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# INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE: OVERVIEW OF SIC FUNDS

Senator Roberto “Bobby” J. Gonzales, Chairman  
Representative Patricia Roybal Caballero, Vice-Chair

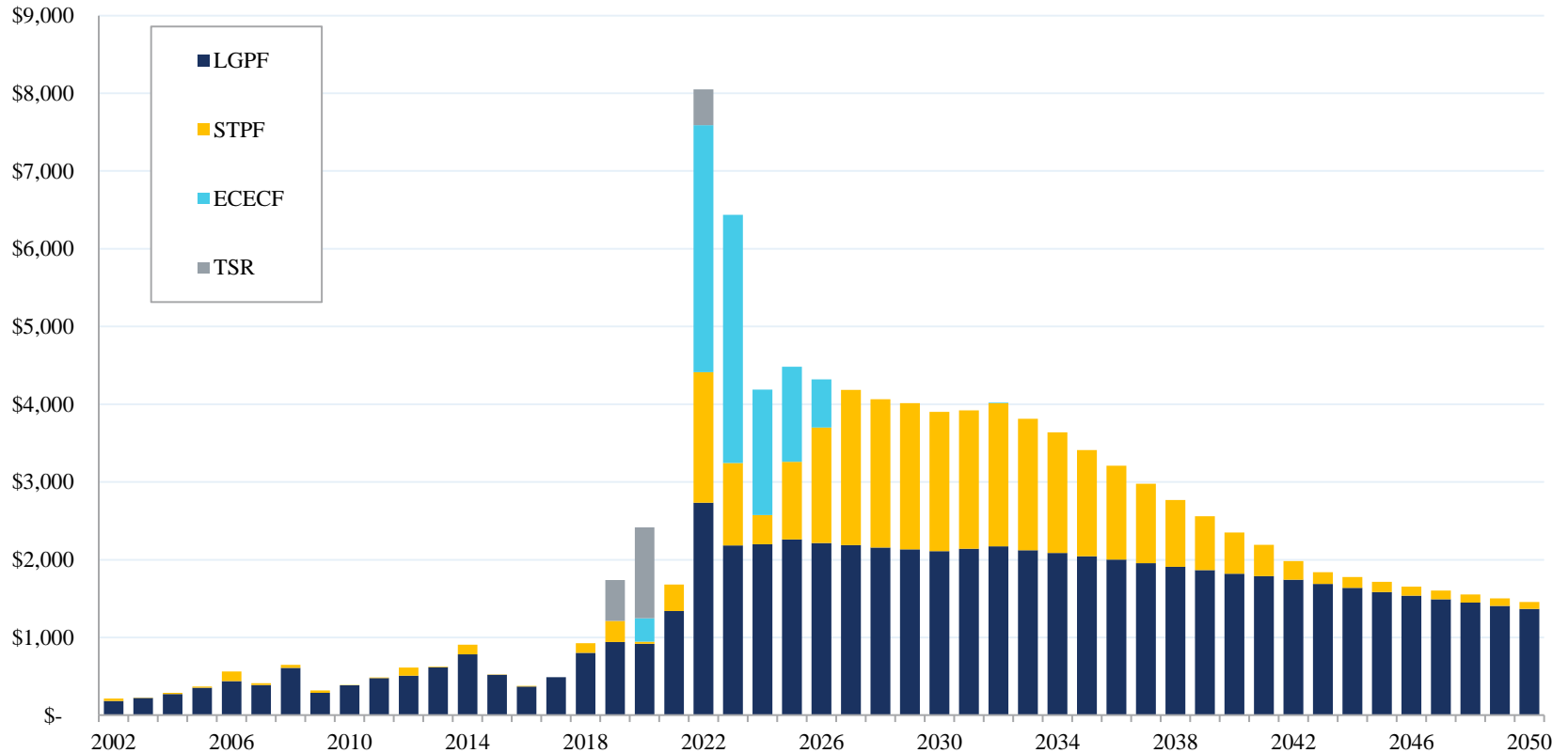
Dawn Iglesias, SIC Investment Strategist  
Charles Wollmann, Dir. Comms, Client & Legislative Affairs  
July 26, 2023



# FUND CONTRIBUTION HISTORY AND OUTLOOK

## Land Grant Permanent Fund, Severance Tax Permanent Fund, Early Childhood Education and Care Fund, and Tax Stabilization Reserve (\$MM)

Inflow History (2002-2022) and Baseline Estimates (2023-2050)

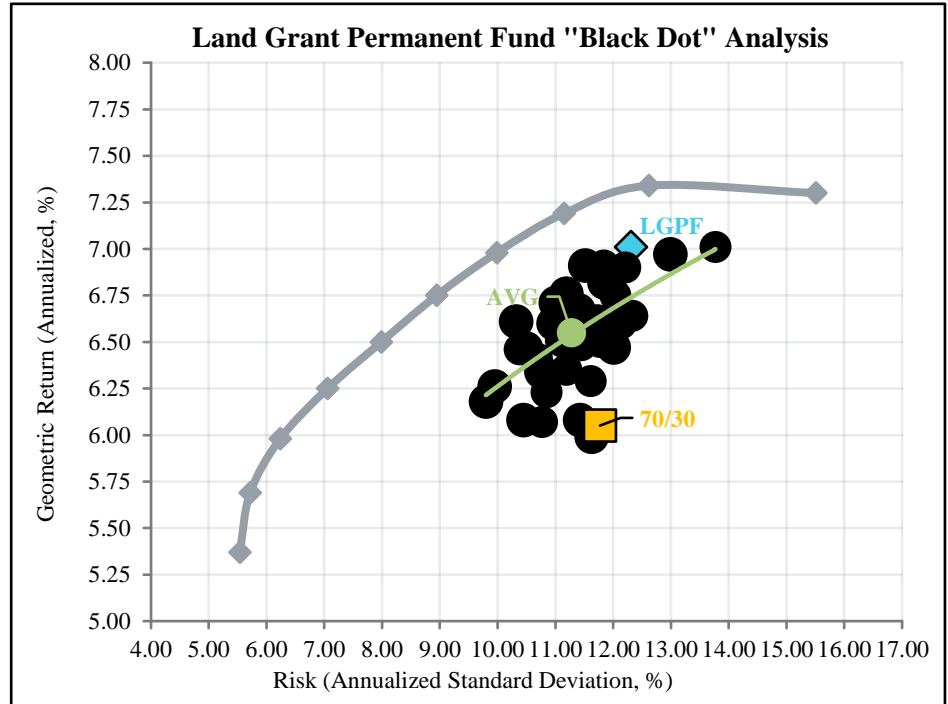


Source: NMSIC staff estimates using data from Oxford Economics, Rystad Energy, U.S. Energy Information Administration, CME Group, NM Consensus Revenue Estimating Group, and DFA Board of Finance. Estimates assume long-term annual average oil price of \$60/bbl and average natural gas price of \$4.50/mcf. Data as of June 2023.

