



NEW MEXICO STATE  
**INVESTMENT  
COUNCIL**

**2021**

REPORT TO STAKEHOLDERS





# TABLE OF CONTENTS

- The State Investment Council ..... 2
- Sovereign Wealth Funds (SWFs)..... 3
- NM SIC Rank Among National & World SWFs..... 4
- Message from the State Investment Officer ..... 5
- Land Grant Permanent Fund Beneficiaries Chart..... 6
- Assets: The Permanent Funds ..... 7
- The Land Grant Permanent Fund Distribution Chart ..... 8
- The Land Grant Permanent Fund (LGPF)..... 9
- Severance Tax Permanent Fund Distribution Chart..... 10
- The Severance Tax Permanent Fund (STPF) ..... 11
- 5-Year Distribution Figures for the LGPF & STPF ..... 12
- The Tobacco Settlement Permanent Fund & The Water Trust Fund ..... 13
- Other Funds & Reserves ..... 14
- Investments: An Overview ..... 15
- NM SIC Investment Sourcing Process Chart ..... 16
- Investments/Assets: Public & Private Equity Investments ..... 17-18
- New Mexico Businesses ..... 19
- SBIC, NM Recovery Actions, and Pandemic Response..... 20
- SIC Governmental Clients..... 21-22
- SIC Members ..... 23
- SIC Committees & Staff ..... 24
- Public Records Requests ..... 25



## THE STATE INVESTMENT COUNCIL

The New Mexico State Investment Council (SIC) is a Sovereign Wealth Fund (SWF) that manages the investments for New Mexico's four permanent funds: the Land Grant Permanent Fund, the Severance Tax Permanent Fund, the Tobacco Settlement Permanent Fund, and the Water Trust Fund.

**As of 2021, New Mexico's permanent funds, governmental investments, endowments, and reserve funds managed by the SIC are valued at \$31 billion.** These assets provide substantial benefits to New Mexico in various ways, most significantly being the more than \$1 billion in school funding and tax savings the Land Grant and Severance Tax Permanent Funds deliver to New Mexicans every year.

The SIC is an institutional investor, receiving public dollars, in the form of taxes on natural resources and income from sales and leases of public lands and minerals, and those funds are invested on behalf of the people of New Mexico. The surplus created by the state's oil and gas revenues resulted in the creation of the SIC, which was established in 1958.

The SIC is the fiduciary body overseeing the state's permanent funds. A fiduciary is a trustee, bound by legal and ethical responsibility to manage a trust's assets, while acting solely in the best interests of the trust's beneficiaries. The SIC is the "fiduciary" for its client—the State of New Mexico and its citizens. Its investment model emphasizes a portfolio comprised largely of diversified performance-oriented assets.

In addition, **the SIC manages the investments for 23 New Mexico governmental entities, which currently boast a combined value of \$1.5 billion.**

More recently, the Legislature placed New Mexico's Tax Stabilization Reserve, and two important state endowment funds under the Council's oversight. The Tax Stabilization Reserve—now valued at more

than \$1.6 billion—is available for use during times of budgetary crisis and otherwise helps the state maintain a strong credit rating. Two newly created endowments—the Early Childhood Trust and Care Fund, and the Rural Libraries Endowment Fund—will grow over time while concurrently providing annual benefits to the state's 50+ smallest rural libraries, and New Mexico's youngest learners and their families.

The SIC is focused on optimizing the earnings of New Mexico's permanent funds—funds that contribute to the state's overall operating budget—while preserving and growing the real value of the funds for future generations of New Mexicans.

These permanent funds impact the state in many ways:

- Annually, the permanent funds provide a significant amount of money to the state's budget, the majority of which, about 85 percent, is dedicated to public education. **In Fiscal Year (FY) 2022, the funds will provide \$1.155 billion to the state's general fund and beneficiaries (the total of which is equivalent to 15 percent of the state budget).**
- **The value of the funds has grown by 31 percent—over \$8.5 billion—in the last five years, while also providing nearly \$5 billion to the state.**
- **Investments from the Land Grant Permanent Fund earned an average of 7.9 percent over the past five years, above its long-term return target of 7.0 percent.**
- **As the value of these funds increases, the amounts they contribute to the state budget also increase.**
- On average, the **permanent funds save each New Mexico household about \$1,270 in taxes every year.** The permanent funds are a legacy for which all New Mexicans can be thankful, because not only do they provide income to help fund the state's expenses, but they also save taxpayers money.

## SOVEREIGN WEALTH FUNDS (SWFs)

New Mexico's permanent funds are Sovereign Wealth Funds (SWFs). SWFs generally consist of government money that has been set aside for investment purposes to benefit that government's economy and citizens, often in perpetuity. SWFs typically come about when a government has a budgetary surplus and little or no debt. Because it's not always possible to keep this extra money as a liquid cash asset, or channel it into the marketplace, many countries and more than a few states in the U.S. have created these SWFs to manage these savings for investment purposes. There are currently about 50 countries that have SWFs, and more than a dozen states with SWFs (Texas has two—the only state with more than one SWF).

