



Preliminary Analysis
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A One Percent Bitcoin Allocation for New Mexico's Permanent Funds: An Analysis of a Capped, Rule-Bound Position

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Executive Summary

New Mexico's permanent funds, managed by the State Investment Council (SIC), held more than \$64 billion at the close of fiscal year 2025 and are expected to distribute about \$2.56 billion to public schools, universities, early childhood programs, and the general fund in fiscal year 2026.¹ This report examines what a Bitcoin allocation capped at 1% of those assets would mean for the funds and analyzes its consequences. The allocation considered is one that the Legislature would authorize and the SIC would adopt, held through exchange-traded products, governed by a written rule that limits how much capital may ever be committed to the position, and subject to quarterly public reporting and independent review after three years.

The analysis yields five findings, each of which is supported by the evidence reviewed here.

First, the downside of a 1% position is small, known in advance, and small relative to risks the funds already carry. A 1% sleeve is about \$640 million. If Bitcoin fell 80% tomorrow, the funds would lose about \$510 million, one-fifth of a single year's distributions. A 35% decline in the funds' public equity holdings, an event of the kind seen in 2008, would cost \$9 billion, or three and a half years of distributions. Even a permanent loss of the entire sleeve, once foregone compounding is counted, reduces the funds' value in year 30 by a median of \$0.6 billion to \$0.9 billion against a baseline of about \$160 billion, and reduces year-30 annual distributions by \$28 million to \$43 million against distributions that will by then exceed \$6 billion. The worst realistic case, a collapse after a large run-up, is a shortfall of roughly \$4.4 billion in the fifth percentile of paths. These figures are bounded because a 1% position under a rule that forbids adding capital to a falling position cannot lose more than the sleeve and what the sleeve would otherwise have earned.

Second, the upside is not similarly capped. If Bitcoin earns a compound return four percentage points above public equities over thirty years, a 1% position adds \$1.5 billion to \$2.4 billion to the funds and \$66 million to \$107 million to annual distributions in year 30. If it earns 15%, a figure that discounts Bitcoin's realized 2015 to 2025 compound growth rate by 79%, the addition

is \$4 billion to \$5 billion and the position finishes below the unchanged portfolio in only 7% to 11% of simulated paths. Because the loss is bounded and the gain is not, the decision to hold a small position is a decision to pay a modest, known premium for exposure to an outcome that would materially improve what the funds can deliver to their beneficiaries.

Third, on a consistent modeling basis, a 1% Bitcoin sleeve compares favorably with the other ways the SIC could deploy the same capital. Bitcoin assumed to earn only what public equity earns outperforms an additional 1% in gold, in public equity, in real assets, and in private equity net of a 2% fee, and trails only private equity before fees, and only under the less favorable of the model's two return conventions. The SIC already accepts 25% volatility, multiyear illiquidity, and 2% fees for its private equity program. On that comparison, a liquid, daily-priced, 0.25%-fee position at 1% of assets sits within the range of risk the Council already judges prudent.

Fourth, the market infrastructure that a public fund requires now exists. Spot Bitcoin exchange-traded products have traded on national exchanges since January 2024 at 0.25% annual fees, can be held by the SIC's existing securities custodian, and carry daily net asset values suitable for GASB fair-value accounting. Bitcoin's realized volatility has fallen from above 70% in most years before 2023 to between 42% and 53% in every year since. Public and sovereign investors, including the State of Michigan Retirement System, Abu Dhabi's Mubadala, and Luxembourg's intergenerational sovereign fund, hold spot ETP positions today, and Luxembourg has adopted a 1% policy target that is the same figure examined here. The Czech National Bank has shown how a public institution can test custody, settlement, and accounting processes with a small pilot before making a policy decision.

Fifth, the results depend on the allocation staying at 1%, and they do not extend to a larger one. The modeled results scale almost exactly with allocation, so a 5% position does not change the character of the bet; it multiplies the stakes fivefold, to the point where an ordinary Bitcoin drawdown would erase a full year of distributions. No other sleeve of the portfolio concentrates that much loss in a single asset. A 1% cap keeps the position small enough that trustees can hold it through a 75% decline without pressure to abandon their own rule, and that political durability is itself a source of return in a volatile asset. Bank regulators, who face a leveraged institution's incentives rather than a permanent fund's, have set their own tolerance for Bitcoin exposure at 1% of Tier 1 capital. An unlevered fund that stays within the same figure is not taking an unusual position.

New Mexico law does not presently provide clear authority to hold Bitcoin directly or through a spot ETP. Senate Bill 275 of 2025 proposed such authority, with a 5% ceiling, and brought the question before the Legislature for the first time; it was not enacted. If the Legislature were to take up the question again, this report describes what a bill built around a 1% cap would contain: express, permissive authority for the SIC to hold up to 1% through U.S.-listed ETPs or qualified

custody, a look-through cap across all vehicles, a rebalancing rule fixed at the time of authorization, quarterly reporting, a three-year independent evaluation, and a requirement that any increase above 1% return to the Legislature. It also describes how the SIC could proceed in stages: a small operational pilot outside the policy allocation, followed by a separate Council vote on a policy allocation of up to 1%.

The funds' trajectory over the next thirty years will be set overwhelmingly by the other 99% of the portfolio and by the state's oil and gas revenue. For that reason the consequences of a 1% allocation, in either direction, would be modest relative to the funds as a whole. It is large enough to matter to beneficiaries if Bitcoin continues to be adopted, and small enough that the state can absorb its failure without consequence to any school, program, or budget.

1. How This Report Approaches the Question of Bitcoin Allocation

The question before the Legislature and the SIC is whether the permanent funds should hold a small position in Bitcoin, and if so, how large, through what vehicle, and under what rules. This report examines what a 1% position would mean for the funds, analyzes its consequences across a range of outcomes, and identifies the terms on which such a position could be held. It draws on the same body of evidence assembled in the Office's September 16, 2026 assessment: peer-reviewed finance and economics research, publications of the Bank for International Settlements, the International Monetary Fund, the European Central Bank, and the Federal Reserve, SIC and Legislative Finance Committee (LFC) documents, Securities and Exchange Commission filings, and a scenario model calibrated to the SIC's own planning assumptions. The model is summarized in the Appendix.

The report treats Bitcoin alone rather than a basket of digital assets, because Bitcoin is the asset named in the 2025 New Mexico bill and in nearly all institutional adoption to date, and because the analysis here depends on characteristics, including a fixed supply schedule, a seventeen-year operating record, and exchange-traded access, that other digital assets do not share to the same degree.

The decision standard is the portfolio-level prudent-investor rule that governs the funds under NMSA 1978 §6-8-10 and the Uniform Prudent Investor Act.^{2,3} That standard does not ask whether an asset is safe in isolation. It asks whether the asset is reasonable in the context of the whole portfolio, its liquidity needs, and its distribution obligations, and it expressly permits trustees to weigh risk, return, diversification, and the needs of beneficiaries. The standard is also one of process: trustees who document their objectives, the alternatives they considered, their sizing rationale, and their monitoring plan have met it, whatever the subsequent return. This report is written to supply that documentation.

Two things the report does not claim should be stated at the outset. It does not claim that Bitcoin is a hedge against oil prices, equity declines, or inflation. The evidence does not support those claims, and the analysis of a 1% position does not depend on them. And it does not claim to know Bitcoin's expected return. No one does. What the analysis shows is that the consequences of a position sized at 1% are asymmetric across the full range of plausible returns: its cost when Bitcoin fails is small and its contribution when Bitcoin succeeds is large. All dollar figures are nominal unless labeled real. The cutoff date for facts and figures is September 16, 2026.

2. The Permanent Funds and the Scale of the Decision

2.1 Assets, allocation, and performance

The State Investment Officer reported to the Legislature's Investments and Pensions Oversight Committee in August 2025 that the SIC managed more than \$64 billion across fourteen permanent, endowment, and reserve funds and twenty-four governmental client accounts, that assets had grown by \$8.5 billion in fiscal year 2025, and that fiscal year 2026 distributions were expected to total \$2.56 billion.¹ The LFC's fourth-quarter fiscal year 2025 report card gives June 30, 2025 balances of \$35.4 billion for the Land Grant Permanent Fund (LGPF), \$10.9 billion for the Severance Tax Permanent Fund (STPF), and \$9.6 billion for the Early Childhood Education and Care Fund (ECECF).⁴ An SIC summary for the first quarter of calendar 2026 reported total assets of approximately \$70 billion; this report's model uses the \$64 billion fiscal year 2025 year-end figure, so that a 1% allocation is stated conservatively at about \$640 million.⁵

The SIC's fiscal year 2025 investment plan set the LGPF allocation at 20% U.S. public equity, 20% non-U.S. public equity, 6% public fixed income, 15% private credit, 12% real assets, 12% real estate, and 15% private equity, with an arithmetic planning return of 7.8%, a compound planning return of 7.0%, and planning risk of 13.6% annualized.⁶ The LGPF returned 10.4% in fiscal year 2025, 9.5% annualized over five years, and 7.4% over ten years, exceeding its 7% target over every reported horizon.⁴

Table 1. Net performance and realized risk, periods ended June 30, 2025						
Fund	1 year	3 years	5 years	10 years	5-year standard deviation	5-year Sharpe ratio
LGPF	10.4%	8.6%	9.5%	7.4%	7.1%	0.9
STPF	9.3%	7.3%	7.7%	6.4%	6.9%	0.7
ECECF	10.8%	8.1%	n/a	n/a	n/a	n/a

Notes: From the LFC fourth-quarter fiscal year 2025 report card.⁴ The ECECF is too young for five- and ten-year records. Realized standard deviation is reduced by appraisal smoothing of private-market holdings.