# LAND GRANT PERMANENT FUND

## Fund Highlights

- Received a record **\$2.8 billion** in royalty contributions from the State Land Office in FY23
- New distribution policy starting in FY24
  - Additional 1.25% distribution from the Permanent School Fund (\$240.3 million)
    - 60% for Early Childhood Education (\$144.2 million)
    - 40% for Public Schools (\$96.1 million)
- New asset allocation approved in April 2023
- “Black dot” analysis shows the LGPF is among the most efficiently allocated when compared to peer funds



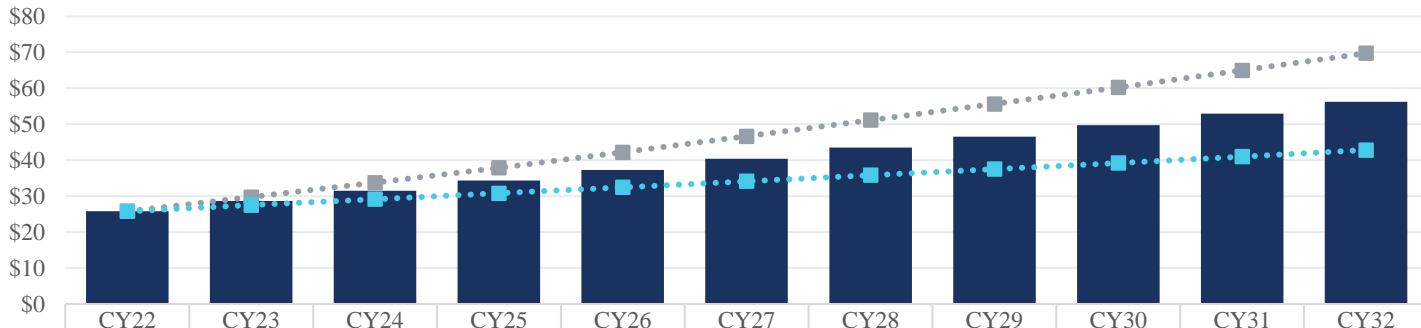
Land Grant Permanent Fund Asset Allocation			
Asset Class	Old (%)	New (%)	Diff.
Broad US Equity	20	20	--
Broad International Equity	20	20	--
Core Fixed Income	10	6	-4
Non-Core Fixed Income	15	15	--
Real Return	10	12	2
Real Estate	12	12	--
Private Equity	13	15	2
<b>Expected Arithmetic Return</b>	<b>7.7</b>	<b>7.9</b>	<b>0.2</b>
<b>Expected Risk (Standard Deviation)</b>	<b>10.5</b>	<b>10.6</b>	<b>0.1</b>
<b>Expected Compound Return</b>	<b>7.2</b>	<b>7.4</b>	<b>0.2</b>

New asset allocation approved by the Council in April 2023. Expected risk and return metrics based on RVK's 2023 capital market assumptions.

# LAND GRANT PERMANENT FUND OUTLOOK

## Land Grant Permanent Fund (LGPF) Portfolio Value Estimates

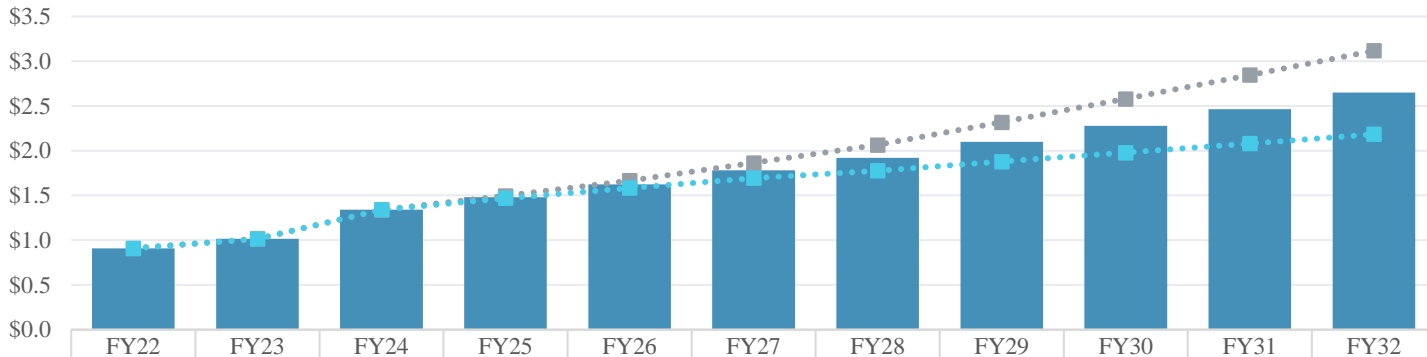
(dollars in billions)



Base Case Contributions	\$25.8	\$28.6	\$31.4	\$34.3	\$37.3	\$40.4	\$43.5	\$46.6	\$49.7	\$53.0	\$56.3
+50% Contributions	\$25.8	\$29.7	\$33.7	\$37.9	\$42.2	\$46.6	\$51.1	\$55.6	\$60.2	\$64.9	\$69.7
-50% Contributions	\$25.8	\$27.5	\$29.2	\$30.8	\$32.4	\$34.1	\$35.8	\$37.5	\$39.2	\$41.0	\$42.8

## Land Grant Permanent Fund (LGPF) Distribution Estimates

(dollars in billions)