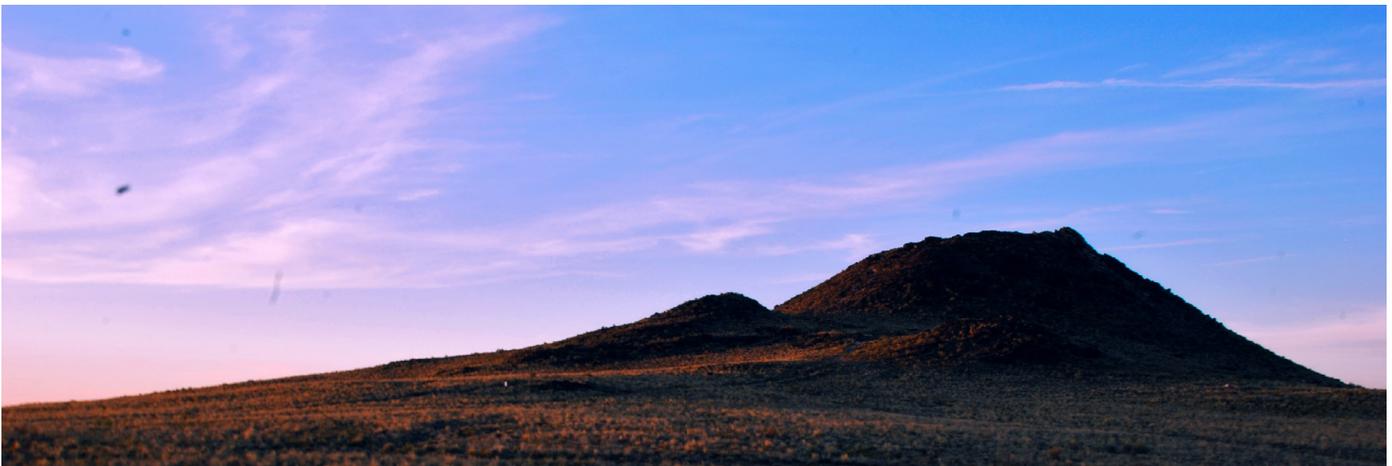
Norway has the world's largest SWF, with assets totaling over \$1.1 trillion. Alaska has the largest single SWF in the U.S., with approximately \$67 billion in assets, while **New Mexico's SWF ranks third.** (Texas, with its two SWFs, ranks second in overall assets.) And whereas Alaska gives each of its citizens an individual dividend each year (in 2020 each resident received a check for \$992), in New Mexico, the investments from the SIC permanent funds allows the state to **provide substantial government services, which would otherwise be funded by tax dollars. These benefits create an average tax savings that is roughly equivalent to \$500 annually for every man, woman, and child in our state.**

Sovereign wealth funds are commonly designed to spend the investment earnings for a specific public purpose (most of the money earned from

SIC investments goes toward public education), or for a purpose that benefits multiple generations of citizens. The goal, therefore, is to pay it forward to assure intergenerational equity: to provide somewhat equal benefits for current and future generations of New Mexicans.

As a SWF, the SIC provides the state or other specified beneficiaries with many benefits, including:

- Independence from other state financial or political institutions.
- Governance and management by fiduciaries (a trustee—and/or organizations—that puts the beneficiary's interests first).
- Receipts generated by commodity leases, sales, or taxes (typically oil and gas).
- Fulfillment of desired financial objectives through long-term investments.
- Investments in diverse asset classes (these asset classes traditionally include investments in stocks, bonds, or real estate, among others).
- Savings that can be used to fund government services and ensure intergenerational equity.
- Budget planning and stabilization for policy makers.
- Income for public education, specialty schools, state universities, public hospitals, water infrastructure, public buildings, and prisons.



# NEW MEXICO STATE INVESTMENT COUNCIL RANKING AMONG U.S. AND GLOBAL SOVEREIGN WEALTH FUNDS AS OF 2020\*

## SWF

## ASSETS

1—Norway Government Pension Fund Global .....	\$1,289,460,000,000
2—China Investment Corporation .....	\$1,045,715,000,000
3—Abu Dhabi Investment Authority.....	\$649,175,654,400
4—Hong Kong Monetary Authority Investment Portfolio.....	\$580,535,000,000
5—Kuwait Investment Authority .....	\$533,650,000,000
6—GIC Private Limited (Singapore).....	\$453,200,000,000
7—Temasek Holdings (Singapore) .....	\$417,351,000,000
8—Public Investment Fund (Saudi Arabia) .....	\$399,451,000,000
9—National Council for Social Security Fund (China) .....	\$372,068,000,000
10—Investment Corporation of Dubai .....	\$301,527,000,000
...	
18—Alaska Permanent Fund Corporation .....	\$67,349,300,000
23—Texas Permanent School Fund.....	\$48,468,388,606
24—University of Texas Investment Management Co .....	\$48,400,000,000
<b>31—New Mexico State Investment Council .....</b>	<b>\$31,000,000,000</b>



\*Source: Sovereign Wealth Fund Institute

## Message from the State Investment Officer

Our permanent endowments continue to perform encouragingly well, despite the many challenges of the past year. The fact that the SIC has maintained the returns it has for so long, ensuring New Mexico's fiscal well-being, stands as a testament to those who have steadfastly nurtured this legacy.

