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March 23, 2020

LFC INVESTMENT REPORT FOR THE QUARTER ENDING DECEMBER 31, 2019

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) and the severance tax permanent fund (STPF).¹

INVESTMENT PERFORMANCE HIGHLIGHTS

- During calendar year 2019, the value of New Mexico's combined investment holdings for the pension and permanent funds grew by \$6.0 billion, or 12.3 percent, to end the year at \$55.1 billion. Over the last five years, the state's combined investment holdings grew \$10.3 billion, or 22.9 percent.
- One-year returns ranged from 12.75 percent (STPF) to 14.69 percent (PERA). Over the last 10 years, average investment returns ranged from 7.86 percent (PERA and STPF) to 9.34 percent (ERB).
- All funds outperformed their targets for the one-, three-, and ten-year periods. ERB also outperformed their target for the five-year period.²
- When comparing to peer funds greater than \$1 billion on a net of fees basis, all funds performed in the lowest quartile for the one-year and quarterly period, largely due to the high performance of public equity markets during this timeframe and the pension and permanent funds' lower risk positions relative to others in the peer group. Both ERB and LGPF performed above the median for the three-, five-, and ten-year periods, while PERA and STPF performed below the median for the same periods.
- Returns are expected to fall in 2020, as interest rates are near zero and equity markets turned bearish. The new challenging environment will strain state investment growth, deviating from the recent trend.

Returns as of December 31, 2019 (Net of Fees)³

Returns (%)	<u>PERA</u>		<u>ERB</u>		<u>LGPF</u>		<u>STPF</u>	
	Fund	Policy Index	Fund	Policy Index	Fund	Policy Index	Fund	Policy Index
Quarter	3.15	4.07	3.99	4.10	4.09	4.24	3.10	4.25
1-Year	14.69	18.36	14.12	14.53	14.63	15.04	12.75	15.20
3-Year	8.40	8.31	9.34	9.42	9.02	8.70	8.28	8.81
5-Year	6.21	6.69	7.52	7.35	6.84	6.80	6.51	6.88
10-Year	7.86	7.69	9.34	7.92	8.32	8.38	7.86	8.44

Note: bold indicates returns that exceed the fund's long-term target

¹ Agency performance and market environment information are derived from the investment performance reports submitted by PERA, ERB, and SIC for the quarter ending December 31, 2019.