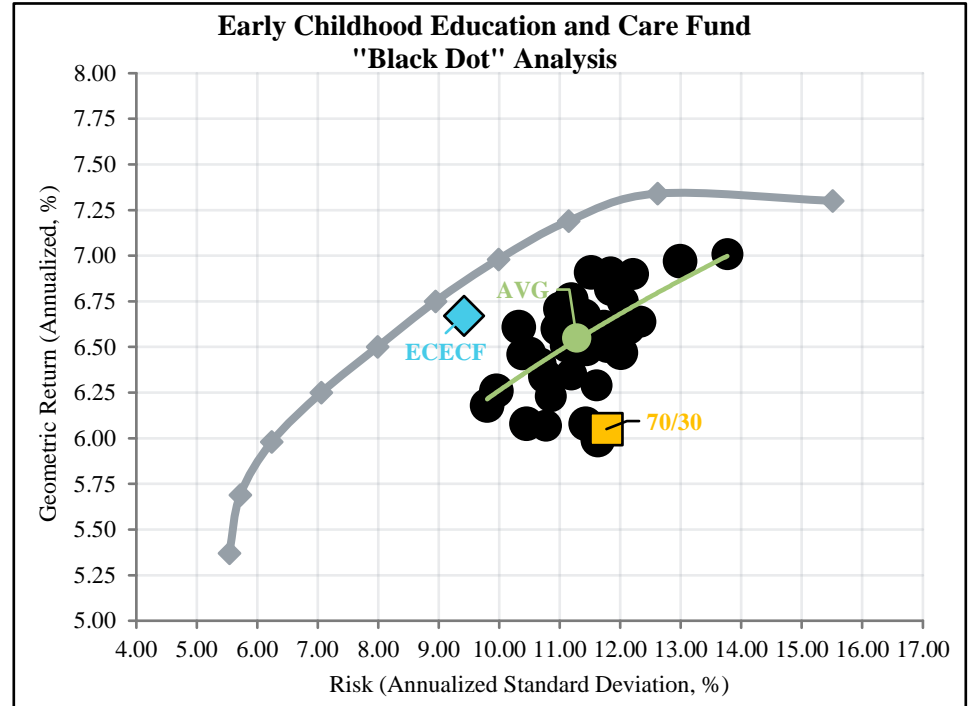


Base Case Contributions	\$0.91	\$1.01	\$1.34	\$1.48	\$1.62	\$1.78	\$1.92	\$2.10	\$2.28	\$2.46	\$2.65
+50% Contributions	\$0.91	\$1.01	\$1.34	\$1.49	\$1.67	\$1.86	\$2.06	\$2.32	\$2.58	\$2.84	\$3.12
-50% Contributions	\$0.91	\$1.01	\$1.34	\$1.47	\$1.58	\$1.69	\$1.78	\$1.88	\$1.98	\$2.08	\$2.18

# EARLY CHILDHOOD EDUCATION AND CARE FUND

## Fund Highlights

- Received about \$3.18 billion in contributions in 2022 and is estimated to receive over \$3 billion in 2023
- HBI91 (2023) increased the minimum distribution amount to \$150 million, starting FY24
- New asset allocation approved in May 2023
- “Black dot” analysis shows the ECECF is among the most efficiently allocated when compared to peer funds



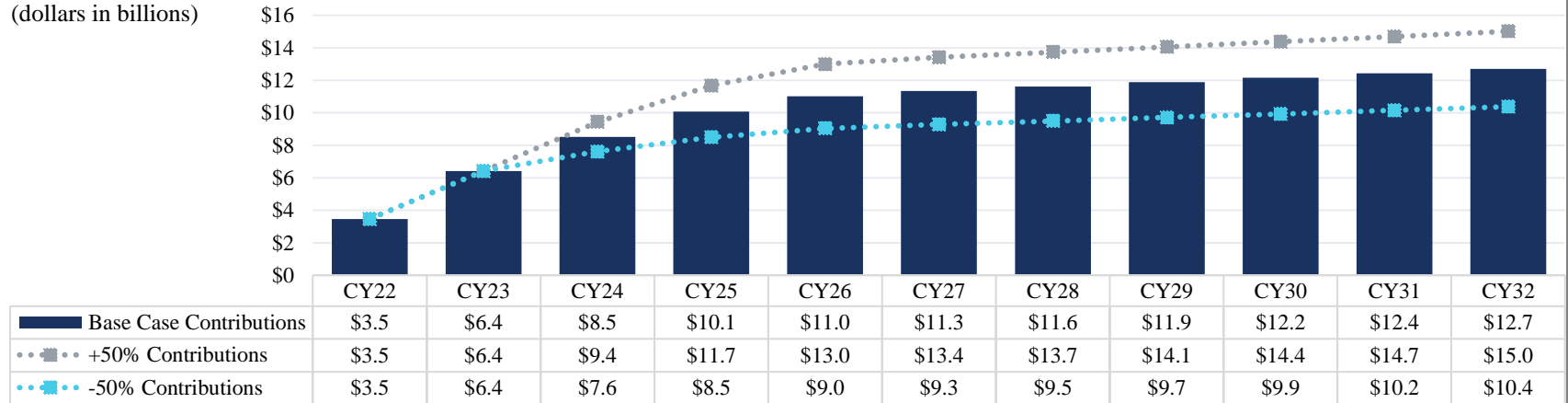
Early Childhood Education and Care Fund Asset Allocation			
Asset Class	Old (%)	New (%)	Diff.
Broad US Equity	8.5	20	11.5
Broad International Equity	8.5	20	11.5
Core Fixed Income	24	13	-11
Non-Core Fixed Income	25	20	-5
Real Return	10	10	--
Real Estate	12	7	-5
Private Equity	12	10	-2
<b>Expected Arithmetic Return</b>	<b>7.1</b>	<b>7.6</b>	<b>0.5</b>
<b>Expected Risk (Standard Deviation)</b>	<b>7.8</b>	<b>10.1</b>	<b>2.3</b>
<b>Expected Compound Return</b>	<b>6.8</b>	<b>7.1</b>	<b>0.3</b>

New asset allocation approved by the Council in May 2023. Expected risk and return metrics based on RVK's 2023 capital market assumptions.