When talking with our stakeholders, and even in casual conversations with our peers in other states and investment agencies around the globe, the details below are what stand out most:

- **The Council has grown its assets by more than \$15 billion since April 2010; while also distributing more than \$8.5 billion to the state general fund and LGPF beneficiaries (primarily schools).**
- **New Mexico has the third-largest sovereign wealth fund in the United States (\$31 billion) and one of the largest in the world (in the top 35).**
- As directed by the SIC's original mandate, **about three-quarters of the annual \$1 billion+ benefits goes toward funding for public education.**
- The SIC's annual contributions to the State make up, on average, 15 percent of New Mexico's operating budget—**saving each New Mexico family more than \$1,270 in taxes each year.**
- During Fiscal Year (FY) 2020, **assets under management increased by approximately \$2.4 billion.**
- In FY 2020, **the Land Grant and Severance Tax funds distributed about \$1.01 billion to the State and to our beneficiaries.**
- The **FY 2022 distributions are projected to increase to approximately \$1.15 billion**; this additional distribution of \$80 million is a record increase year-over-year.
- In March 2020, the Council acted quickly in support of New Mexico businesses hit hard by the COVID-19 pandemic, authorizing **a \$100 million low-cost loan program for qualified borrowers.**
- **We manage approximately \$1.46 billion for 23 New Mexico government-related clients.**
- The legislature allocated approximately \$1.6 billion to three fairly new funds managed by the SIC: the Tax Stabilization Reserve, Early Childhood Education, and Rural Libraries funds, which, as of January 2021, had balances of \$1.52 billion, \$306 million, and \$3 million, respectively.

The SIC and our professional staff are committed to observing the highest fiduciary and trustee standards. Despite the pandemic, for example, the SIC quickly adapted: maintaining its due diligence, transitioning to remote operations, shifting its meetings from in-person to telephonic and online (still open to the public—albeit remotely).

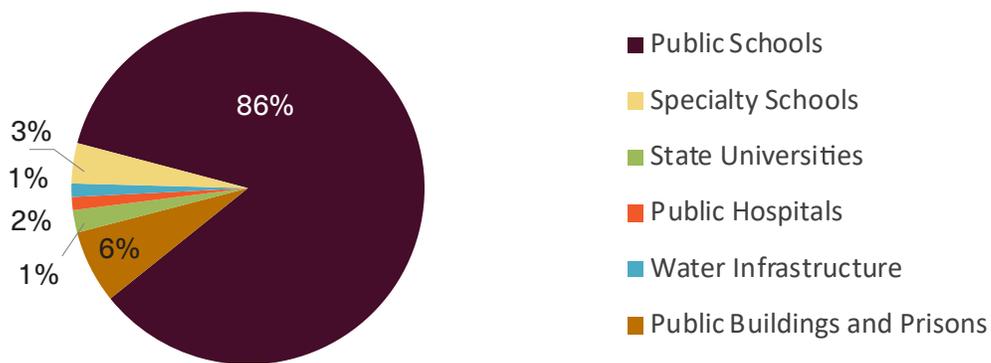
We take tremendous pride in what we do, but more importantly, for whom we are doing it: the current and future citizens of our remarkable Land of Enchantment.



**Steven K. Moise**  
State Investment Officer

# LAND GRANT PERMANENT FUND BENEFICIARIES

Institutions	Percentage	January 2021 Monthly Distribution
<b>Public Schools</b>	<b>86.28%</b>	<b>\$60,137,835</b>
New Mexico Military Institute	2.824%	\$1,968,898
NM School for the Deaf	1.680%	\$1,172,298
NM School for the Blind and Visually Handicapped	1.680%	\$1,170,005
NM Boys School (CYFD)	0.004%	\$3,206
<b>Specialty Schools Total:</b>	<b>6.189%</b>	<b>\$4,314,407</b>
University of New Mexico	1.186%	\$826,528
New Mexico State University	0.363%	\$253,054
New Mexico Institute of Mining and Technology	0.165%	\$115,406
Eastern NM University	0.066%	\$46,242
Western NM University	0.021%	\$15,045
NM Highlands University	0.021%	\$14,970
Northern NM College	0.017%	\$12,233
<b>State Universities Total:</b>	<b>1.839%</b>	<b>\$1,283,478</b>
DHI Miners Hospital	0.765%	\$533,433
NM Behavioral Institute (State Hospital)	0.329%	\$229,722
Carrie Tingley Hospital	0.001%	\$808
<b>Public Hospitals Total:</b>	<b>2.19%</b>	<b>\$763,963</b>
Water Reservoirs	0.848%	\$591,638
Improvement of the Rio Grande	0.189%	\$132,144
UNM Saline Lands	0.0408 %	\$ 28,486
<b>Water Infrastructure Total:</b>	<b>1.228%</b>	<b>\$752,268</b>
Public Buildings	1.130%	\$788,093
NM State Penitentiary	1.704%	\$1,188,295
Charitable and Penal Reform	0.677%	\$472,471
<b>Public Buildings and Prisons Total:</b>	<b>3.511%</b>	<b>\$ 2,448,859</b>
<b>Total LGPF monthly distribution:</b>	<b>100%</b>	<b>\$69,700,812</b>