Two features of this portfolio bear on the Bitcoin question. The first is that 54% of the LGPF is already committed to private credit, real assets, real estate, and private equity, asset classes that are illiquid, appraisal-valued, and fee-intensive. The SIC is an experienced holder of unconventional risk. The second is that the funds' realized ten-year return has been strong, which means the funds are entering this decision from a position of strength, with a large cushion above their distribution floors.

2.2 Distribution rules and beneficiaries

Distributions are governed by constitutional and statutory formulas that average fund values over several years. Article XII, Section 7 of the state constitution sets the LGPF distribution at 5% of the preceding five-year average market value, with an additional 1.25% for the Permanent School Fund share approved by voters in 2022, subject to a \$17 billion five-year-average floor.⁷ The STPF distributes approximately 4.7% of a five-year average to the general fund. The ECECF distributes 5% of a three-year average with a statutory floor of \$500 million.⁸ Public schools receive nearly 90% of LGPF distributions.⁹

Table 2. Distribution rules used in this report		
Fund	Rule	Principal beneficiary
LGPF, Permanent School Fund share	6.25% of five-year average while the additional 1.25% is in force	K-12 public education; portion directed to early childhood
LGPF, other beneficiaries	5.0% of five-year average	Universities, hospitals, other constitutional beneficiaries
STPF	About 4.7% of five-year average	General fund
ECECF	5.0% of three-year average, \$500 million floor	Early childhood programs
Tobacco Settlement Permanent Fund	4.7% of five-year average	Health programs through appropriation

The averaging formulas matter for the present question because they mean that no single year's return, good or bad, flows directly into the state budget. A sharp decline in a 1% sleeve would be spread across five budget cycles and would be diluted by the performance of the other 99% of the portfolio in each of those years. Smoothing does not restore lost principal, but it does mean that the budget consequence of any plausible Bitcoin loss would be measured in fractions of a percent of annual distributions.

2.3 The hydrocarbon linkage

The permanent funds exist to convert exhaustible oil and gas revenue into a durable financial asset base. Oil and gas account for about 99% of LGPF contributions, and the STPF and ECECF receive excess oil and gas tax revenue and federal mineral leasing royalties.^{9,8} At June 30, 2025, 39% of year-over-year growth in the three large funds came from net oil and gas inflows rather than investment return.⁴

This report does not argue that Bitcoin hedges New Mexico's hydrocarbon exposure. Quarterly correlations between Bitcoin and both West Texas Intermediate crude and an energy-equity index over 2014 to 2025 are modestly positive, between +0.2 and +0.3, and none is statistically distinguishable from zero (Section 5.4). What the evidence does show is that Bitcoin's returns are driven by factors that have nothing to do with New Mexico's existing revenue base. A fund whose contributions, and more than a third of whose recent growth, depend on a single commodity has a plain interest in holding assets whose fortunes are determined elsewhere. Bitcoin qualifies on that test, even though it does not qualify as a hedge.

2.4 Governance

The Council has eleven members: the Governor as chair, the State Treasurer, the Commissioner of Public Lands, the Secretary of Finance and Administration, the chief financial officer of a state university, four public members appointed by the Legislative Council, and two appointed by the Governor.¹⁰ Under NMSA 1978 §6-8-7, the State Investment Officer formulates and recommends investment policy for Council approval, the Council may retain investment managers and consultants, and the Council acts in noticed public meetings.¹¹ Adding an asset class would ordinarily require staff due diligence, general-consultant and risk advice, Investment Committee review, legal and audit sign-off, a Council vote amending the investment policy statement, custodian and procurement implementation, and reporting to legislative oversight committees. That process is well suited to the approach examined here, under which the Council would adopt not only a target weight but a rebalancing rule, a vehicle standard, and a reporting regime at the same time.

3. Why One Percent: The Downside Is Bounded and Small

The most important fact about a 1% allocation is that its worst case can be stated in advance. A position that is purchased once, never added to, and held through an exchange-traded product cannot lose more than the capital placed in it plus the return that capital would have earned elsewhere. This section quantifies that bound and places it beside the risks the funds already run.

3.1 A single bad day

A stress test asks what one bad event would do to the funds' balance sheet on the day it happens, without regard to its probability or to any recovery. Bitcoin has fallen 75% to 80% from peak several times in its history, so those are the right magnitudes to test.

Table 3. One-event mark-to-market losses			
Event	Bitcoin allocation	Loss (\$bn)	Multiple of fiscal year 2026 distributions (\$2.56 bn)
Bitcoin -75%	1%	0.48	0.19
Bitcoin -80%	1%	0.51	0.20
Bitcoin -80%	5%	2.56	1.00
Public equity (40% of fund) -35%	any	8.96	3.50
Public equity (40% of fund) -50%	any	12.80	5.00
Private equity (15% of fund) marked down 30%	any	2.88	1.13
Equities -40%, private equity -25%, real estate -20%, Bitcoin -75%	1%	14.51	5.67
Same combined event, no Bitcoin	0%	14.03	5.48

Notes: Losses are computed on a \$64 billion base. The combined event without Bitcoin is derived by removing the 1% sleeve's \$0.48 billion contribution from the combined row.

An 80% decline in a 1% sleeve costs the funds about \$510 million, one-fifth of a year's distributions. A 2008-style decline in public equities costs eighteen times as much. A 30% markdown of the private equity program, which the SIC funds at 15% of assets, costs nearly six times as much. In a combined market event of the kind seen in 2008 or 2022, the funds lose about \$14 billion whether or not they hold Bitcoin; the sleeve adds \$0.48 billion to a \$14 billion loss. The 1% position is not what determines whether the funds have a bad year.

The 5% row shows why this report confines its analysis to 1%. At 5%, an ordinary Bitcoin drawdown erases a full year of distributions from a single position. No other sleeve of the portfolio concentrates that much potential loss in one asset, and it is the concentration, not Bitcoin's volatility as such, that makes 5% a different kind of decision.

3.2 Permanent loss over thirty years

The stress test measures a mark-to-market decline. A more severe test is permanent loss: the sleeve goes to zero and stays there. The scenario model runs that case in two ways. In the "collapse in year 1" calculation, the sleeve is lost immediately and the shortfall thereafter is the baseline growth its capital would have earned. In the "total loss" scenario, Bitcoin follows a gold-like return path until it collapses permanently in a year drawn at random from years 1 through 30, so that the shortfall includes any appreciation that was accumulated and then lost.

Table 4. Cost of permanent loss, 1% allocation, buy-once rule (\$ billions)				
Horizon	Collapse in year 1	Total loss, median	Total loss, worst 5%	Baseline median fund value
10 years	-1.06	-0.19	-1.41	87.3
20 years	-1.57	-0.39	-2.58	118.4
30 years	-2.34	-0.61	-4.43	159.8

Notes: Total-loss figures are under the compound-fixed return convention; under the arithmetic-fixed convention the 30-year median is -\$0.91 billion. The worst-5% figure is the mean shortfall in the 5% of paths with the largest shortfall, and reflects cases in which Bitcoin appreciated substantially before failing.

If Bitcoin were to fail permanently at some point in the next three decades, the median cost to the funds in year 30 is \$0.6 billion to \$0.9 billion on a fund that will by then be worth about \$160 billion, a reduction of roughly half of one percent. The worst 5% of total-loss paths cost \$4.4 billion, or about 2.8% of the year-30 baseline, and those are paths in which the position first grew substantially and then went to zero, a sequence that the trim rule discussed in Section 6 partly protects against by realizing gains along the way. Translated to beneficiaries, total loss reduces year-30 annual distributions by \$28 million to \$43 million against distributions that will exceed \$6 billion in nominal terms (Table 8).

These are the costs of being wrong. They are real, and they should be stated plainly to trustees and to the public before any purchase. They are also smaller than the annual variation the funds already experience from ordinary market movements, and they are the price of admission to the outcomes described in Section 4.

