



Investment Funds

The major New Mexico investment funds directly support public schools and colleges, water infrastructure and other capital outlay, public health projects, and retirement benefits for state employees and educators. In addition, because other state funds sometimes must be used when earnings fall short, all state operations are indirectly affected by how much the funds earn.

Fund Management

Three state agencies manage the majority of the public investment funds – the Educational Retirement Board (ERB), the Public Employees Retirement Association (PERA), and the State Investment Council (SIC). ERB and PERA invest their members' employee and employer retirement contributions, and the earnings on these investments offset the need for higher member contributions to meet current and future pension obligations.

SIC invests several permanent funds, including the land grant permanent fund, comprising royalties from natural resources severed from state trust land; the severance tax permanent fund, comprising tax revenue from natural resource extraction; the tobacco settlement permanent fund, comprising settlement payments from tobacco manufacturers; and the water trust permanent fund, created with legislative appropriations.

Corpus

The values of the investment funds dropped significantly during the Great Recession because of poor earnings but have since recovered. The value of the corpus, or body, of the fund is important not just because of the obvious impact it has on earnings but because smaller returns can mean a higher dependence on the general fund. For example, earnings from the land grant permanent fund support public schools and other state land trust beneficiaries, offsetting the need for general fund dollars. Returns on the tobacco settlement fund contribute to the general fund reserve, the contingency fund for budget shortfalls.

Investment Strategies

Each investment agency has adopted an investment policy that delineates its investment philosophy, mandates, target returns, and practices. Included in each agency's strategy are asset allocation targets, the mix of investment types in a portfolio that affects risk and returns. Because different

types of investments perform differently depending on market and economic conditions, careful allocation of assets can reduce the overall risk of volatility in returns. However, heavy investment in "safe" assets can reduce returns

An essential responsibility of the fund's trustees is to set a strategic asset allocation that balances expected risk and return over the long term. The investment agencies periodically conduct asset/liability studies to determine the extent to which the long-term asset allocation is consistent with the funds' liabilities, generally at least once every three years.

An investment agency's allocation strategy sets the weight (proportion within the portfolio), range, and benchmarks for each asset class. Often, the most significant factor in explaining differences in return performance is the differences among the funds' policy weights.

Depending on the asset class, investment agencies seek to maximize returns through active management. A skilled manager can potentially improve return in asset classes such as opportunistic credit and private equity. Investment agencies hire asset managers to provide expert help in maximizing investment gains.

Fund Value

In the past 10 years, which includes the Great Recession, the combined value of the four major investment funds – the land grant and severance tax permanent funds and the two pension funds – has been as low as \$27.2 billion and as high as \$45.2 billion.

For More Information:

- For more on the impact of the severance tax fund on capital outlay, see the Finance Facts on bonding and capital outlay, http://www.nmlegis.gov/Entity/LFC/Finance_Facts.
- For the quarterly investment report, visit http://www.nmlegis.gov/Entity/LFC/Money_Matters;
- The State Investment Council website is sic.state.nm.us.
- The website for the Public Employee Retirement Association is pera.state.nm.us.
- The Educational Retirement Board website is nmerb.org.