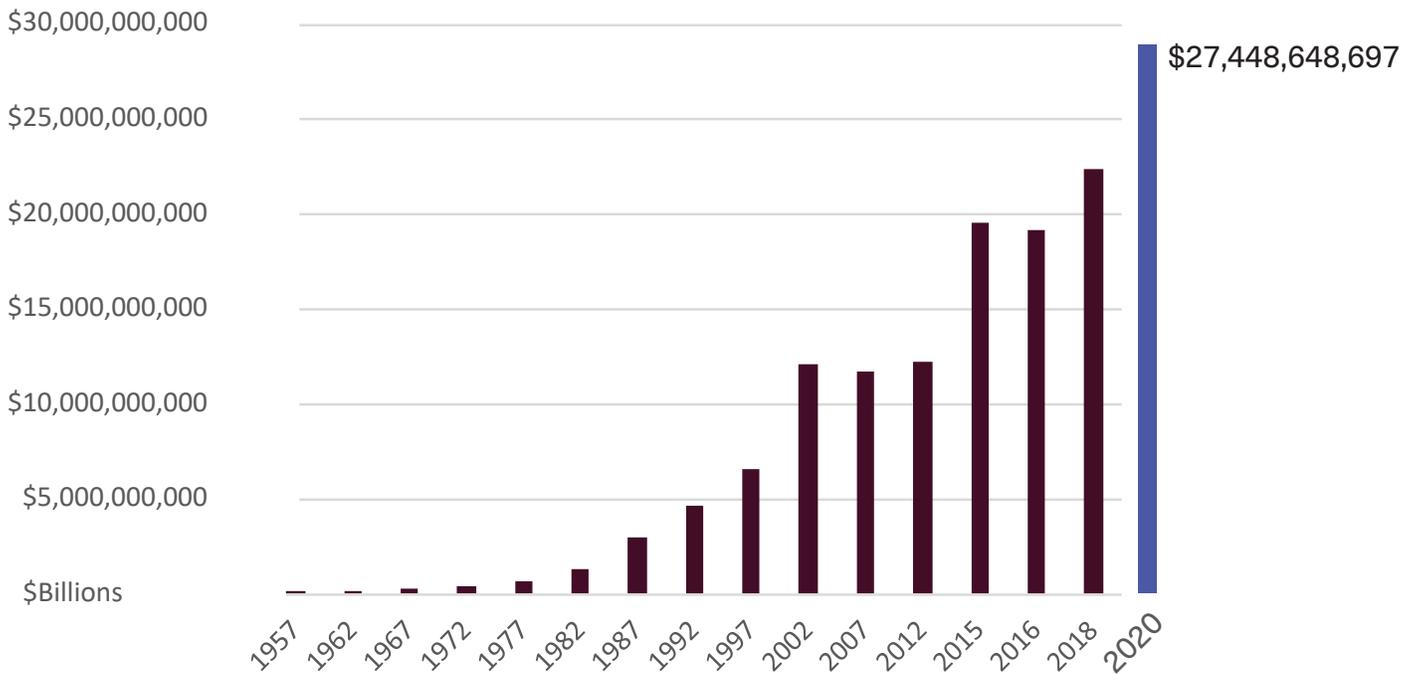
# ASSETS: THE PERMANENT FUNDS

As of 2020, the total assets under the care of the SIC totaled \$31 billion. These include the state's four permanent funds and other assets:

- **The Land Grant Permanent Fund (LGPF)**
- **The Severance Tax Permanent Fund (STPF)**
- **The Tobacco Settlement Permanent Fund (TSPF)**
- **The Water Trust Fund (WTF)**

Ongoing, periodic contributions made to these funds (which come from certain state taxes, appropriations, and other revenues) are allocated to the SIC, which then invests these monies into an institutional-quality, well-diversified investment portfolio. This process allows New Mexico to transform a sometimes volatile, finite revenue stream—from its natural resources—into a permanent income-producing endowment.

## GROWTH OF THE LGPF and STPF



# LAND GRANT PERMANENT FUND

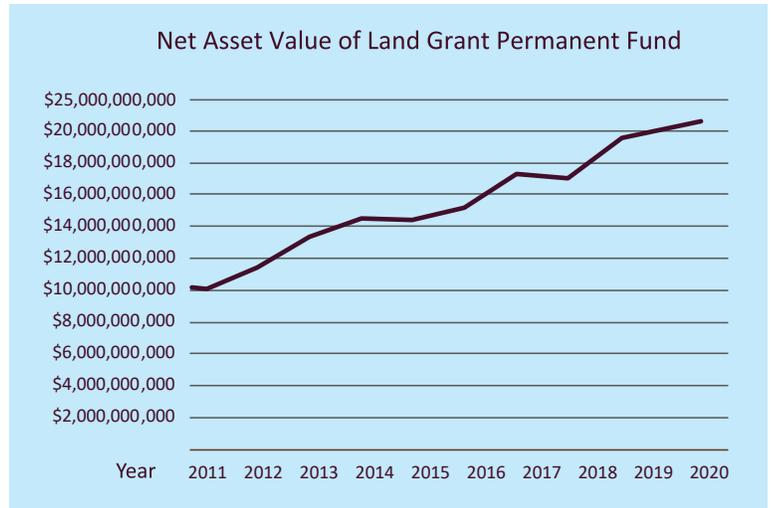
The Land Grant Permanent Fund is derived from 13 million acres of land granted by the United States to the Territory of New Mexico under the Ferguson Act of 1898 and the Enabling Act of 1910. These state trust lands are held in perpetual trust for 21 designated beneficiaries. Revenues created by these lands are constitutionally protected in this permanent endowment and invested by the State Investment Council.