3.3 Why the results scale, and what that implies for allocation size

Every result in the scenario model scales almost exactly with the allocation. The 5% row is roughly five times the 1% row in every scenario, for both the gain and the tail loss. That regularity has a direct implication: allocation size does not change the character of the decision, only its stakes. The question is therefore not whether Bitcoin is good or bad, but how much loss the state is willing to bear if the position fails, set against how much benefit it wishes to capture if the position succeeds.

At 1%, the answer to the first half of that question is comfortably bounded. A total loss costs a median \$0.6 billion to \$0.9 billion over thirty years and a mark-to-market crash costs a fifth of a year's distributions. At 2%, both figures double, the fifth-percentile tail loss reaches \$9 billion, and nothing about the evidence becomes more certain. At 5%, the tail loss reaches \$22 billion to \$24 billion, and a symmetric rebalancing rule of the kind institutions ordinarily use could

transfer \$16 billion to \$41 billion of the funds' other assets into a failing position over three decades. What distinguishes 1% is that it is roughly the largest allocation at which the cost of being wrong is small enough that the state could commit in advance to hold the position through its worst drawdown. That commitment, as Section 6 shows, is where much of the return comes from.

3.4 Regulators' own threshold

The Basel Committee's standard on bank cryptoasset exposures, in force since January 2026, requires banks to hold capital at least equal to their unhedged Bitcoin exposure and expects a bank's total exposure to such assets to remain below 1% of Tier 1 capital, with a hard cap at 2%.¹² Those thresholds were designed for leveraged, deposit-funded institutions whose failure has systemic consequences, and the Committee's reasoning reflects the possibility of near-total loss combined with custody, operational, and legal risk. A permanent fund has none of the leverage, none of the run risk, and none of the systemic footprint that motivated the standard. A 1% allocation places the SIC at the same figure the world's bank regulators have set as the ordinary tolerance for the most heavily supervised institutions in the financial system. The SIC would not be an outlier at 1%; it would be applying a bank-grade limit to an unlevered thirty-year portfolio.

4. What the Funds Stand to Gain

4.1 Return scenarios

Bitcoin's expected return cannot be estimated from its history. The realized ten-year compound annual growth rate from December 31, 2015 to December 31, 2025 was about 70%, and no one should plan on that continuing.¹³ The scenario model therefore does not forecast. It runs a range of return assumptions, from permanent loss to strong continued adoption, against the SIC's own portfolio, so that the question "what would it take for this to help, and by how much" can be answered in dollars. No probabilities are assigned to the scenarios; the reader supplies those.

Table 5. Bitcoin return scenarios			
Scenario	Net compound return	Equity correlation	Rationale
Total loss	Gold-like path until permanent collapse in a random year	0.35	Bounded-loss case
Slow decay	-10.0%	0.50	Persistent obsolescence without a single collapse

Gold-like	4.5%	0.10	About 2% real; a store of value with no equity premium
Equity parity	6.0%	0.35	Matches the compound return of U.S. public equity in the model; the neutral reference case
Equity plus one	7.0%	0.35	One percentage point above equity
Equity plus four	10.0%	0.35	Four points above equity; a modest adoption and scarcity premium
Discounted history	15.0%	0.30	A 79% discount to the realized 2015 to 2025 compound growth rate
Optimistic	20.0%	0.20	Strong continued adoption; deliberately favorable

Notes: All returns are nominal and net of a 0.25% annual vehicle fee. Volatility begins at 45.9%, the 2023 to 2025 realized average, and declines to 30% by year 15 in every scenario. Under the model's assumptions U.S. public equity compounds at about 6.0% and the whole baseline portfolio at about 6.9%.

Because Bitcoin's volatility is high, the way a return assumption is stated changes the answer. The model runs every scenario under two conventions, one that holds the compound return fixed (more favorable to Bitcoin) and one that holds the arithmetic mean fixed (less favorable), and reports both as bounds. The ranges in the tables below span the two.

4.2 Thirty-year results for the 1% allocation

Table 6. One-percent allocation at 10, 20, and 30 years, buy-once rule, pro-rata funding			
Scenario	Horizon	Median difference vs. no Bitcoin (\$bn)	Share of paths below baseline
Total loss	30	-0.91 to -0.61	66% to 75%
Gold-like	30	-0.08 to +0.50	41% to 52%
Equity parity	10	-0.09 to +0.24	42% to 54%
Equity parity	20	-0.01 to +0.46	39% to 50%
Equity parity	30	+0.11 to +0.75	36% to 48%
Equity plus one	30	+0.38 to +1.11	32% to 43%
Equity plus four	10	+0.20 to +0.59	31% to 43%
Equity plus four	20	+0.69 to +1.30	24% to 34%

Equity plus four	30	+1.50 to +2.38	19% to 28%
Discounted history	10	+0.64 to +1.10	21% to 30%
Discounted history	20	+1.88 to +2.61	12% to 18%
Discounted history	30	+3.98 to +5.03	7% to 11%
Optimistic	30	+7.05 to +8.19	2% to 3%

Notes: Differences are candidate minus baseline on identical traditional-asset paths, in nominal dollars after distributions. Ranges span the arithmetic-fixed and compound-fixed conventions. The baseline median at 30 years is \$159.8 billion. The slow-decay scenario at 1% runs from -\$0.6 billion at 10 years to -\$1.3 billion at 30 years.

Three points follow from Table 6.

The first is that the position is worth holding even in the neutral case. If Bitcoin earns no more than the public equities it displaces, a 1% sleeve still adds a median \$0.1 billion to \$0.75 billion by year 30. That gain is small, and Section 6 explains that it comes from the rebalancing rule rather than from the asset. But it means that the funds do not need Bitcoin to beat equities in order to avoid harm from holding it. The neutral case is roughly a wash, with a modest positive median.

The second is that a modest premium produces a meaningful result. At four percentage points above equity, a compound return of 10%, the 1% position adds \$1.5 billion to \$2.4 billion and underperforms in only 19% to 28% of paths. Ten percent is not an aggressive assumption for an asset that has compounded at about 70% a year over the last decade and whose institutional access has widened materially in the last three years. It asks Bitcoin to earn a four-point premium in exchange for volatility that begins at roughly two and a half times that of public equity, which is the ordinary trade an investor makes when accepting a riskier asset.

The third is that the favorable tail is large. At 15%, which discounts realized history by more than three-quarters, the position adds \$4 billion to \$5 billion over thirty years and finishes behind the unchanged portfolio in only 7% to 11% of paths. Those are the outcomes that an allocation of zero forecloses.

4.3 The asymmetry stated directly

Table 7. Bounded loss versus scenario gains, 1% allocation, buy-once rule (\$ billions)							
Horizon	Total loss, median	Total loss, worst 5%	Collapse in year 1	Equity parity gain	Equity plus four gain	Discounted history gain	Optimistic gain
10 years	-0.19	-1.41	-1.06	-0.09 to +0.24	+0.20 to +0.59	+0.64 to +1.10	+1.14 to +1.64
20 years	-0.39	-2.58	-1.57	-0.01 to +0.46	+0.69 to +1.30	+1.88 to +2.61	+3.26 to +4.07
30 years	-0.61	-4.43	-2.34	+0.11 to +0.75	+1.50 to +2.38	+3.98 to +5.03	+7.05 to +8.19

Notes: Total-loss medians and worst-5% figures are under the compound-fixed convention. Gains span the two conventions.

Read across the 30-year row. The median cost of Bitcoin failing outright is \$0.6 billion. The median gain if Bitcoin earns a four-point premium over equities is \$1.5 billion to \$2.4 billion, and if it earns 15% the gain is \$4 billion to \$5 billion. Even the worst realistic loss, \$4.4 billion in the fifth percentile of total-loss paths, is matched by the median gain in the discounted-history case and exceeded by the optimistic case. An investor who assigns the failure scenarios a substantial probability and the premium scenarios only a modest one still finds the expected value of the position positive, because the losses are capped at the sleeve and the gains are not.

A reader who believes Bitcoin will earn no more than equities will regard the position as roughly neutral with a small positive expectation. A reader who believes there is any meaningful chance that Bitcoin earns a premium, whether from continued institutional adoption, from its fixed supply, or from its growing role as a settlement asset, will regard the position as clearly favorable. A reader who is confident that Bitcoin will fail or decay will regard the position as a cost, though that confidence has to be reconciled with an asset that has recovered from repeated declines of 70% to 80% and compounded at about 70% a year over the decade to 2025.