# EARLY CHILDHOOD EDUCATION AND CARE FUND OUTLOOK

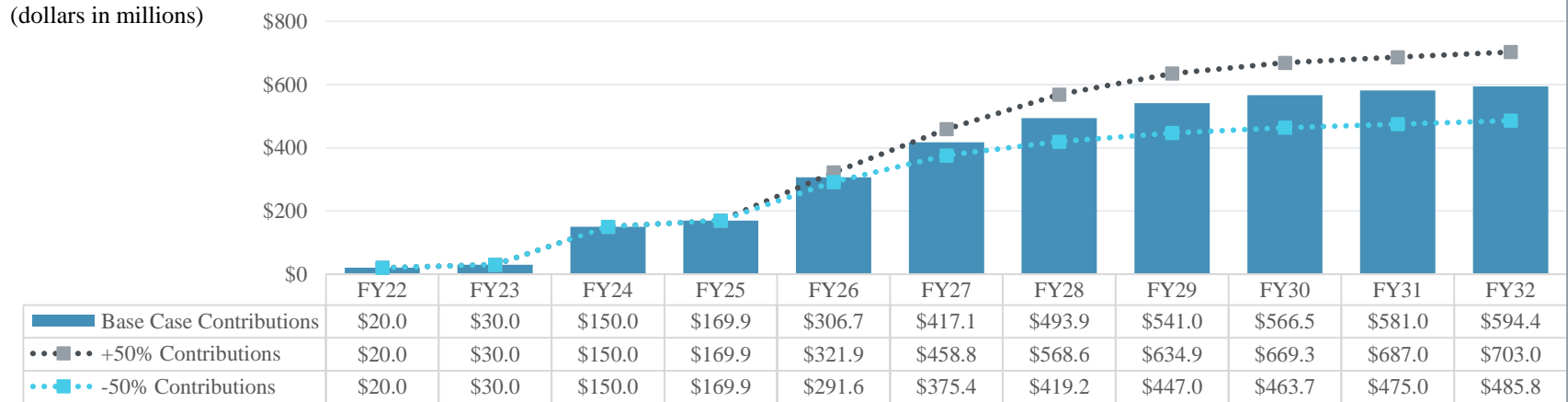
**Early Childhood Education and Care Fund (ECECF) Portfolio Value Estimates**

(dollars in billions)



**Early Childhood Education and Care Fund (ECECF) Distribution Estimates**

(dollars in millions)

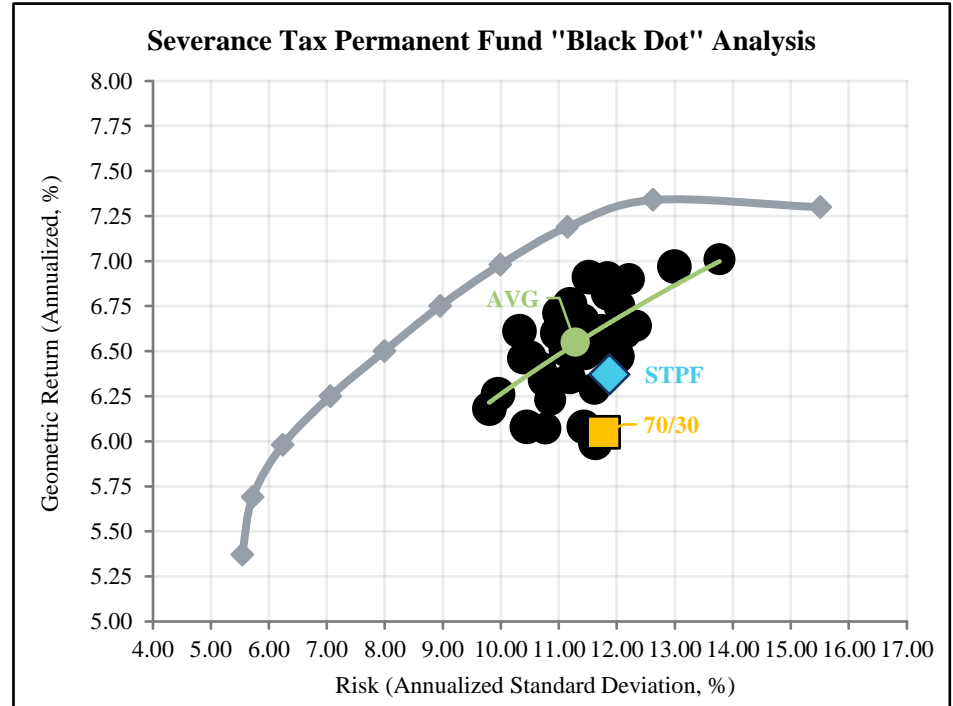


Source: NMSIC FY24 Annual Investment Plan, NMSIC Staff, RVK

# SEVERANCE TAX PERMANENT FUND

## Fund Highlights

- Received **\$1.4 billion** in contributions in FY23
- 2023 Legislation
  - HB 2: \$475 million one-time appropriation in FY24
  - SB 378: Deposits \$92 million/year from 2023-2033 (captures savings from avoided debt issuance due to using general fund for capital outlay instead of severance tax bonds)
  - SB 26: Invests windfall oil and gas revenues into the STPF starting in FY25 (see slide #9)
- New asset allocation approved in April 2023
- “Black dot” analysis shows the STPF has a somewhat higher-risk, lower-return profile than the average funds in the peer group, largely due to allocations to economically-targeted investments required by statute