**1 Royalties from oil and gas** production on New Mexico state trust lands provide 95% of the inflows to the LGPF.

## State Land Office Inflows to LGPF

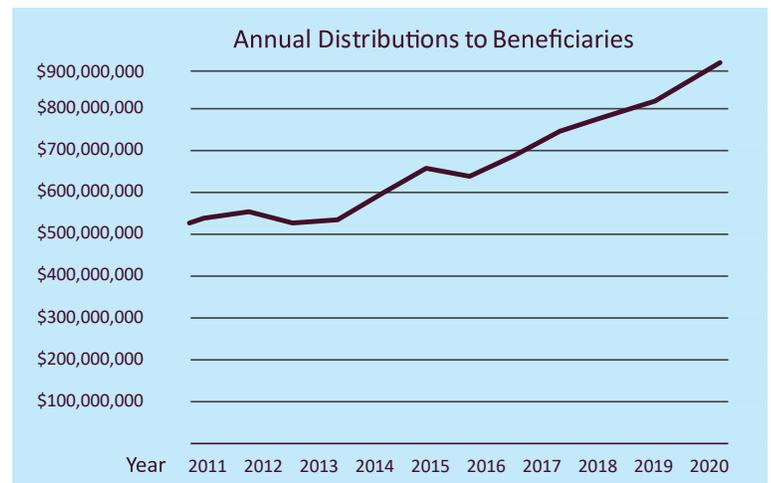
Year	Inflows
2011	\$476,009,029
2012	\$508,705,012
2013	\$618,740,005
2014	\$783,549,025
2015	\$519,415,531
2016	\$370,890,983
2017	\$490,428,539
2018	\$804,123,740
2019	\$940,854,237
2020	\$917,606,442
<b>Total</b>	<b>\$6,430,322,543</b>

**2 Net Asset Value** Land Grant Permanent Fund as of Dec 31, 2020.



**3 Distribution Formula** Established by New Mexico Constitution.

**4 Distributions to the Beneficiaries** Public schools receive approximately 86% of the distributions generated by the Land Grant Permanent Fund. For Fiscal Year 2022, \$781,375,136 of the \$908,375,136 in projected distributions will fund public schools.



## THE LAND GRANT PERMANENT FUND (LGPF)

The Land Grant Permanent Fund (LGPF) was created by the federal government through a combination of the Ferguson Act of 1898 and the Enabling Act of 1910. The two acts transferred millions of acres of land to our state as New Mexico entered the Union in 1912.

The LGPF lands are held in trust by the New Mexico State Land Office, which manages 9 million surface acres and 13 million mineral acres on state trust lands in 32 counties. The LGPF (in essence, the SIC) takes the royalties collected by the State Land Office and makes investments with these monthly contributions while also distributing monthly earnings payments to the general fund and LGPF beneficiaries. Through prudent fiscal management by the SIC, the fund grows and produces investment income.

Approximately 86 percent of the money sent out from the LGPF directly benefits New Mexico's public schools. The remaining 14 percent of this money is divided among 20 other designated beneficiaries (state schools and universities, three hospitals, and other entities). **In FY 2022, the fund will deliver approximately \$908 million to beneficiaries.** As of 2021, the **LGPF has a balance of approximately \$21.6 billion.**

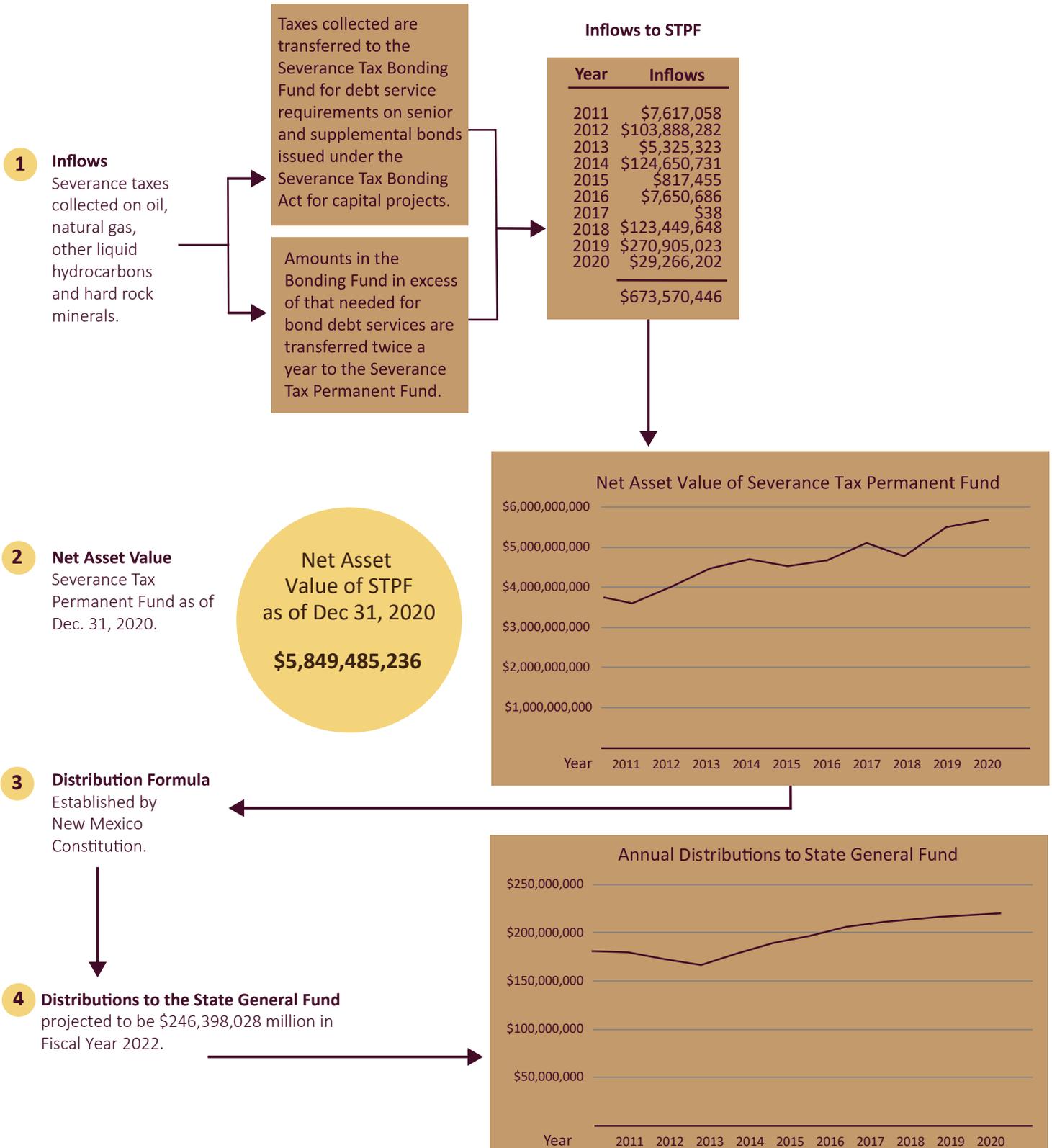
The total distribution amount earned from these SIC investments changes yearly, based on the constitutional formula that requires the distribution of 5 percent of the five-year average market value of the LGPF.