4.4 What it means for beneficiaries

Table 8. Median change in annual distributions in year 30, 1% allocation (\$ millions)						
Scenario	Public schools	Other LGPF beneficiaries	General fund (STPF)	Early childhood (ECECF)	Total, nominal	Total, real (2025 dollars)
Total loss	-27 to -18	-2	-7 to -5	-7 to -4	-43 to -28	-20 to -14
Gold-like	-3 to +14	0 to +1	-1 to +4	-1 to +4	-5 to +23	-2 to +11
Equity parity	+3 to +22	0 to +2	+1 to +6	+1 to +5	+4 to +35	+2 to +17
Equity plus one	+11 to +32	+1 to +3	+3 to +8	+3 to +8	+17 to +51	+8 to +24
Equity plus four	+41 to +67	+4 to +6	+11 to +17	+11 to +17	+66 to +107	+31 to +51
Discounted history	+109 to +140	+10 to +12	+28 to +36	+28 to +36	+175 to +224	+84 to +107
Optimistic	+192 to +226	+17 to +20	+50 to +59	+49 to +58	+308 to +363	+147 to +173

Notes: Ranges span the two return conventions. Figures are the marginal change in the year-30 annual distribution, not cumulative amounts. Public schools are modeled as 90% of the LGPF at the 6.25% rate; other LGPF beneficiaries as 10% at 5%; the STPF at 4.7% of a five-year average; the ECECF at 5% of a three-year average. Real figures deflate at 2.5%.

In the equity-plus-four case, New Mexico's public schools receive \$41 million to \$67 million more each year by year 30, and early childhood programs \$11 million to \$17 million more, from a position that costs the funds \$1.6 million a year in fees. In the discounted-history case the school figure is \$109 million to \$140 million a year. In the total-loss case, schools receive \$18 million to \$27 million less. On a base of more than \$6 billion in annual distributions, none of these figures is transformative, and this report does not present any of them as revenue that can be budgeted. They are the range of what a marginal, disciplined position can add to or subtract from the funds' core purpose, and the range is weighted toward addition.

4.5 The cost of waiting

A policy of indefinite study has a cost that is easy to overlook because it never appears on a statement. If Bitcoin earns a four-point premium over equities, each decade of delay in establishing a 1% position forgoes a median \$0.2 billion to \$0.6 billion in fund value; at 15%, it forgoes \$0.6 billion to \$1.1 billion. Those are the ten-year figures in Table 6, and they are what the state gives up by deferring the decision until the evidence is more complete than it will ever be for an asset with a seventeen-year record. The institution that waits for certainty about

Bitcoin's return will wait forever, because certainty is not available. What is available is a clear statement of the bounded cost of participation and the unbounded cost of abstention. Given that statement, and given that the operational and legal work can be completed on a defined timetable (Section 10), the cost of leaving the funds at zero longer than the work requires is a real one.

5. Bitcoin as a Portfolio Asset

5.1 A distinct source of return

The academic literature has settled one question that matters for portfolio construction: Bitcoin's returns are not explained by the factors that drive the rest of the SIC's portfolio. Liu and Tsyvinski found that cryptocurrency returns over roughly 2011 to 2018 were not explained by conventional stock, currency, or precious-metal factors, while momentum and measures of investor attention had explanatory power.¹⁴ Liu, Tsyvinski, and Wu identified crypto-specific market, size, and momentum factors across the cross-section of digital assets.¹⁵ Cong, Karolyi, Tang, and Zhao link value to network activity relative to market capitalization in the largest crypto-asset data set assembled to date.¹⁶ Baur, Hong, and Lee found low correlations between Bitcoin and conventional assets.¹⁷ Bouri and coauthors found diversification benefits across a range of markets and periods, even where they did not find hedge or safe-haven properties.^{18,19}

The distinction between a diversifier and a hedge is worth keeping in view. A hedge is an asset that reliably moves against the rest of the portfolio when the portfolio falls. A diversifier is an asset that moves for its own reasons, so that its inclusion reduces the portfolio's dependence on any single source of return. Bitcoin is a diversifier. The research does not support calling it a hedge, and this report does not. But a diversifier is what a permanent fund with a 40% public equity allocation, a 54% private-market allocation, and a revenue base tied to hydrocarbons most needs. The fund does not lack assets that fall in a crisis; it lacks assets whose long-run return depends on something other than the growth of the U.S. economy, the price of oil, and the pricing of illiquidity.

The early portfolio studies found that small positions improved diversified portfolios: Brière, Oosterlinck, and Szafarz reported an optimal weight often summarized as about 3%, and Platanakis and Urquhart found that positive allocations often survived transaction costs and the 2018 decline across eight allocation strategies tested out of sample.^{20,21} Those studies used early data, when Bitcoin's appreciation was extraordinary, and this report does not rely on their weights. The point they establish is more modest and more durable: a small allocation to an asset with distinct return drivers has repeatedly improved modeled portfolios across different methods, periods, and investor types. The 1% examined here is below every positive weight reported in that literature.

5.2 The correlation objection, and why 1% survives it

The strongest empirical argument against Bitcoin as a diversifier is that its co-movement with equities has risen. An IMF working paper by Che, Copestake, Furceri, and Terracciano documents that crypto and equity cycles became more synchronized after 2020 as institutional participation grew and both markets responded to U.S. monetary conditions.²² The ECB's May 2025 Financial Stability Review finds close co-movement with technology stocks and limited diversification benefit.²³

Three responses are in order. First, the scenario model already assumes an equity correlation of 0.35 in the central scenarios and 0.50 in the slow-decay case, so the results in Section 4 do not depend on Bitcoin being uncorrelated. Second, a correlation of 0.35 with equities still leaves most of Bitcoin's return variation unexplained by the equity factor, and the academic factor research cited above confirms that the unexplained portion is systematic rather than noise. Third, and most important, the results for 1% do not rest on correlation at all. It rests on the bounded downside and the return asymmetry described in Sections 3 and 4. If Bitcoin behaved exactly like a leveraged technology stock, the arithmetic of a 1% position with a capped loss and an uncapped gain would be unchanged. The correlation evidence is a reason not to call Bitcoin a hedge, and it is part of why the results at 5% look different. It does not by itself change the results at 1%.

5.3 Bitcoin relative to the alternatives

An allocation decision is a choice among uses of the same capital. The scenario model compares a 1% Bitcoin sleeve with four alternatives a permanent fund might plausibly add, all specified on the same compound-return basis and run under the same rebalancing rule and funding.

Table 9. One-percent sleeve alternatives at 30 years				
Sleeve	Net compound return	Volatility	Median difference (\$bn)	Share below baseline
Bitcoin, gold-like	4.5%	45.9% falling to 30%	-0.08 to +0.50	41% to 52%
Bitcoin, equity parity	6.0%	45.9% falling to 30%	+0.11 to +0.75	36% to 48%
Bitcoin, equity plus one	7.0%	45.9% falling to 30%	+0.38 to +1.11	32% to 43%
Bitcoin, equity plus four	10.0%	45.9% falling to 30%	+1.50 to +2.38	19% to 28%

Gold	3.2%	15.0%	-0.76	73%
Additional public equity	6.1%	18.0%	-0.23	62%
Additional private equity, net of 2% fee	5.6%	25.4%	-0.07	52%
Additional private equity, before fee	7.7%	25.4%	+0.68	32%
Additional real assets	5.1%	14.0%	-0.40	64%

Notes: Bitcoin ranges span the arithmetic-fixed and compound-fixed conventions. Comparators have constant volatility, so the two conventions coincide. A negative median for a comparator means it underperforms the pro-rata mix of existing assets it replaces, not that its own return is negative.

Table 9 is the most direct answer to the question of whether Bitcoin belongs in the portfolio. Assumed to earn only what public equity earns, with no premium of any kind, a 1% Bitcoin sleeve outperforms an additional 1% in gold, in public equity, in real assets, and in private equity net of the 2% fee the SIC actually pays. The only comparator that beats it is private equity before fees, a return no investor receives, and it does so only under the less favorable arithmetic-fixed convention; under the compound-fixed convention Bitcoin at equity parity beats even that. With a one-point premium, Bitcoin beats every alternative in the table under the compound-fixed convention, and every alternative except private equity before fees under the arithmetic-fixed convention.

This comparison is relevant to anyone who regards Bitcoin as too speculative for a public fund. The SIC holds 15% of its assets in private equity, which the model treats at 25% volatility, which is priced by appraisal rather than by a market, which locks up capital for a decade, and which charges 2% of assets plus carried interest. The Council has judged that risk prudent for fifteen times the allocation examined here. A liquid, exchange-traded, daily-priced position at 1% of assets and 0.25% in fees, whose modeled contribution is comparable to or better than private equity's on a consistent basis, sits within the range of risk the Council already accepts.

