied against the extraction of natural resources—not required for bond maintenance. The STPF makes distributions to the state general fund. The **early childhood education and care trust fund (ECTF)** is a statutorily created fund that receives above-trend oil and gas revenues and supports funding for education and early

### Historical 3-Year Annualized Returns (calendar year)



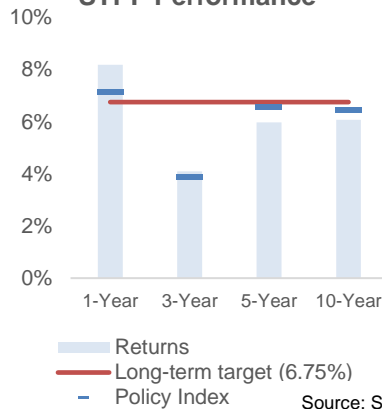
Source: Investment Agencies

### LGPF Performance



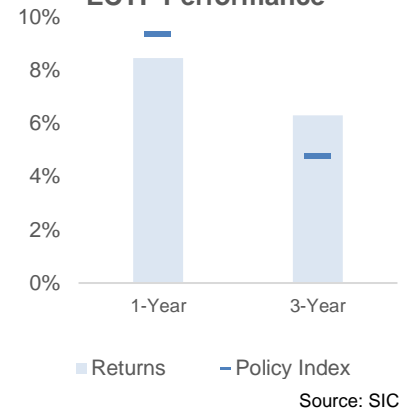
Source: SIC

### STPF Performance



Source: SIC

### ECTF Performance



Source: SIC

## Risk Profiles, Five Years Ending

Net of Fees Period ending 3/31/2024

Fund	Standard Deviation <sup>1</sup>	Sharpe Ratio <sup>2</sup>	Beta <sup>3</sup>
PERA	8.1	0.7	-
ERB	7.0	1.0	0.3
LGPF	8.9	0.7	0.4
STPF	8.9	0.6	0.4

<sup>1</sup>Measures variability from the mean return; higher is more volatile.

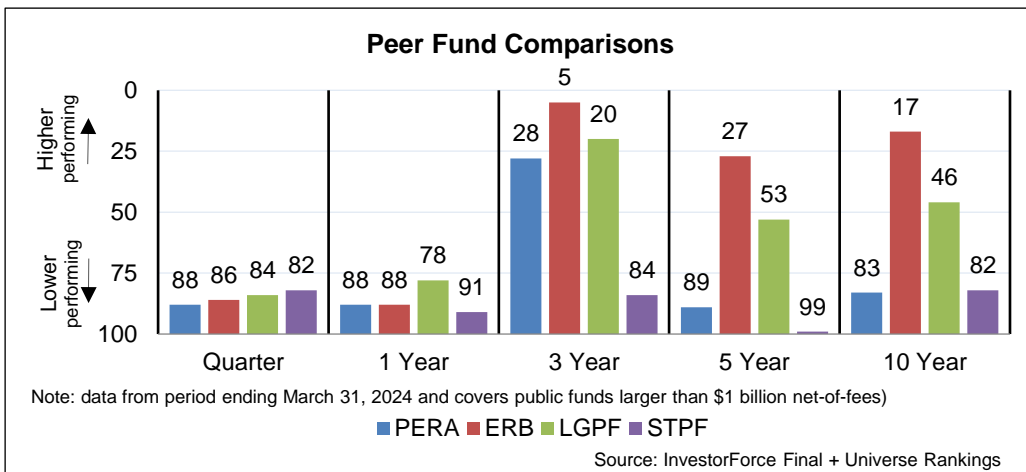
<sup>2</sup>Higher numbers indicate higher return-to-risk level; a good ratio is 1 or better.

<sup>3</sup>Represents the volatility of the portfolio versus the S&P 500. Beta = 1: portfolio moves with the market. Beta < 1: portfolio is less volatile than market. Beta > 1: portfolio is more volatile than the market.

Source: Investment Agencies

## Comparison with Peer Funds

When compared with peer funds greater than \$1 billion on a net-of-fee basis, New Mexico's large investment funds performed in the bottom quartile in both the quarter and one-year period across all funds. In general, ERB and the LFPF performed the best compared with other large New Mexico investment funds. In the three-year period, both were in the top 20 percent of peer funds and ERB was in the top 5 percent. The STPF performed poorly compared with peer funds, coming in at the 99<sup>th</sup> percentile. STPF performance is moderated by the allocation to differential rate New Mexico investments, which typically generate lower returns.



## General Fund Investment Pool

The State Treasurer's Office (STO) acts as the state's bank when receipts are deposited and later pooled into a statewide investment fund, known as the state general fund investment pool (SGFIP). The SGFIP has a liquidity portfolio, structured to meet the immediate cash needs of the state, and the core portfolio, that invests balances not necessary to meet the state's short-term cash flow needs over a longer time horizon.

**Table 3**

### General Fund Investment Pool

Period ending 3/31/2024

Fund	Value as of		Value Change	Percent Change
	3/31/23	3/31/24		
GF Core	\$5,052.7	\$5,502.6	\$450	8.9%

Source: STO

**Table 4**

### General Fund Investment Pool – Core Portfolio

Period ending 3/31/2024	Performance	
	Quarter	1-Year
GF Core	0.38%	3.56%
Benchmark - ICE BofA 0-5 US Treasury	0.25%	3.05%
Relative Performance	0.13%	0.51%

Source: STO

The general fund core portfolio outperformed its benchmark by 0.13 percentage points over the quarter and by 0.51 percentage points over the year. The Federal Reserve raised interest rates over the one-year period to rein in inflation. As a result, the liquidity portfolio was held to a larger percentage of the total pool, to preserve principal and take advantage of reinvestments at higher interest rates. The core portfolio duration was shorter than its benchmark, outperforming as interest rates rose. Over the past quarter, the core portfolio has lengthened duration positioning for a steady to lower path of short-term interest rates.