As the fund grows, so do the distributions—and the benefits to New Mexico and its citizens. The principal is held in perpetuity, and while it grows, so does the investment income it produces for education and the state's budgetary needs.



# SEVERANCE TAX PERMANENT FUND

The Severance Tax Permanent Fund was established as a constitutionally protected permanent endowment in 1976, to receive and invest severance taxes collected on natural resources extracted from New Mexico lands.



## THE SEVERANCE TAX PERMANENT FUND (STPF)

In 1973, using the “excess” severance taxes collected from the extraction of natural resources (oil, gas, and minerals), New Mexico lawmakers established the Severance Tax Permanent Fund (STPF). This act, ratified by constitutional amendment in 1976, allowed the state to take the taxes collected from the extraction and sale of New Mexico’s natural resources (oil, gas, and minerals) and apply that revenue toward the state’s General Fund. In 1983, the SIC was given the responsibility of managing the STPF, and an additional constitutional amendment removed any legislative authority to draw appropriations from this permanent fund.

Today, earnings from the fund provide more than \$240 million to New Mexico’s State General Fund every year for legislators to spend on state priorities.

The **STPF, which has a balance of approximately \$5.8 billion, has paid out \$1.997 billion over the past 10 years (FY2012-FY21).**

However, due to the rather complicated process involved in transferring the severance taxes to the STPF (and to changes that have affected the state’s oil and gas industry), this fund faces more challenges than the LGPF. Despite the challenges to its growth over the past several years, the STPF, as managed by the SIC, continues to distribute hundreds of millions of dollars each year to its sole beneficiary: the state’s general fund.

The SIC, because of its prudent investment strategies, has managed to grow annual distributions from the fund, despite the fact that the STPF has not received consistent and substantive contributions. **In FY 2022, the STPF will deliver more than \$246 million to the general fund. As of the end of 2020, the STPF has a balance of approximately \$5.8 billion.**



### **LGPF Distributions to Beneficiaries: 2016-2020**

<b>Fiscal Year</b>	<b>Distribution</b>
2016	\$655,785,169
2017	\$638,074,458
2018	\$689,190,724
2019	\$747,542,992
2020	\$784,249,920
<b>Total:</b>	<b>\$3,514,843,262</b>

### **STPF Distributions to Beneficiaries: 2016-2020**

<b>Fiscal Year</b>	<b>Distribution</b>
2016	\$193,509,941
2017	\$200,442,327
2018	\$210,377,644
2019	\$220,621,474
2020	\$225,258,444
<b>Total:</b>	<b>\$1,050,209,830</b>

### **LGPF and STPF Combined Distributions to Beneficiaries: 2016-2020**

<b>Fiscal Year</b>	<b>Distribution</b>
2016	\$849,295,109
2017	\$838,516,785
2018	\$899,568,368
2019	\$968,164,465
2020	\$1,009,508,364
<b>Total:</b>	<b>\$4,565,053,091</b>

## **THE TOBACCO SETTLEMENT PERMANENT FUND (TSPF)**

The Tobacco Settlement Permanent Fund (TSPF) was created in 2000 as part of a settlement between tobacco companies and several states, including New Mexico. Unlike the other permanent funds, the TSPF is considered a state reserve fund and lacks constitutional protection from legislative appropriation; its earnings are reinvested and it does not make annual distributions at this time. (A state's reserve funds are usually set aside as emergency funds to be used in an economic downturn or budgetary shortfall.)