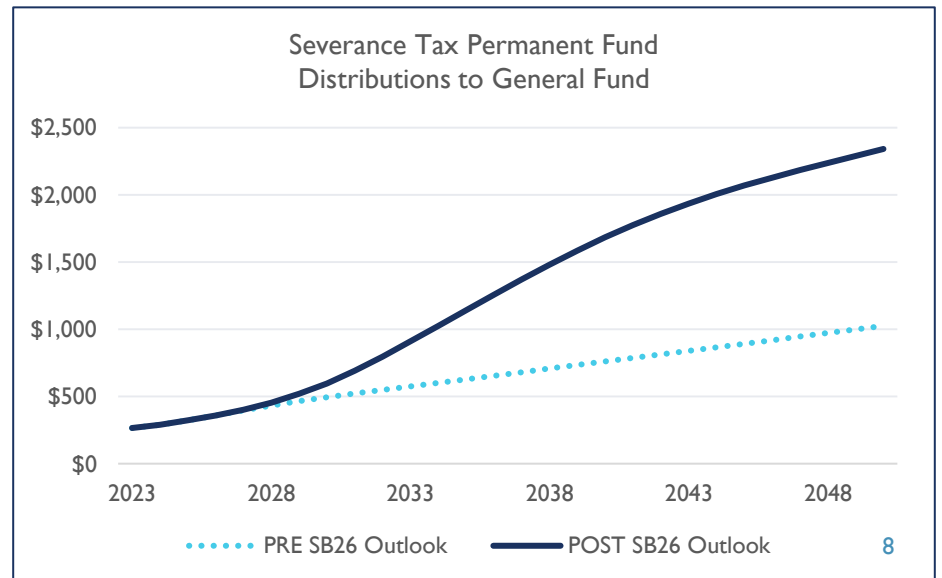
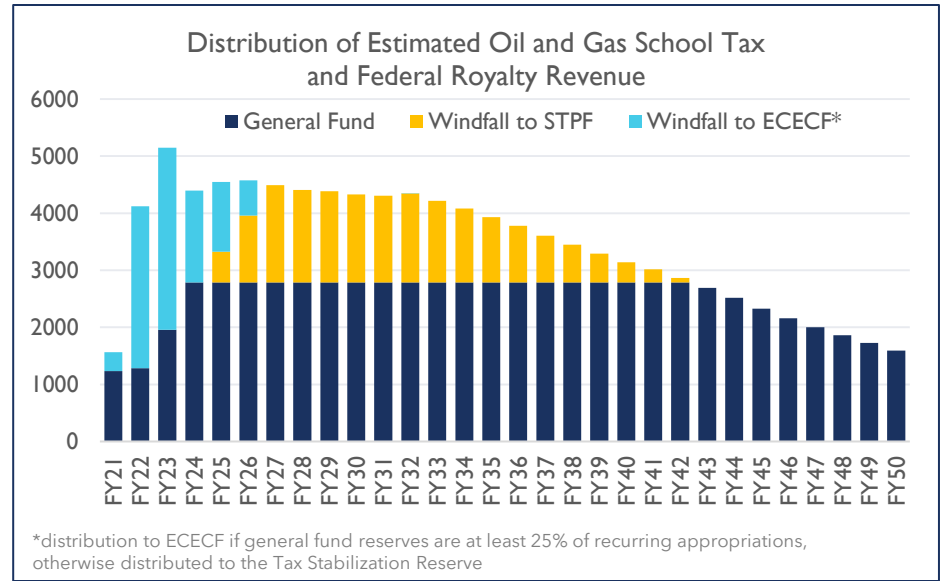


Severance Tax Permanent Fund Asset Allocation			
Asset Class	Old (%)	New (%)	Diff.
Broad US Equity	20	20	--
Broad International Equity	20	20	--
Core Fixed Income	12	5	-7
Non-Core Fixed Income	12	12	--
Real Return	10	12	2
Real Estate	12	12	--
Private Equity	5	10	5
NM Private Equity	9	9	--
<b>Expected Arithmetic Return</b>	<b>7.0</b>	<b>7.4</b>	<b>0.4</b>
<b>Expected Risk (Standard Deviation)</b>	<b>11.9</b>	<b>12.1</b>	<b>0.2</b>
<b>Expected Compound Return</b>	<b>6.4</b>	<b>6.7</b>	<b>0.3</b>

New asset allocation approved by the Council in April 2023. Expected risk and return metrics based on RVK's 2023 capital market assumptions.

# SENATE BILL 26 (2023) IMPACT ON STPF DISTRIBUTIONS

- Passed as a legislative long-term planning tool to: \*\*
  - Reduce general fund reliance on oil and gas revenue
  - Reduce volatility in general fund revenue estimates
  - Prepare for potential future declines in state oil and gas production
- SB26 caps the amount of oil and gas school tax and federal royalty revenue the general fund can receive
  - Invests windfalls above FY24 levels into the STPF, generating larger distributions from the permanent fund to the general fund
  - Does not affect the mechanism to send excesses above the five-year average to the ECECF or TSR
- Higher STPF distributions in the long-run help offset expected future declines in direct oil and gas revenue to the general fund



\*\*Per LFC 2023 Post-Session Report

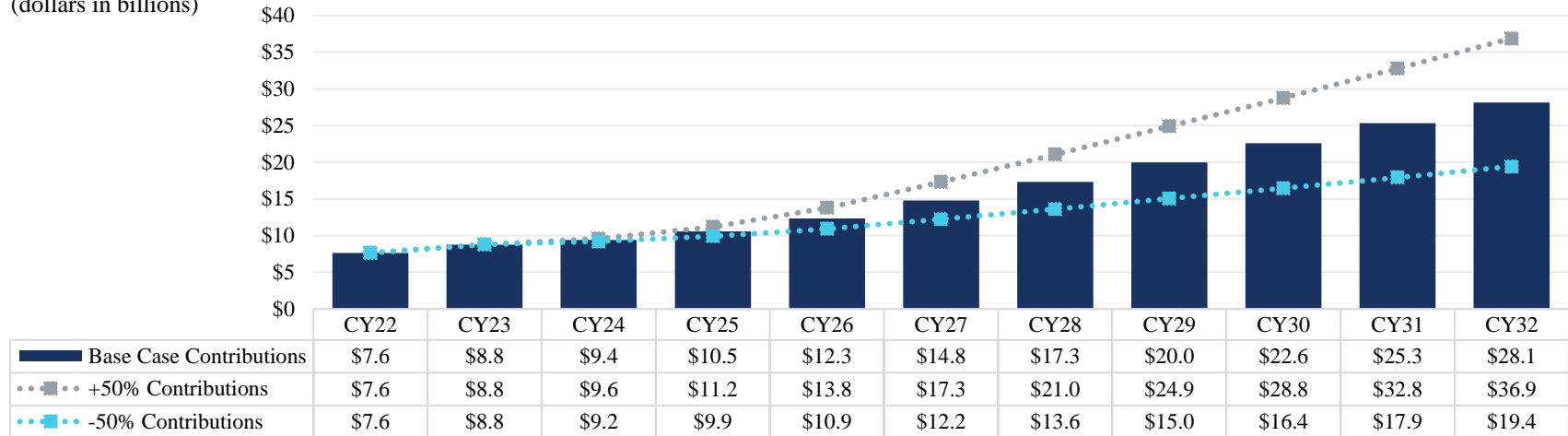
Source: NMSIC staff estimates as of June 2023