5.4 Volatility is falling

The objection that Bitcoin is too volatile for a public fund should be tested against current data rather than against its reputation. Realized annualized volatility, computed from daily log returns of the Coin Metrics reference price, was above 70% in most years before 2023. It has been 43.2% in 2023, 52.5% in 2024, 41.9% in 2025, and 45.6% in 2026 through mid-September.¹³

Table 10. Realized Bitcoin volatility by calendar year			
Year	Annualized volatility	Year	Annualized volatility
2014	72.9%	2021	78.6%
2015	70.4%	2022	64.6%
2016	49.9%	2023	43.2%
2017	92.6%	2024	52.5%
2018	83.8%	2025	41.9%
2019	70.0%	2026 through 9/15	45.6%
2020	78.3%		

Notes: Standard deviation of daily log returns of the Coin Metrics BTC reference price, annualized by the square root of 365.¹³

Volatility in the mid-forties is still high, roughly two and a half times that of public equity. But the decline is consistent with what one would expect as an asset moves from retail speculation to institutional ownership through regulated vehicles, and it is the direction of travel that matters for a thirty-year holder. The scenario model starts volatility at 45.9% and assumes it declines to 30% by year 15. A sensitivity that instead starts at the older 70% level and holds the compound return fixed raises the 1% equity-parity median from +\$0.75 billion to +\$1.47 billion, because higher volatility gives the trim rule more to harvest. Under the less favorable convention the effect runs the other way. The point for present purposes is that the case for 1% does not depend on volatility continuing to fall; it depends on the position being small enough that current volatility is tolerable, which at 1% it is.

5.5 Bitcoin and New Mexico's oil exposure

Quarterly returns on Bitcoin, West Texas Intermediate crude, and the Nasdaq U.S. Benchmark Energy Index from 2014 through 2025 show correlations between +0.2 and +0.3, and every 95% confidence interval includes zero.

Table 11. Quarterly return correlations, Bitcoin versus energy, 2014 to 2025				
Comparator	Period	Observations	Correlation	95% confidence interval
WTI spot	2014-2025	48	+0.22	-0.07 to +0.47
WTI spot	2020-2025	24	+0.21	-0.21 to +0.57
Nasdaq U.S. Benchmark Energy Index	2014-2025	48	+0.27	-0.02 to +0.51
Nasdaq U.S. Benchmark Energy Index	2020-2025	24	+0.33	-0.08 to +0.65

Notes: Quarter-end returns from Coin Metrics (Bitcoin), the U.S. Energy Information Administration via FRED (WTI, series DCOILWTICO), and Nasdaq via FRED (NASDAQNQUSB60). Confidence intervals use the Fisher transformation.²⁴

The data do not establish any relationship in either direction. Bitcoin is not a hedge against an oil bust, and this report gives it no credit as one. Nor is there evidence that it adds to the state's hydrocarbon exposure. For a fund whose inflows are 99% dependent on oil and gas, an asset with no demonstrable relationship to oil is preferable to one, such as additional energy-sector or broad U.S. equity exposure, whose relationship to the state's revenue base is documented and positive.

6. The Rebalancing Rule Is Part of the Decision

6.1 Why the rule matters as much as the weight

Institutional portfolios are ordinarily rebalanced back to target weights, either on a calendar or when a position drifts outside a tolerance band. Applied to a volatile asset, that convention has two consequences. When the asset does well, rebalancing sells high and locks in gains for the rest of the portfolio. When the asset is failing, rebalancing repeatedly transfers capital from the rest of the fund into the failing position. The first effect is a source of return. The second is the mechanism by which a small allocation to a failed asset becomes a large loss.

The scenario model compares three rules. "Buy once" purchases the sleeve at target on day one, never adds to it, and trims it back to target when it exceeds 150% of target, returning the proceeds to the rest of the portfolio. "Tolerance band" restores the sleeve to target whenever it falls below 50% or rises above 150% of target. "Annual with stop" restores the sleeve to target every year until cumulative purchases equal the original sleeve, then stops buying permanently.

Table 12. Rebalancing rule sensitivity at 30 years, 1% allocation, regime-switching process, compound-fixed convention					
Scenario	Rule	Median difference (\$bn)	Share below baseline	Median cumulative top-up capital (\$bn)	95th-percentile top-up capital (\$bn)
Total loss	Buy once	-0.58	64.6%	0.00	0.00
Total loss	Tolerance band	-0.76	65.4%	0.51	2.66
Total loss	Annual with stop	-0.48	61.2%	0.64	0.64
Slow decay	Buy once	-1.34	91.3%	0.00	0.00
Slow decay	Tolerance band	-4.82	97.9%	3.55	9.40
Slow decay	Annual with stop	-1.95	93.2%	0.64	0.64
Equity parity	Buy once	+0.86	35.3%	0.00	0.00
Equity parity	Tolerance band	+1.81	24.4%	1.36	4.69
Equity parity	Annual with stop	+1.34	29.0%	0.64	0.64
Equity plus four	Buy once	+2.50	19.8%	0.00	0.00
Equity plus four	Tolerance band	+3.76	10.6%	1.02	3.91
Equity plus four	Annual with stop	+2.98	14.6%	0.64	0.64

Notes: Top-up capital is the cumulative amount transferred from other fund assets into the Bitcoin sleeve over 30 years. The original sleeve is \$0.64 billion at 1%.

The table shows the trade-off plainly. A tolerance band roughly doubles the gain at equity parity, from \$0.86 billion to \$1.81 billion, and cuts the probability of underperformance from 35% to 24%. In the slow-decay scenario, the same rule more than triples the loss, from \$1.34 billion to \$4.82 billion, by feeding a median \$3.6 billion and, in the worst paths, \$9.4 billion of the funds' other assets into a decaying position. The "annual with stop" rule captures most of the rebalancing benefit in the good scenarios (a median \$1.34 billion at parity, \$2.98 billion at equity plus four) while capping the funds' lifetime commitment at exactly twice the original sleeve, \$1.28 billion, in every scenario.

The evidence favors either the buy-once rule or the annual-with-stop rule, adopted in writing at the time of any authorization, over a symmetric tolerance band. The choice between the two rules is a choice about how much of the rebalancing benefit to pursue in exchange for a known and capped additional commitment. Either is defensible. What is not defensible is leaving the decision to add capital after a large decline to trustees acting under the pressure of the moment.

6.2 Where the neutral-case benefit comes from

The model separates the sources of the 1% median gain at 30 years by comparing the buy-once result to a pure buy-and-hold with no trims.

Table 13. Decomposition of the 1% median gain at 30 years, independent-years process (\$ billions)				
Convention	Scenario	Buy-and-hold contribution	Trim-rule contribution	Total median difference
Arithmetic-fixed	Equity parity	-0.55	+0.65	+0.11
Compound-fixed	Equity parity	-0.25	+1.00	+0.75
Arithmetic-fixed	Equity plus four	+0.81	+0.69	+1.50
Compound-fixed	Equity plus four	+2.09	+0.30	+2.38

Notes: The decomposition is an accounting of medians, not a path-by-path attribution.

At equity parity, the positive total comes from the trim rule: the disciplined sale of part of the position after strong years converts Bitcoin's volatility into permanent gains in the rest of the portfolio. That is a legitimate and well-understood source of return for a rebalanced portfolio holding a volatile asset, and it is one that a public fund with the SIC's governance is well placed to capture, because the rule is written down and executed by staff rather than decided in the moment. At equity plus four, most of the gain is appreciation and the trim rule adds a smaller amount on top.

The candid reading of Table 13 is that at equity-like returns the benefit is a benefit of discipline rather than of the asset, and this report says so. The implication is that the benefit depends on the rebalancing rule being adopted as part of any authorization, and on the trim being treated as a mechanical obligation rather than a judgment call. An institution that buys Bitcoin without a written trim rule forgoes the only part of the return that does not depend on Bitcoin outperforming equities.

6.3 Funding the position

The headline results fund the sleeve pro rata from all other assets. Funding from public equity is more coherent with Bitcoin's equity correlation and produces slightly better results at 1%: a median \$0.96 billion at parity (32% of paths below baseline) and \$2.56 billion at equity plus four (17% below). Funding from public fixed income produces the largest modeled gain, \$1.68 billion at parity, because it replaces the portfolio's lowest-return asset, but public fixed income is only 6% of the LGPF and supplies the liquidity from which distributions and capital calls are met. On this evidence, funding the position pro rata or from public equity, with a prohibition on any funding that takes public fixed income below its liquidity floor, is the more coherent approach.

7. The Infrastructure Exists and Others Have Used It

7.1 The vehicle

Spot Bitcoin exchange-traded products have traded on national exchanges since the SEC permitted their listing in January 2024.²⁵ The largest, including the iShares Bitcoin Trust and the Fidelity Wise Origin Bitcoin Fund, charge 0.25% annually, hold Bitcoin with specialized custodians, are treated as grantor trusts for federal tax purposes, and register their shares under the Securities Act of 1933.^{26,27} For the SIC, an ETP means exchange trading through existing brokers, custody through the existing securities custodian, a daily net asset value, position reporting through existing systems, and no private keys anywhere in state government. At a 1% allocation on \$64 billion, the 0.25% sponsor fee is about \$1.6 million a year.

