

Thoughts from the State Investment Officer, regarding possible consolidation of investment-related functions of STO, SIC, ERB & PERA

Overview:

The state of New Mexico has more than \$35 Billion in institutional investment funds managed by four completely separate and segregated entities. PERA, ERB, SIC and STO have different boards, different clients, and in part, different governing statutes, and all operate on a wholly independent basis.

The funds all have different contribution sources and distribution requirements. As such, investment strategies, practices and long-term goals at ERB & PERA often have nuanced contrasts in comparison to the Permanent Funds managed by the SIC. Another notable difference is the legislature's authorization of certain differential rate and economically targeted investments (ETIs) in the Severance Tax Permanent Fund. The Treasurer's Office is focused primarily on short term investments.

At the core, however, the SIC, PERA & ERB have the same mission: long-term growth of the funds through superior returns, to be achieved through professional, prudent and ethical investment practices.

Could consolidation of current and future investment operations with these entities provide additional efficiencies and improved investment performance? Could a newly created or reconstituted entity function at a higher level than what currently exists, while overcoming fundamental differences in institutional operations, including those that are investment-related as well as those which are not?

A few points to consider:

- An objective analysis of this matter, as requested by the Investments Oversight Committee, is a beneficial and worthy exercise, and whether ultimately executed or not, can provide benefits to all of the state's investment agencies as they evolve and strive to improve.
- Initial assessment of the consolidation concept should **not** be vetted by the legislature, the executive or the individual agencies and boards potentially impacted. This analysis will be most appropriately and effectively conducted by a qualified external and expert third party, which can best assess the varied facts and agency views as they are thoroughly presented by SIC, ERB, PERA, STO and any other relevant investment agencies, while excluding any other considerations or influences other than achieving investment industry best practices and serving the state well.
- Implementation of investment-related best practices and superior stewardship must be the overarching goals, not cutting costs or reducing head count.
- Long-term potential benefits must be given weight over short-term challenges and difficulties.
- Politics and territorial hierarchies must be disregarded to achieve improved institutional effectiveness.
- Application of statutory and constitutional remedies will be required to facilitate any operational changes and will require thorough planning, prior to implementation.
- "Outsourcing" or segregation of ETI management/oversight should be considered to reduce distraction and maintain the proper focus on investment goals for any consolidated operations.
- Consideration must be given as to how to minimize any potential transitional impact on administrative and client services currently provided by the agencies.