# SEVERANCE TAX PERMANENT FUND OUTLOOK

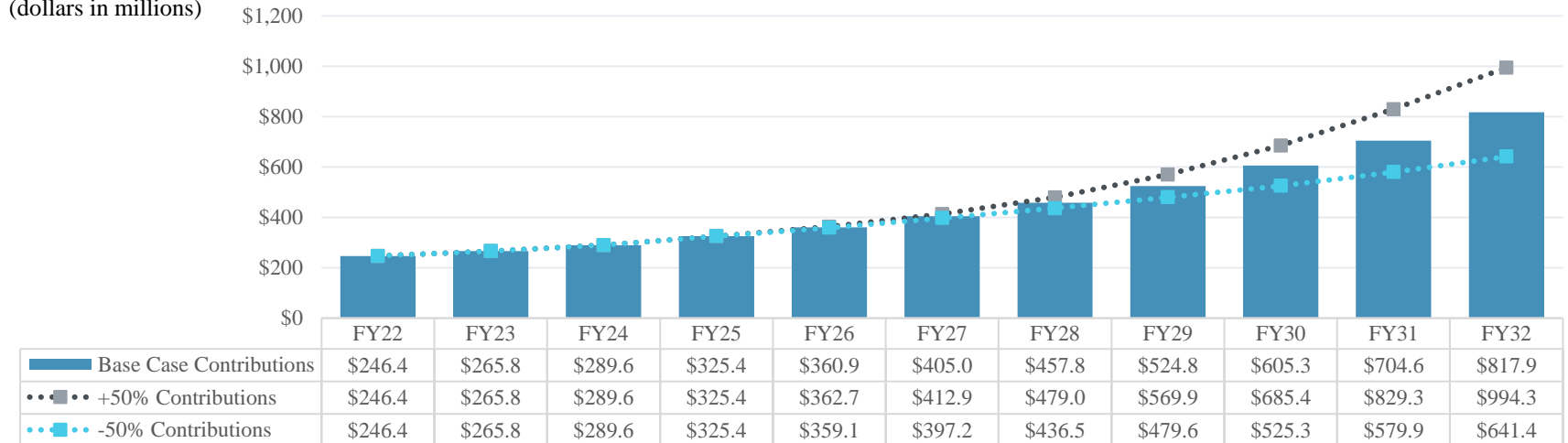
## Severance Tax Permanent Fund (STPF) Portfolio Value Estimates

(dollars in billions)



## Severance Tax Permanent Fund (STPF) Distribution Estimates

(dollars in millions)



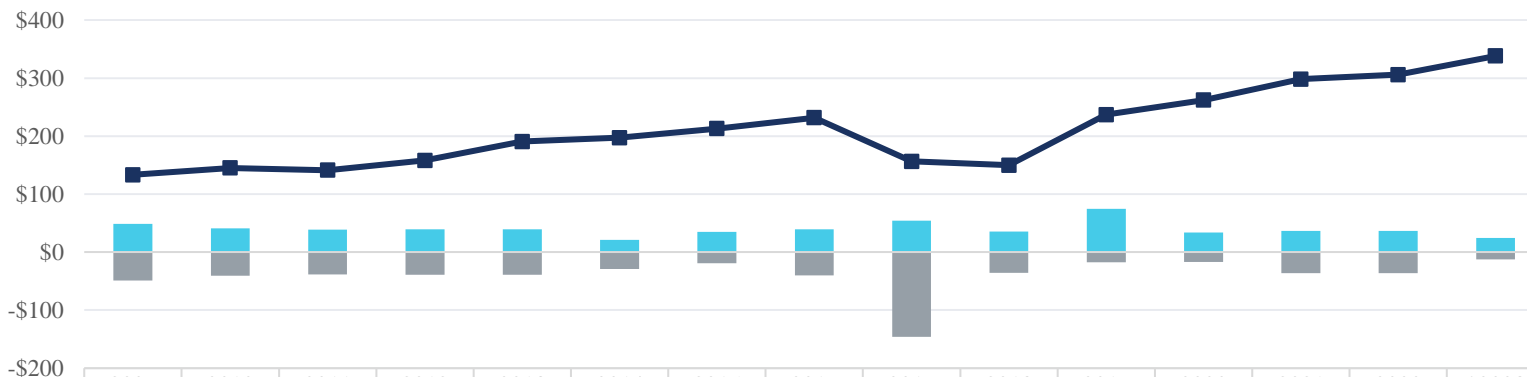
# STPF: SEEKING A DOUBLE BOTTOM-LINE THROUGH ECONOMICALLY-TARGETED INVESTMENTS (ETI)

- STPF is the only NM fund that is legally authorized to make “differential rate”/below-market-rate investments
- 7-27-5.14 Findings & 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...”
- Small Business Investment Corporation (2%)
- NM Private Equity (Up to 11% of the STPF value), current exposure \$727M
- Recent activity: America’s Frontier Fund (\$100M), Playground Ventures (\$10M), Lux Ventures VIII (\$62.5M), and Crosslink X (\$20M) & more in August
- Collaboration with NM Finance Authority/NM Economic Development Department re: NMFA’s new venture/impact program & EDD’s SSBCI award

# TOBACCO SETTLEMENT PERMANENT FUND

**Tobacco Settlement Permanent Fund (TSPF) Net Asset Value, Contributions and Distributions**

(dollars in millions)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	*2023
Distributions	-\$49	-\$41	-\$39	-\$39	-\$39	-\$29	-\$19	-\$40	-\$146	-\$36	-\$17	-\$17	-\$36	-\$36	-\$12
Contributions	\$49	\$41	\$39	\$39	\$39	\$21	\$35	\$40	\$54	\$36	\$75	\$34	\$36	\$36	\$25
NAV	\$133	\$145	\$141	\$158	\$191	\$197	\$213	\$232	\$156	\$150	\$237	\$262	\$298	\$306	\$338

