Money Matters
Analysis by the LFC Economists

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Investment Performance Quarterly Report, Fourth Quarter, FY21

In FY21, soaring markets resulted in record gains for state investments. Driven by the largest recorded federal stimulus, vaccine distribution, and a reopening world, a resurgent economy buoyed asset values and confidence in the economic outlook. However, the state's investments performed worse than peer funds over the fiscal year as stability and risk-aversion continue to be sought by investment management.

Investment Performance Highlights

- For fiscal year 2021, the value of New Mexico's combined investment holdings for the pension and permanent funds grew by $11.7 billion, or 22.7 percent annually, to an ending balance of $63.5 billion. Over the last five years, the state's combined investment holdings grew $19 billion, or 42.7 percent.

- In a banner year of growth, one-year returns ranged from 22.4 percent (STPF) to 28.8 percent (ERB), and average investment returns over the last 10 years ranged from 7.6 percent (PERA) to 8.6 percent (ERB).

    o Public equites were very strong, driving growth across investments with returns between 35 and 65 percent for the one-year period.

- All funds outperformed their targets for every period, when annualized.[1]

- Despite record annual growth in excess of 20 percent, when compared with peer funds greater than $1 billion on a net-of-fee basis, only ERB performed above the median for all periods, ranking near the top for the quarter. Similarly, PERA's private equity returns supported top quartile rankings for the quarter, though PERA's rankings for all other periods remain in the lowest quartile. The STPF performed near or in the lowest quartile for all periods, while the LGPF performed above the median in the quarter and ten-year periods and in the third quartile for all other periods.

Returns as of June 30, 2021 (Net of Fees)[1]