Table 14. Implementation vehicles			
Vehicle	Advantages	Principal risks	Assessment
Spot Bitcoin ETP	Exchange trading; existing custody; daily net asset value; no private keys at the SIC	Single-asset grantor trust; sponsor and custodian concentration; weekend price gaps	Best-suited vehicle for an initial allocation
Direct custody	Direct ownership; avoids sponsor fee; on-chain verifiability	Key management; qualified-custodian, insurance, valuation, procurement, and audit complexity	Not appropriate for an initial allocation without a multiyear operational build
Bitcoin-linked equities	Fits existing public-equity operations	Adds management, leverage, and business-model risk; trades at premiums or discounts to underlying exposure	Measure look-through exposure; do not treat as a substitute
Futures and derivatives	Capital efficient; centrally cleared	Roll cost; leverage; collateral calls	Poor fit for a simple strategic position

The ETP route has one further advantage that deserves emphasis. The New Mexico Department of Justice's staff analysis of Senate Bill 275, while identifying investor-protection and concentration concerns, suggested that any authorized exposure be obtained through an SEC-approved spot ETP.²⁸ The vehicle examined here is the one the state's own legal staff pointed to.

7.2 Accounting and audit

GASB Statement 72 defines fair value as an exit price in an orderly transaction and generally values exchange-listed securities at observable market prices, which makes a spot ETP simple to classify and value.²⁹ GASB has issued no cryptocurrency-specific guidance, and in May 2026 elevated digital assets from a monitoring activity to a pre-agenda research activity to evaluate whether guidance could be clarified, improved, or expanded.³⁰ An exchange-listed grantor trust with a daily market price sits comfortably within existing fair-value practice in a way that direct holdings would not. The SIC would nonetheless need to obtain a written accounting position and auditor sign-off before procurement, so that confirmation rights can be written into custody and sponsor arrangements.

7.3 Custody concentration and execution

Custody concentration persists even through an ETP, because sponsors rely on a small number of crypto custodians and execution agents. An investment policy for the position would need to cap exposure by sponsor and by custodian, prohibit lending or staking of the position, and define the treatment of forks and index disruptions. A \$640 million purchase would be executed in stages, through multiple authorized counterparties, with independent best-execution review. None of these requirements is novel for the SIC, which already manages sponsor, counterparty, and concentration limits across a \$64 billion portfolio.

7.4 What other public investors have done

Table 15. Verified public and sovereign Bitcoin exposure as of September 2026			
Institution	Vehicle	Latest verified position	Relevance
Luxembourg Intergenerational Sovereign Fund	Three spot ETPs	Policy target 1%, ceiling 3%; EUR 5.87 million against EUR 749.7 million of invested assets at 12/31/2025	A sovereign intergenerational fund with a 1% policy target, the figure examined here
State of Michigan Retirement System	Spot ETP (ARKB)	300,000 shares worth \$5.84 million at 6/30/2026	A U.S. public pension holding a spot ETP through ordinary custody and reporting

Mubadala Investment Company (Abu Dhabi)	Spot ETP (IBIT)	14.72 million shares worth about \$490 million at 6/30/2026	A large sovereign investor holding a position of the same order as a 1% New Mexico sleeve
State of Wisconsin Investment Board	Spot ETPs (IBIT, GBTC)	About \$163 million at 3/31/2024; \$321.5 million at 12/31/2024; no position at 3/31/2025	Showed that a U.S. public fund can enter and fully exit a nine-figure ETP position within a year
Czech National Bank	Test portfolio of Bitcoin, stablecoins, and a tokenized deposit	\$1 million, held outside reserves, November 2025	The model for an operational pilot preceding a policy decision
Texas	Strategic Bitcoin Reserve; spot ETP	\$10 million appropriated; initial \$5 million ETP purchase, November 2025	A state treasury executing an ETP purchase under statutory authority
United States	Strategic Bitcoin Reserve (Executive Order 14233, March 2025)	Capitalized with forfeited Bitcoin	Federal recognition of Bitcoin as an asset the government holds rather than liquidates

Sources: SEC Form 13F filings; Luxembourg Ministry of Finance; Czech National Bank; Texas Legislature and press reports; White House.^{31,32,33,34,35,36,37,38}

The list is short, and this report does not pretend otherwise. Public-fund adoption of Bitcoin is early. But the precedents that exist answer the practical objections. Michigan shows that a U.S. public pension can hold a spot ETP through its ordinary custodian and disclose it through ordinary filings. Mubadala shows that a large sovereign investor holds a position of roughly the size examined here. Wisconsin, whose exit is often cited against adoption, in fact demonstrates the liquidity of the vehicle: a nine-figure position was built and fully unwound within a year, at the fund's discretion. That is what a liquid, exchange-traded asset allows, and it is a point in favor of the ETP route, not against Bitcoin.

Luxembourg is the closest analogue to the allocation this report examines. Its intergenerational sovereign fund adopted a 1% policy target with a 3% ceiling within an alternatives allocation of up to 15%, and held about 0.8% at the end of 2025.³⁵ The fund is small and young, but its decision was a deliberate strategic allocation by a European Union member state's finance ministry, taken after the ETP infrastructure was in place, and it landed on the same figure this report examines.

The Czech National Bank's approach is the model for sequencing. A February 2026 research note by Adam, Michl, and Škoda applied 2010 to 2025 and 2020 to 2025 Bitcoin history to the bank's actual reserve portfolio and found that a 1% allocation would have performed favorably in hindsight.³⁹ Rather than move directly to a reserve allocation, the bank purchased a \$1 million test portfolio in November 2025, held outside the reserve portfolio, to test legal, accounting, settlement, custody, and security processes over two to three years.³⁸ New Mexico could do the same at a scale that is trivial for the funds and complete for the processes: even 0.10% of assets is \$64 million, enough to exercise every step a policy allocation would require.

7.5 Industry and consultant research

BlackRock's December 2024 paper found that a 1% to 2% Bitcoin position contributes portfolio risk comparable to a single large technology stock in a 60/40 portfolio, and that larger positions contribute disproportionate risk.⁴⁰ BlackRock sponsors the largest spot ETP, and its paper should be read as the analysis of an interested party. But its central finding is a risk-budget observation that can be checked against any portfolio, and it points to the same conclusion as the scenario model: low single digits are the range in which Bitcoin's contribution to total risk is ordinary, and 1% is at the conservative end of that range. Fidelity Digital Assets makes the case for Bitcoin as an alternative diversifier.⁴¹ Cambridge Associates, a consultant rather than a product sponsor, found that small allocations improved a traditional portfolio historically while stressing that custody failure and poorly timed entry can erase gains, both of which the ETP vehicle and the staged entry described here address.⁴² Callan reports that direct, policy-level allocations remained uncommon among institutional clients in 2025 and that indirect exposure through managers was more typical.⁴³ The approach examined here has the SIC take the position directly, in the open, with a written rule and public reporting, rather than acquiring it indirectly through managers whose Bitcoin exposure the Council does not control.

7.6 The federal environment

Federal policy toward digital assets changed materially after 2024. Spot ETPs were approved in January 2024. In 2025 the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board each withdrew guidance that had discouraged banks from providing custody and related services.²⁵ Executive Order 14233 of March 2025 established a Strategic Bitcoin Reserve capitalized with forfeited Bitcoin and provided that Bitcoin deposited in the reserve be held rather than sold.³⁶ None of this guarantees a favorable regulatory environment for thirty years, and an investment policy would need to require an annual legal refresh. But the direction of federal policy has removed most of the access friction that made public-fund adoption impractical before 2024, and the state would be acting within, not ahead of, the federal framework.