\* NAV as of 5/31/23

## Fund Highlights

- With the pocket-veto of SBI 78 (2023), the TSPF remains a reserve fund of the state
  - Nullified an HB2 appropriation of \$50 million to the TSPF, which was contingent upon enactment of SBI 78
- No changes to the asset allocation

Tobacco Settlement Permanent Fund Asset Allocation			
Asset Class	Old (%)	New (%)	Diff.
Broad US Equity	10	10	--
Broad International Equity	10	10	--
Core Fixed Income	10	10	--
Non-Core Fixed Income	25	25	--
Real Return	25	25	--
Real Estate	20	20	--
<b>Expected Arithmetic Return</b>	<b>7.3</b>	<b>7.3</b>	<b>--</b>
<b>Expected Risk (Standard Deviation)</b>	<b>9.4</b>	<b>9.4</b>	<b>--</b>
<b>Expected Compound Return</b>	<b>6.9</b>	<b>6.9</b>	<b>--</b>
Asset allocation approved by the Council in April 2023. Expected risk and return metrics based on RVK's 2023 capital market assumptions.			

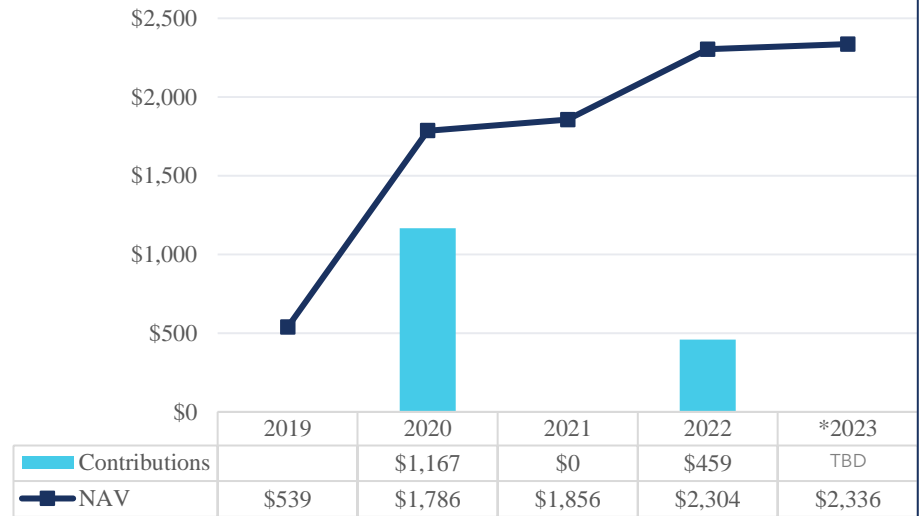
# TAX STABILIZATION RESERVE FUND

## Fund Highlights

- Received a \$459 million transfer from the general fund operating reserve in December 2022, following the FY22 audit
  - Potential for an additional transfer following the FY23 audit (amount TBD)
- New asset allocation approved in April 2023

**Tax Stabilization Reserve Fund (TSR) Net Asset Value and Contributions**

(dollars in millions)



\* NAV as of 5/31/23

**Tax Stabilization Reserve Fund Asset Allocation**

Asset Class	Old (%)	New (%)	Diff.
Low Duration Fixed Income	30	35	5
Core Fixed Income	22	20	-2
Non-Core Fixed Income	28	30	2
Real Estate	20	15	-5
<b>Expected Arithmetic Return</b>	<b>5.4</b>	<b>5.3</b>	<b>-0.1</b>
<b>Expected Risk (Standard Deviation)</b>	<b>5.9</b>	<b>5.4</b>	<b>-0.5</b>
<b>Expected Compound Return</b>	<b>5.2</b>	<b>5.1</b>	<b>-0.1</b>

New asset allocation approved by the Council in April 2023. Expected risk and return metrics based on RVK's 2023 capital market assumptions.

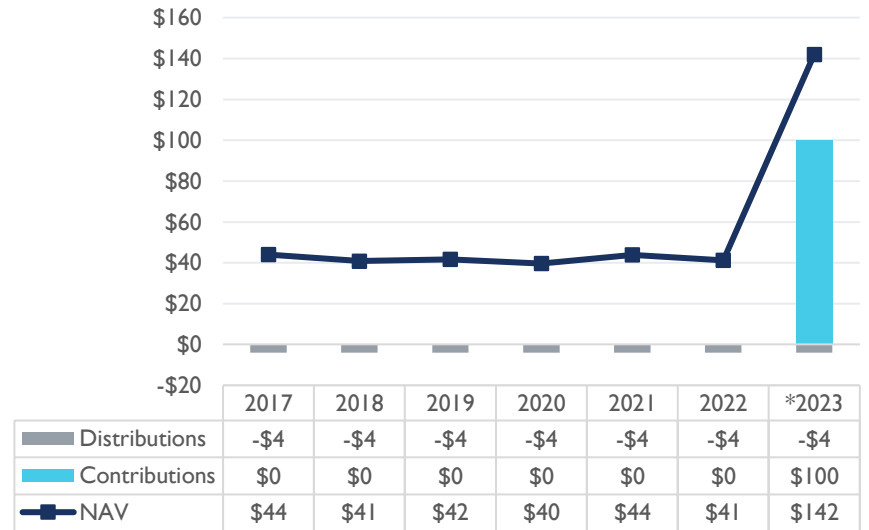
# WATER TRUST FUND

## Fund Highlights

- HB2 (2023) appropriated \$100 million to the fund in FY24
  - For years, the Water Trust Fund was on a path of terminal decline due to the fund’s aggressive spending policy relative to its size
  - The \$100M appropriation is expected to sustain the fund for many years to come and provided the Council with the opportunity to improve the long-term investment risk/return profile
- New asset allocation approved in April 2023

**Water Trust Fund Net Asset Value and Contributions**

(dollars in millions)



