

Significant Issues

The FY02 returns for the Land Grant Permanent Fund (LGPF) and Severance Tax Fund (STPF) were -7.9 percent and -8.7 percent, respectively. The LGPF outpaced its policy target by 20 basis points while the STPF under performed its policy target by 60 basis points. US equities missed the policy target by 50 basis points due in part to the internally managed large capitalization active portfolio. Private equity for the LGPF and STPF returned -21.3 percent and -24.3 percent respectively versus a policy target of -33.3 percent.

OTHER SUBSTANTIVE ISSUES

A portion of STPF is allocated to economically targeted investments. For example, STPF may purchase certificates of deposit in New Mexico financial institutions and may purchase participations of up to 80 percent of real-estate-related bank loans. Legislation enacted in 2000 authorized SIC to invest in film ventures; currently, one movie is in production. Furthermore, pursuant to the statutes creating the New Mexico venture capital program, the state investment officer and the council are required to give consideration to investments in venture capital funds whose investments enhance the economic development objectives of the state, provided such investments offer a rate of return and safety comparable to other venture capital investments currently available. As of June 2002, STPF held \$73 million, or roughly 2.1 percent of the fund, in these non-market rate investments.

Implicit in these statutes is the notion of some sort of subsidy; without legislative imperatives, investments would be made in some other (presumably more profitable) asset class. At this point, the opportunity cost of these investments is unknown. In addition, the benefits that these subsidies generate from increased economic activity is also unmeasured.

SS/sb/njw