8. Legal Authority and the Elements of an Authorizing Statute

8.1 Current law

Three sources of law govern what the SIC may hold. Article XII, Section 7 of the state constitution makes the Council the investment authority for the permanent funds, incorporates prudent-investor principles, and imposes specific limits: not more than 65% of the book value of a fund may be invested in corporate stocks, not more than 10% of the voting stock of any single corporation may be held, and eligible stocks must be listed on a national exchange or otherwise nationally recognized.⁷ NMSA 1978 §6-8-10 requires that investments under the SIC's enabling statute follow the Uniform Prudent Investor Act.³ The Act, at NMSA 1978 §§45-7-603 and 45-7-604, requires prudent administration of the portfolio as a whole and permits consideration of risk, return, liquidity, diversification, and the needs of beneficiaries.²

None of these provisions mentions digital assets. The prudent-investor standard is broad enough that portfolio-level ownership of a small Bitcoin position could be argued to fall within it, and the constitution's limits on corporate stocks are limits on a category rather than an exhaustive list of what the funds may own. But the leading spot ETPs are commodity grantor trusts registered under the Securities Act of 1933, not investment companies or corporations, and their fit within the constitutional language is not clean. No formal opinion from the Attorney General or SIC counsel addresses the question. The Department of Justice's staff analysis of Senate Bill 275 identified ambiguity between "Bitcoin" and broader digital assets, flagged concentration and investor-protection concerns, and suggested the ETP route; a staff analysis is not an Attorney General opinion.²⁸

Table 16. Legal assessment by vehicle

Vehicle	Current-law assessment	Required before implementation
Spot Bitcoin ETP	Exchange-listed and simple to custody, but a 1933 Act grantor trust rather than a corporate stock; constitutional classification is unsettled	Express statutory authority; formal counsel on constitutional classification; approved vehicle criteria; policy target and range
Direct Bitcoin custody	Prudent-investor standard may support portfolio-level ownership in principle; Bitcoin is neither a corporate stock nor a conventional security	Express statutory authority; formal opinion of the Attorney General or SIC counsel; custody and procurement authority; accounting and audit design
Bitcoin-linked public equities	Ordinary listed corporate stock fits existing equity authority	Look-through measurement of exposure; recognition of operating and leverage risk

This report's assessment is that if the state were to hold Bitcoin at all, the ambiguity points toward doing so under express legislation rather than existing authority. The prudent-investor standard is a standard of process, and avoidable legal ambiguity is exactly the kind of defect that would be probative in any later challenge. Express statutory authority removes it. A constitutional amendment is not demonstrably required on the present record, and counsel would need to confirm that view before any trade.

8.2 Building on Senate Bill 275

Senate Bill 275 of the 2025 regular session would have permitted up to 5% of the LGPF, STPF, Tobacco Settlement Permanent Fund, and any other state fund the SIC deemed appropriate to be invested in Bitcoin through direct holdings, qualified custody, or regulated ETPs.⁴⁴ The bill was not enacted, but it put the question of Bitcoin exposure for the permanent funds on the legislative agenda, and the August 2025 presentation to the Investments and Pensions Oversight Committee kept it there through the interim.⁴⁵ That work has value for the present analysis. The Department of Justice's staff analysis of the bill, the interim committee's record, and the public discussion the bill prompted have already identified the legal, vehicle, and concentration questions that any authorization must answer, and the framework below takes those questions as its starting point.

The framework that follows describes what an authorization built around the allocation analyzed in this report would contain. It differs from Senate Bill 275 chiefly in scale and in the amount of implementation detail it fixes in statute. It sets the cap at 1% rather than 5%, the level at which the analysis in Sections 3 and 4 finds the cost of an adverse outcome small enough for the state to commit in advance to hold the position. It sequences ETP exposure ahead of direct custody so that the state gains operational experience before taking on key management. And it writes the rebalancing rule, the look-through cap, and the reporting regime into the authorization itself, so that the SIC and the public know from the outset how the position will be managed. Each of these elements is consistent with the purpose of the 2025 bill.

8.3 Elements of an authorization

Table 17. Elements an authorizing statute and investment policy would contain	
Element	Content
Express, narrow authorization	Define Bitcoin specifically; authorize exposure through U.S.-listed spot ETPs, and through qualified custody only after a Council finding of operational readiness; set an aggregate look-through cap of 1% of assets across all vehicles; name the eligible funds
Permissive, not mandatory	The SIC retains portfolio-level discretion and may remain at 0%; no purchase is required by any date

Vehicle and custody criteria	U.S. exchange listing; institutional segregated custody; independent controls reporting; audited financials; insurance disclosure; no lending or staking of the position
Risk and liquidity budget	Cap sponsor and custodian concentration; prohibit funding that takes public fixed income below its liquidity floor; fund pro rata or from public equity
Rebalancing rule fixed at authorization	Buy-once or annual-with-stop; no symmetric tolerance band; review rather than automatic liquidation after legal, operational, or market-structure triggers
Transparency	Quarterly publication of market value, cost, fees, look-through exposure, sponsor and custodian, risk contribution, realized and unrealized results, and distribution effect
Evaluation and reauthorization	Independent evaluation after three years; any increase above 1% requires new legislation

A bill drafted on these lines would give the Legislature the certainty that the position cannot grow beyond 1% without its consent, would give the SIC the discretion the prudent-investor standard requires, and would give the public the information needed to judge the result.

9. Objections and Responses

A report that analyzes a position should state the best arguments against it. This section takes the principal objections in turn.

Bitcoin has no cash flows and therefore no fundamental value. Bitcoin generates no rent, interest, or dividends, and the theoretical literature is clear that its price is loosely pinned down. Schilling and Uhlig show that in the simplest equilibrium the relative price of an intrinsically valueless currency follows a martingale; Biais and coauthors find that extrinsic volatility is quantitatively important; Cheah and Fry's bubble tests imply a zero fundamental value within their model.^{46,47,48} But Cong, Li, and Wang formalize adoption dynamics in which network growth raises token value, and Biais and coauthors give Bitcoin a fundamental component through expected transactional benefits.^{47,49} The absence of cash flows is a reason not to value Bitcoin with a dividend discount model. It is not a reason to assign it zero value: gold has no cash flows either and has been held by central banks for centuries. The practical response is that the position is sized so that a zero terminal value costs the funds a median \$0.6 billion to \$0.9 billion over thirty years, and that the scenario model includes that outcome explicitly.

Bitcoin is not a safe haven and fell with equities in March 2020. Correct, and this report does not claim otherwise. Conlon and McGee found that Bitcoin fell with the S&P 500 in the COVID-19 selloff, Kristoufek found gold superior in the relevant episodes, and Klein, Thu, and Walther rejected the "digital gold" analogy for safe-haven purposes.^{50,51,52} The results for 1% reported here rest on the bounded loss and the return asymmetry, and it holds regardless of how Bitcoin

behaves in the worst week of a crisis, because a 1% position's contribution to a crisis loss is small (Table 3).

The modeled benefit at equity-like returns comes from the rebalancing rule, not from the asset. Also correct, and Section 6 says so. The response is that a benefit of discipline is still a benefit, that the rule is written and mechanical, and that the SIC is exactly the kind of institution that can execute it. More important, the results for the position do not rest on the neutral scenario. It rests on the fact that the neutral scenario is roughly a wash, the failure scenarios are cheap, and the premium scenarios are valuable. An investor who requires every scenario to be favorable before taking any position will hold nothing but Treasury bills.

The literature's "optimal" allocations are artifacts of early data. The range of published optimal weights, from zero to above 10%, is a statement about assumptions more than about the asset, and most studies rely on Bitcoin's early years. This report does not use those weights. Its 1% figure comes from the loss-bearing analysis in Section 3, from the risk-budget observation that 1% to 2% contributes risk comparable to a single large stock, and from the regulators' own 1% threshold. It sits below every positive optimal weight in the published literature and well below the 5% ceiling in New Hampshire's enacted statute.⁵³

Institutional adoption is thin and Wisconsin exited. Verified public-fund holdings are few and small, and this report does not overstate them. Wisconsin's exit shows that a Form 13F position is not a policy commitment, which is why this report examines a policy commitment, in statute and in the investment policy statement, rather than a manager-level trade that can be reversed on a quarter's notice. Reserve managers remain unmoved: OMFIF's 2025 survey of more than seventy central banks found none holding digital assets and 93% with no intention to do so.⁵⁴ But central banks hold reserves for liquidity, convertibility, and intervention, and Powell's statement that the Federal Reserve Act does not permit the Fed to hold Bitcoin is a statement about legal mandate, not expected return.⁵⁵ Permanent funds hold assets for thirty-year real return. The official sector's own analysis of custody, loss absorption, and operational risk transfers to the SIC and is incorporated in the framework here; its conclusion that Bitcoin does not belong in a foreign-exchange reserve does not.

Retail investors have mostly lost money. A BIS working paper estimates that roughly three-quarters to four-fifths of retail users who bought Bitcoin between 2015 and 2022 lost money, depending on the purchase assumption.⁵⁶ That finding is about entry timing and trading behavior in a cyclical asset, and it is an argument for exactly the approach described here: a single, staged entry at a fixed weight, no additions after declines, mechanical trims after gains, and a thirty-year horizon. The retail losses documented by the BIS are the losses of investors who did the opposite.