\* NAV as of 5/31/23 plus \$100M appropriation in July 2023

Water Trust Fund Asset Allocation			
Asset Class	Old (%)	New (%)	Diff.
Broad US Equity	10	15	5
Broad International Equity	10	15	5
Core Fixed Income	8	7	-1
Non-Core Fixed Income	8	8	--
Real Return	20	15	-5
Real Estate	22	15	-7
Private Equity	22	25	3
<b>Expected Arithmetic Return</b>	<b>7.9</b>	<b>8.0</b>	<b>0.1</b>
<b>Expected Risk (Standard Deviation)</b>	<b>9.2</b>	<b>10.0</b>	<b>0.8</b>
<b>Expected Compound Return</b>	<b>7.5</b>	<b>7.6</b>	<b>0.1</b>

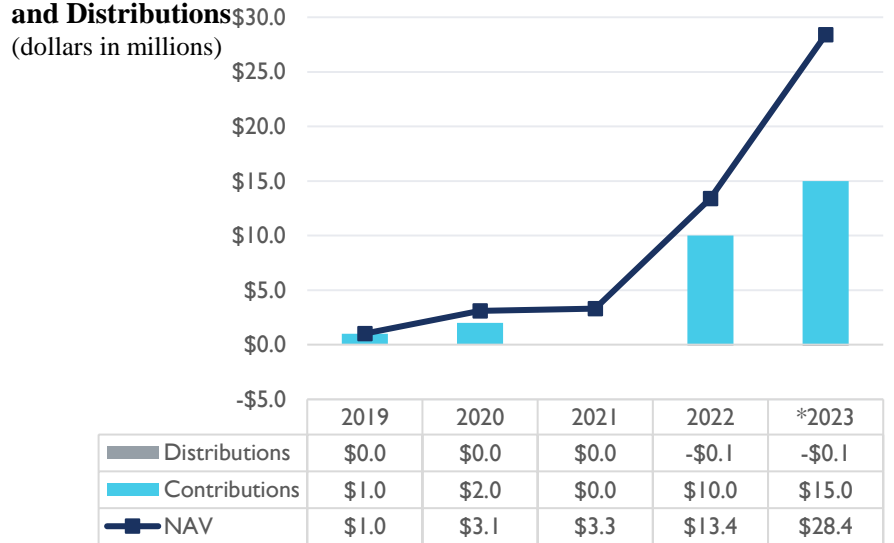
New asset allocation approved by the Council in April 2023. Expected risk and return metrics based on RVK's 2023 capital market assumptions.

# RURAL LIBRARIES ENDOWMENT FUND

## Fund Highlights

- Created in 2019, seeded with a \$1 million appropriation
  - Received additional appropriations of \$2 million and \$10 million in 2020 and 2022, respectively
- HB2 (2023) appropriated another \$15 million to the fund in FY24
- New asset allocation approved in April 2023

**Rural Libraries Endowment (RLEF) Net Asset Value, Contributions, and Distributions**  
(dollars in millions)



\* NAV as of 5/31/23 plus \$15M appropriation in July 2023

Rural Libraries Endowment Fund Asset Allocation			
Asset Class	Old (%)	New (%)	Diff.
Broad US Equity	0	15	15
Broad International Equity	0	15	15
Low Duration Fixed Income	30	0	-30
Core Fixed Income	22	7	-15
Non-Core Fixed Income	28	8	-20
Real Return	0	15	15
Real Estate	20	15	-5
Private Equity	0	25	25
<b>Expected Arithmetic Return</b>	<b>5.4</b>	<b>8.0</b>	<b>2.6</b>
<b>Expected Risk (Standard Deviation)</b>	<b>5.9</b>	<b>10.0</b>	<b>4.1</b>
<b>Expected Compound Return</b>	<b>5.2</b>	<b>7.6</b>	<b>2.4</b>

New asset allocation approved by the Council in May 2023. Expected risk and return metrics based on RVK's 2023 capital market assumptions.

# NEW FUNDS CREATED IN THE 2023 LEGISLATIVE SESSION

## Conservation Legacy Permanent Fund (CLPF)

- Created in Senate Bill 9, seeded with a \$50 million appropriation in FY24 to be managed by NMSIC
- Distributes investment income in excess of \$5 million to the newly created Land of Enchantment Legacy Fund, if the balance of the CLPF exceeds \$150 million (no distributions expected in the near- to medium-term).

## Opioid Settlement Restricted Fund (OSRF)

- Created in House Bill 527 to invest all opioid settlement revenues and receive future earnings on those revenues
- Approx. \$100 million in settlement revenues already collected, to be managed by NMSIC. Additional settlement revenues of **~\$200-\$250 million** expected in FY24. Potential for annual settlement revenues of ~\$3 million per year (per HB527 fiscal impact report).

# FROM TINY ACORNS...

- LGPF balance in 1959: \$164M
- 64-years later:
- Nominal Growth: 170x
- Inflation adjusted ~17x growth
- Fund doubled in value more than 8 times over, to \$28B today to deliver \$1.3+ billion annually

<u>STATE PERMANENT FUNDS</u>		
General Statement March 31, 1959 and December 31, 1959		
<u>INSTITUTION</u>	<u>INVESTED BALANCES</u>	
	3-31-1959	12-31-1959
New Mexico State University	\$ 1,233,902.39	\$ 1,241,587.17
New Mexico School for the Visually Handicapped	6,990,819.48	7,288,532.94
Charitable, Penal and Reform	2,681,338.97	2,847,375.27
Common School, Permanent Funds	122,006,654.37	129,231,920.50
New Mexico School for the Deaf	6,984,729.92	7,229,974.54
Eastern New Mexico University	33,379.89	33,184.66
Improvement to Rio Grande	544,634.46	598,231.41
New Mexico State Hospital	226,087.93	289,548.44
New Mexico Military Institute	5,039,503.66	5,463,194.14
Miners Hospital of New Mexico	1,857,829.46	2,012,581.24
New Mexico Highlands University	132,521.76	132,521.76
Northern New Mexico State School	178,866.12	174,846.80
Penitentiary of New Mexico	2,633,192.69	2,759,532.46
New Mexico Boys School	81,250.71	75,538.56
University of New Mexico Saline Lands	29,971.09	31,511.34
New Mexico Institute of Mining and Technology	215,017.84	228,679.15
University of New Mexico	3,175,701.65	3,538,451.03
New Mexico Western College	136,543.38	136,213.87
Water Reservoir, Permanent Fund	<u>828,472.76</u>	<u>868,517.23</u>
	\$155,010,418.53	\$164,181,942.51