Initially, the TSPF was expected to receive half of the annual tobacco settlement payments to the state and to eventually grow into a revenue-generating endowment. However, fiscal demands over the past two decades have led lawmakers to intercept most new inflows to the fund. Of the \$887 million in settlement money that the fund has received since 2000, \$728 million has been appropriated or withdrawn to meet other legislative priorities. Despite these challenges, the fund was valued at approximately \$262 million in 2020, due to investment earnings and compounding interest.

## **THE WATER TRUST FUND (WTF)**

The Water Trust Fund (WTF) was created in 2006 with an initial legislative appropriation of \$40 million, and received another \$15 million in 2007. By law the fund distributes \$4 million annually to the state's Water Trust Board, which authorizes spending these and other state funds on various water infrastructure projects around New Mexico.

In order to remain sustainable over time, the WTF will need additional capital. Without an additional infusion of capital or a restructuring of its current distribution requirements, the fund is likely to run out of money in 20 years.





## **OTHER FUNDS AND RESERVES**

### **Tax Stabilization Reserve (TSR)**

In 2019 the SIC assumed management of the State's so-called "rainy day fund." The Council invests the TSR in a conservative, highly liquid fashion in accordance with the Uniform Prudent Investor Act. Investment gains are reinvested into the fund, which also receives monies from specified oil and gas revenues collected by the state during years of above-average production. The TSR helps the state better cope with fiscal challenges during times of economic distress, and these reserves help improve the state's credit rating.

### **Early Childhood Education and Care Fund**

This \$300 million endowment was created in February 2020 by the legislature and Governor

Michelle Lujan Grisham to support the growth of early childhood education in New Mexico. In FY 2022, the fund will distribute \$20 million to the Early Childhood Education Department, and thereafter will distribute to the department at least \$30 million, or 5% of the 3-year-average value of the fund, whichever is greater.

### **Rural Libraries Endowment Fund**

This fund, created by the legislature in 2019, supports the preservation, development, and establishment of rural libraries throughout the state. The fund was created with an appropriation of \$1 million and now has a \$3 million balance, with additional funding expected in the future. When the endowment begins distributions in FY 2022, it will provide annual funds to 50+ rural libraries throughout New Mexico.

## INVESTMENTS: AN OVERVIEW

The SIC strives to preserve and grow its permanent funds, so that future generations can enjoy the same or greater benefits than those who benefit today. The SIC's goals dictate our investment strategy, as well as the level of risk we take in trying to achieve those goals.

Our current annual investment return target is 7 percent for the Land Grant Permanent Fund and 6.75 percent for the Severance Tax Permanent Fund. These targets were set by the Council in October 2015. The Council believes these returns can be achieved over time through a balanced portfolio of diversified investment strategies with different degrees of correlation and risk. Accordingly, the SIC invests primarily in two types of assets: public equity and private equity (in a sense, companies that are publicly owned and companies not publicly owned).

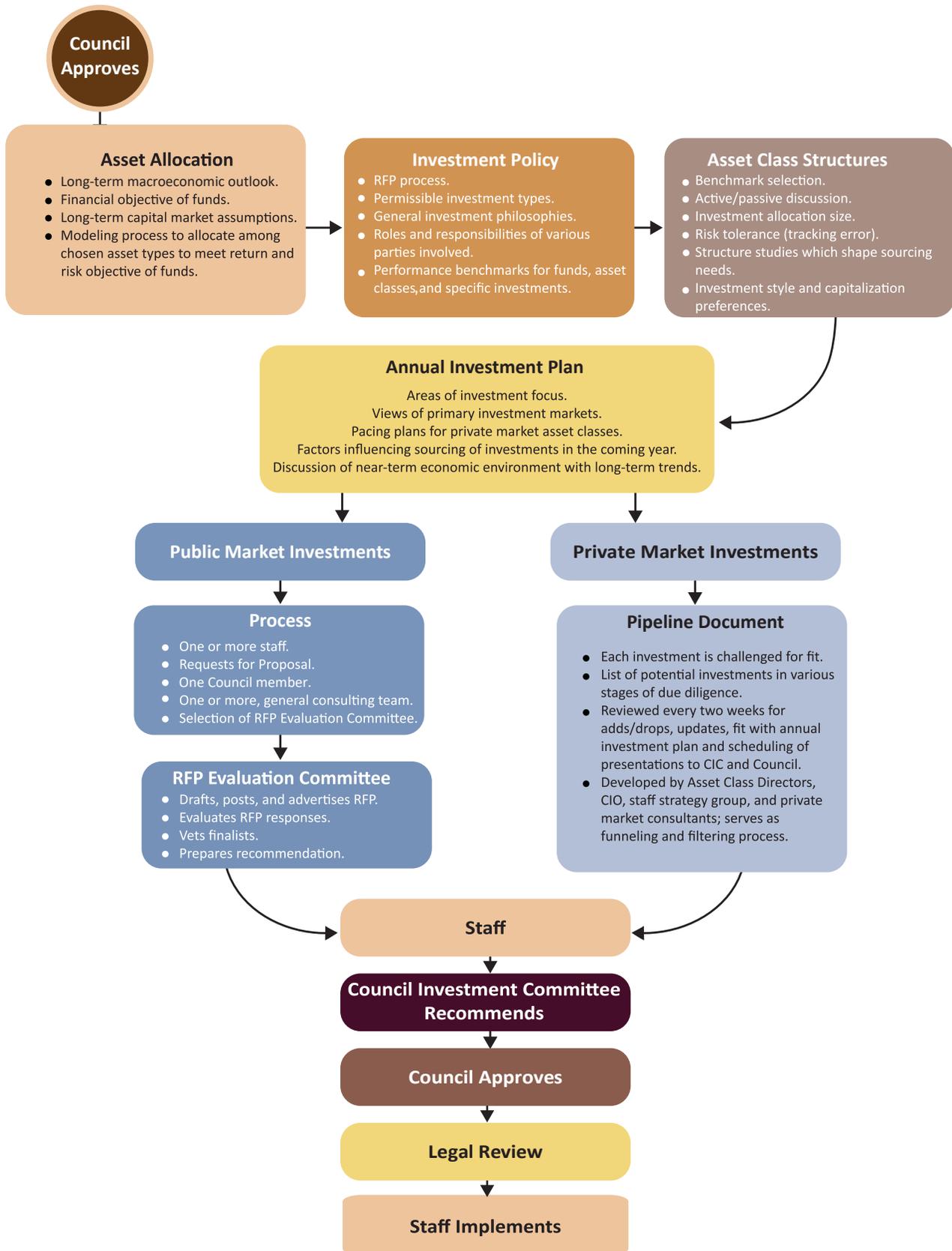
Public equity investments include stocks (U.S. and international stocks) and core bonds (U.S. treasuries, mortgage-backed securities, and investment-grade corporate bonds). Private investments (sometimes known as alternative investments) range from real return assets (tangible assets with an inherent value based on their physical attributes—infrastructure, energy, agriculture, timber, etc.) to real estate (office, retail, industrial, hospitality) to private equity investments (privately held companies such as PetSmart, Panera, even Ancestry—all backed by private equity) to venture capital investments in New Mexico companies (Skorpios, Meow Wolf, BayoTech, and others).