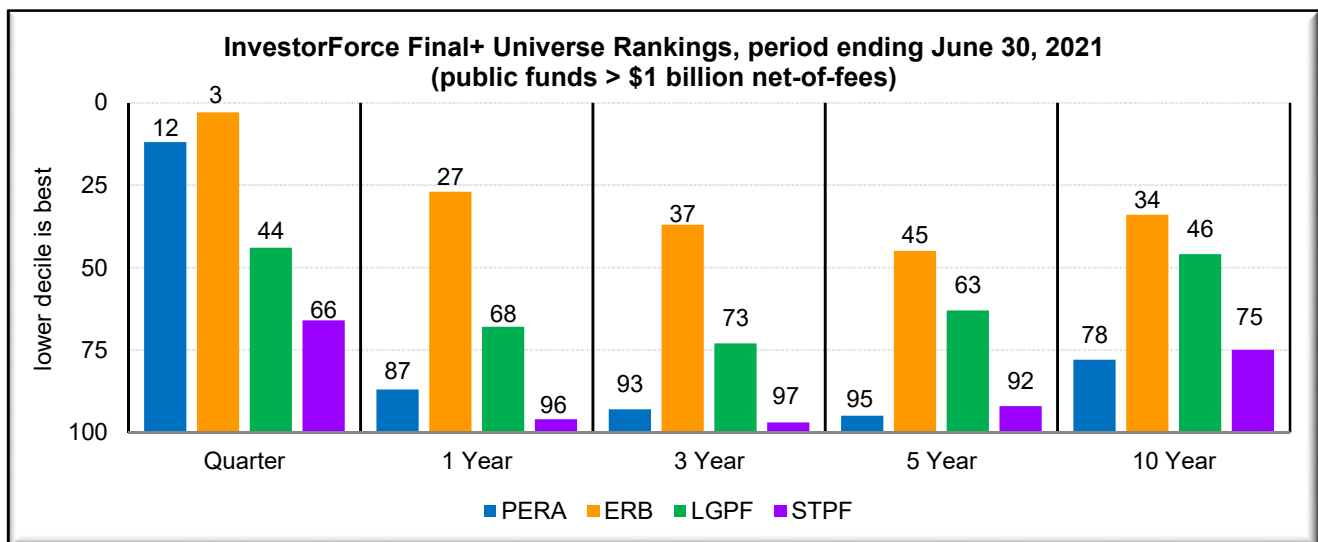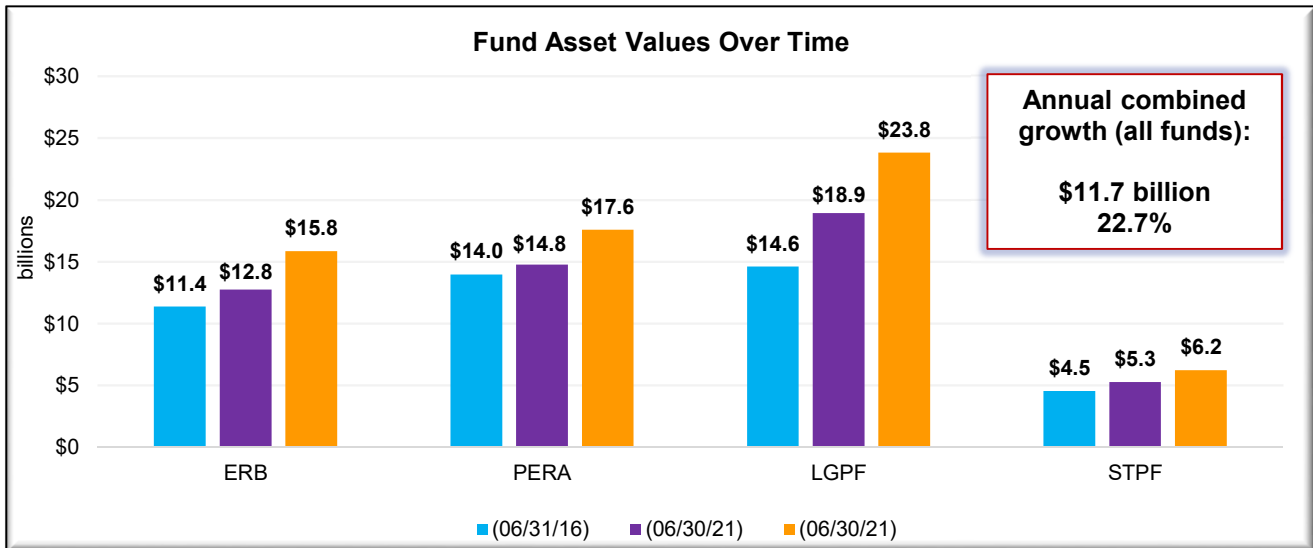| Returns (%)	PERA Fund	PERA Policy Index	ERB Fund	ERB Policy Index	LGPF Fund	LGPF Policy Index	STPF Fund	STPF Policy Index
Quarter	6.74	6.54	8.36	4.86	5.43	5.51	5.01	5.00
1-Year	**24.02**	24.17	**28.76**	24.26	**25.73**	25.20	**22.35**	23.80
3-Year	**9.12**	9.36	**11.01**	10.78	**10.04**	10.27	**8.62**	9.90
5-Year	**9.07**	8.98	**10.62**	10.56	**10.28**	10.11	**9.41**	9.95
10-Year	**7.62**	7.61	**8.61**	8.27	**8.30**	8.42	**7.70**	8.34

Note: bold indicates returns that exceed the fund's long-term target. Quarterly data is not annualized.

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

Investment Agency Performance Dashboard

Quarter Ending June 30, 2021

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 Asset Values Over Time

	ERB	PERA	LGPF	STPF
(06/31/16)	$11.4	$14.0	$14.6	$4.5
(06/30/21)	$12.8	$14.8	$18.9	$5.3
(06/30/21)	$15.8	$17.6	$23.8	$6.2

Annual combined growth (all funds):

$11.7 billion
22.7%

InvestorForce Final+ Universe Rankings, period ending June 30, 2021 (public funds > $1 billion net-of-fees)

lower decile is best

	Quarter	1 Year	3 Year	5 Year	10 Year
PERA	12	87	93	95	78
ERB	3	27	37	45	34
LGPF	44	68	73	63	46
STPF	66	96	97	92	75

Risk Profiles, Five Years Ending 06/30/21, Net of Fees				
Fund	ERB	PERA	LGPF	STPF
Standard Deviation*	6.0	6.6	8.0	7.9
Sharpe Ratio**	1.6	1.2	1.1	1.0
Beta***	0.3	0.4	0.4	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

$63.5 billion

Source: Agency Investment Reports