Mining consumes electricity and produces emissions. The Cambridge Centre for Alternative Finance's 2025 survey estimated 138 terawatt-hours of annual electricity use, 39.8 million tonnes of CO₂-equivalent emissions, and a sustainable-energy share of 52.4%.⁵⁷ Ownership of an ETP gives the SIC no control over which miners validate its holdings, and this report makes no environmental claim for the position. If policymakers wish to treat decarbonization as a non-pecuniary constraint on the funds, that constraint would need to be stated explicitly and applied consistently across Bitcoin, data centers, hydrocarbons, infrastructure, and portfolio-company emissions. A fund that draws 99% of its contributions from oil and gas is not well placed to exclude a 1% position on emissions grounds alone.

A visible loss would be politically damaging. A \$500 million mark-to-market loss on a public fund would draw attention, and trustees should expect it. The response is that a position of this size is one whose loss can be absorbed, disclosed, and held through without any consequence to beneficiaries, and that the rebalancing rule removes the decision about what to do next from the political moment. The political risk is real at 5%, where a drawdown erases a year of distributions and trustees would face enormous pressure to sell at the bottom. At 1%, the loss is a fifth of a year's distributions spread across five budget cycles, and the written rule answers the question of what to do about it before it is asked.

The SIC does not need this. The LGPF has exceeded its 7% target over every reported horizon, and the funds are growing rapidly on oil and gas inflows. That is true, and it is the strongest argument for considering the question now rather than later. A fund under pressure to hit its return target is a fund that will be tempted to oversize a speculative position. A fund entering from strength can adopt a 1% position, write down its rule, and hold it through a full cycle without ever needing it to work. The time to establish a small position in a volatile asset is when the institution can afford to be patient.

10. Conclusion

10.1 What the evidence shows

The allocation examined here would take the form of express, permissive authority for the State Investment Council to hold Bitcoin through U.S.-listed spot exchange-traded products, and through qualified custody after a Council finding of operational readiness, up to an aggregate look-through cap of 1% of assets, on the terms set out in Table 17. The evidence reviewed here indicates that a position on those terms would carry a bounded cost if Bitcoin fails and a material benefit if it succeeds. Such an authorization would fix the rebalancing rule, require quarterly public reporting, provide for an independent evaluation after three years, and require new legislation for any increase above 1%.

Under such a framework, the SIC could proceed in stages, each gated on the completion of the one before.

Table 18. A staged path to a 1% policy allocation			
Stage	Exposure	Gate	Indicative timing
Stage 0: authorization and preparation	0%	Enactment of express authority; formal counsel on vehicle classification; consultant capital-market review; auditor accounting position; custodian and ETP request for information; risk-budget and beneficiary analysis; public workshop	Through the 2027 regular session
Stage 1: operational pilot	0.10% to 0.25%	Test execution, reconciliation, audit, reporting, trim mechanics, and incident response on a position sized for learning rather than return	Two to four quarters after enactment
Stage 2: policy allocation	Up to 1%	Separate Council vote amending the investment policy statement; buy-once or annual-with-stop rule; pro-rata or public-equity funding; staged execution; quarterly public reporting	On successful completion of Stage 1
Evaluation	Up to 1%	Independent evaluation after three years; reauthorization required for any increase	Three years after Stage 2

The Czech National Bank's \$1 million test portfolio, held outside its reserve portfolio for the express purpose of testing processes, is the model for Stage 1.³⁸ For New Mexico, even 0.10% is \$64 million, so a pilot can be far smaller than the policy question and still exercise every process a policy allocation would require. The indicative timing is offered to make the point that the sequence can be completed in about two years and does not require an open-ended study.

10.2 The decision in proportion

Sizing an allocation to an asset whose return cannot be forecast is a decision about tolerable regret. The evidence reviewed here shows that the regret from a 1% position, if Bitcoin fails, is a median \$0.6 billion to \$0.9 billion over thirty years and at worst about \$4.4 billion, on a fund that will by then be worth about \$160 billion. It shows that the regret from holding nothing, if Bitcoin earns a modest premium over equities, is \$1.5 billion to \$2.4 billion, and if it earns roughly a fifth of its historical rate, \$4 billion to \$5 billion, with corresponding annual losses to public schools of \$41 million to \$140 million a year by year 30. It shows that on a consistent basis a 1% Bitcoin sleeve compares favorably with every other use of the same capital that the SIC might

plausibly consider. And it shows that the infrastructure, the accounting framework, the legal route, and the institutional precedents needed to hold the position responsibly all now exist.

The funds' trajectory will be determined overwhelmingly by the other 99% of the portfolio and by the state's oil and gas revenue. For that reason the consequences of a 1% allocation, whichever way Bitcoin goes, would be modest relative to the funds as a whole. It is large enough to matter to beneficiaries if Bitcoin continues to be adopted, and small enough that the state can absorb its failure without consequence to any school, program, or budget. If the Legislature and the Council were to authorize it, the evidence indicates that the results depend on writing down the rule in advance and holding the position through the cycle.

Appendix: Model Specification

The scenario model referenced throughout this report is the one specified in the Office's September 16, 2026 assessment. Its core inputs are summarized here.

Table A1. Core inputs	
Input	Value
Starting assets	\$64.0 billion at June 30, 2025
Baseline allocation	20% U.S. equity; 20% non-U.S. equity; 6% public fixed income; 15% private credit; 12% real assets; 12% real estate; 15% private equity (LGPF fiscal year 2025 targets)
Baseline arithmetic return	7.75% nominal (asset-class assumptions chosen to reproduce the SIC's 7.8% planning return)
Baseline risk	13.6% annualized, matching the SIC's planning risk
Traditional-asset tail process	Student-t with 5 degrees of freedom; single-year returns bounded at -70% and +80%
Bitcoin return process	Gaussian annual log returns, correlated with the equity factor at the scenario correlation; single-year returns bounded at -95% and +300%
Bitcoin volatility	45.9% in year 1 (2023 to 2025 realized average), declining linearly to 30% in year 15, constant thereafter
Bitcoin fee	0.25% annually
Return conventions	Compound-fixed: cross-path mean log return centered on $\ln(1 + \text{CAGR})$ each year. Arithmetic-fixed: cross-path mean simple return centered on $\exp(\ln(1 + \text{CAGR}) + 0.5 \times 0.30 \text{ squared}) - 1$ each year
Rebalancing	Buy once (trim above 150% of target; never add) as default; tolerance band (50% to 150%) and annual-with-stop (cumulative purchases capped at the original sleeve) as sensitivities. Traditional assets rebalance among themselves annually
Distributions	4% of the trailing five-year average total value, paid annually; no contributions
Inflation	2.5%, used only to express distribution effects in real terms
Paths	10,000 paired paths; fixed seed

Table A2. Baseline capital-market assumptions		
Asset class	Arithmetic return	Volatility before scaling

U.S. public equity	7.5%	17.0%
Non-U.S. public equity	8.0%	19.0%
Public fixed income	4.5%	6.0%
Private credit	7.5%	10.0%
Real assets	7.0%	14.0%
Real estate	7.0%	14.0%
Private equity	10.5%	24.0%

Notes: Volatilities are multiplied by a common factor of 1.058 so that the baseline portfolio's standard deviation equals 13.6%. Planning correlations: equities 0.82 with each other and 0.75 to 0.78 with private equity; bonds near zero with equities and 0.35 with private credit; real assets and real estate 0.45 to 0.55 with equities.

Table A3. Baseline portfolio with no Bitcoin, nominal assets after distributions (\$ billions)					
Horizon	5th percentile	25th percentile	Median	75th percentile	95th percentile
10 years	40.0	64.7	87.3	116.2	173.1
20 years	37.6	76.0	118.4	178.3	312.9
30 years	41.0	91.5	159.8	265.5	532.3

Sensitivity checks reported in the source assessment found that replacing independent annual returns with a two-state regime-switching process calibrated to 2014 to 2025 calendar-year returns moves the 1%, 30-year medians by \$0.1 billion or less; that drawing Bitcoin's returns with Student-t tails moves them by less than \$0.1 billion; and that the annual autocorrelation of Bitcoin's log returns implied by the regime process is only +0.035, so the independent-years assumption is not badly wrong for a model that steps annually.

Every difference reported in this report is candidate minus baseline on identical traditional-asset paths, in nominal dollars after distributions. The share of paths below baseline is the fraction of paired paths in which the candidate portfolio ends below the 0% baseline on the same shocks. The worst-5% figure is the mean paired difference in the 5% of paths with the largest shortfall. Annual distribution change is the marginal difference in the year-30 payment under the smoothed formulas, not a cumulative amount. The model does not capture exchange failure,

fraud, protocol failure, or regulatory change except through the stylized total-loss and slow-decay scenarios; it excludes future oil and gas inflows and statutory changes; and it is suitable for risk-budget discussion rather than for booking an expected fiscal gain. Before any investment decision, SIC staff would need to rerun the analysis with the consultant's current assumptions, account-level cash-flow forecasts, and actual vehicle costs.

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