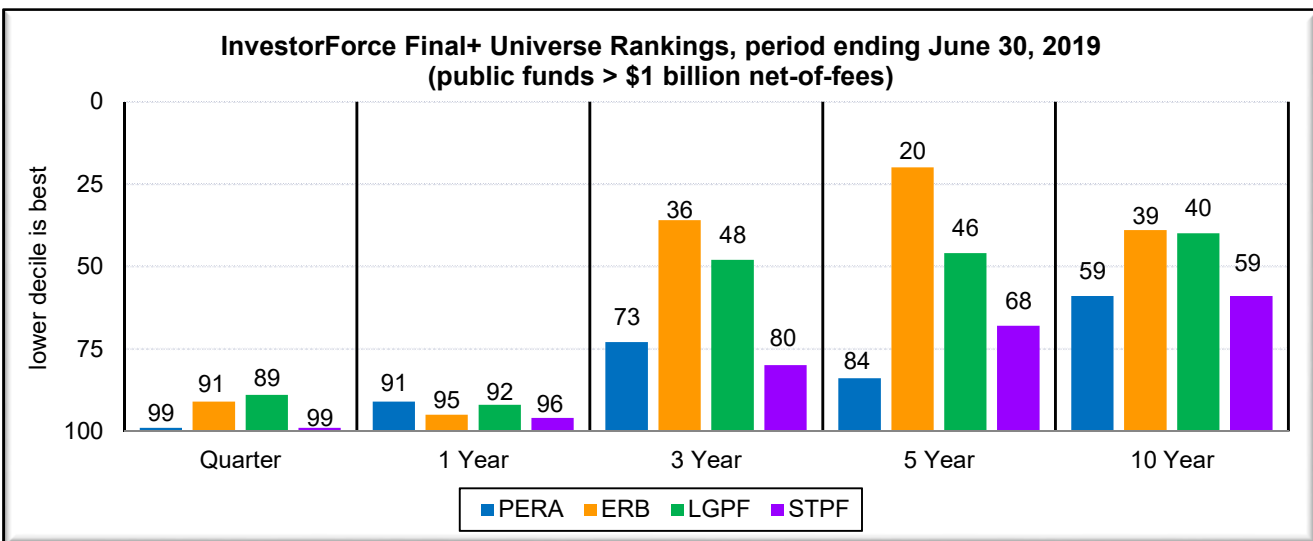
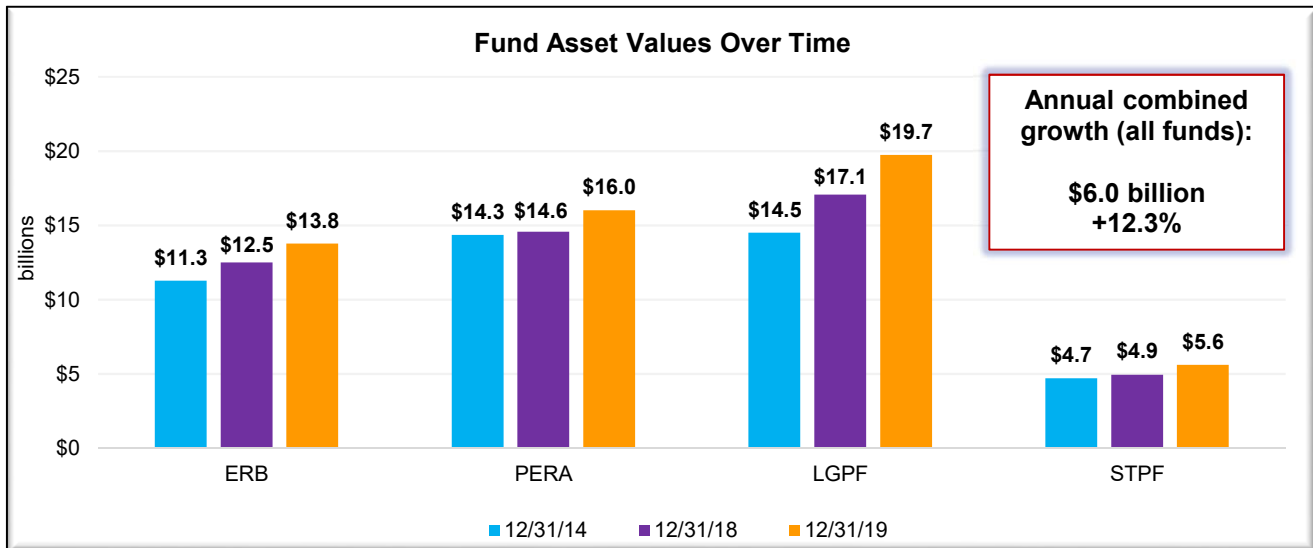
² The funds' long-term return targets are 7.25 percent (PERA), 7.25 percent (ERB), 7 percent (LGPF), and 6.75 percent (STPF).

³ A fund's policy index is a custom benchmark that shows the returns that would have been generated if a passive investor consistently followed the agency's asset allocation targets according to their investment policy.

Investment Agency Performance Dashboard

Quarter Ending December 31, 2019

This report detail 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) and the severance tax permanent fund (STPF).



Fund	ERB	PERA	LGPF	STPF
Standard Deviation*	4.8	5.6	5.3	5.4
Sharpe Ratio**	1.3	0.9	1.1	1.0
Beta***	0.4	0.4	0.5	0.5

*measures variability from the mean return; higher is more volatile

**higher numbers indicate higher return-to-risk level; a good ratio is 1 or better

***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.

**Aggregate Value
of New Mexico
Investment
Holdings**

\$55.1 billion

Source: Agency
Investment Reports