The Council performs an extensive asset allocation study approximately every three years and sets annual investment targets based upon its findings.



# NEW MEXICO STATE INVESTMENT COUNCIL

## INVESTMENT SOURCING PROCESS



## INVESTMENTS/ASSETS

### Public Equity Investments

The publicly traded equity portfolio is the cornerstone of the permanent funds and is the largest and most liquid of the SIC's investment assets. The role of the public equity portfolio is to generate meaningful returns through capital appreciation and dividend income.

In the most efficient markets, the SIC focuses on capturing market returns through the increased use of low-cost strategies.

In less efficient markets, the SIC's focus is on identifying skilled active managers who will achieve greater-than-market returns.

The primary portfolio strategy employed in the publicly traded equity portfolio is to maintain returns on the upside (when things are good) and to protect its investments when markets are falling. Downside protection—techniques to prevent a decrease in the value of the investment—is an essential element of any SIC equity portfolio. If and/or when the equity markets are weaker or exhibit downside volatility, the SIC or its fund managers are prepared with various strategies designed to help its investments perform relatively better.

### Private Market (Alternative) Investments

The Council uses alternative investment strategies to reduce risk, enhance returns, and diversify its holdings. Alternative, or private-market asset classes, are ideal for long-term institutional investors like the SIC, which safeguard their investments by seeking out diversification benefits and by putting a premium on investment returns in exchange for less liquidity.

### Real Return Assets

When the SIC created this asset category in 2011, it set a 10% asset allocation target for its real return investments. The Council's real return strategy includes investments in infrastructure, timber, agriculture, energy, inflation-linked securities, commodities, and other similar assets. These assets are characterized by their diversification, their income generation and capital appreciation, their protection from inflation, and for having attractive risk-adjusted returns. Currently, the SIC

has approximately \$2.2 billion invested in this asset class.

A common feature of infrastructure assets is that they protect against volatility and act as a hedge against inflation. For instance, the energy generated by a solar farm may be subject to a long-term commitment with a public utility (to buy all or most of the generated electricity). Many infrastructure assets are or can be privatized, thus creating investment opportunities for institutional investors.

The SIC similarly invests in real return assets through commingled funds. Currently, the Council is invested in nearly 30 such commingled funds and more than 350 underlying real asset investments. Investments in real assets tend to be globally diversified. About 60 percent of the funds' real asset investments are in the U.S.

### Real Estate Investments

The SIC has been investing in real estate since 2004. The Council targets 12% of the funds' total assets for its real estate sector, which translates to about \$2.7 billion. **Currently, the funds have about \$1.9 billion invested in real estate**, and we are closing the gap by making ongoing new commitments.

Generally, the SIC invests in real estate through commingled funds, which means that a sponsor investment manager pools the capital of several institutional investors (including pension funds, sovereign wealth funds, endowments, and the like) and invests in a diversified portfolio of real estate assets. The Council invests in more than 40 such commingled funds, and through those funds has investments in more than 2,000 properties.

Most of the funds' real estate investments are in four major commercial property sectors: office, retail, industrial, and multifamily rentals. However, the funds also are invested in student housing, elder-care facilities, self-storage, hotels, medical office buildings, and data centers.

More than 80 percent of the funds' real estate investments are located in the U.S., with most of those investments in major U.S. cities. In addition, to improve diversification and return profiles, the SIC also invests in commingled funds which focus on Europe, Asia, and Latin America.

## Core Bonds

Fixed income assets in which the Council invests through its core bonds portfolio are strategically used to promote portfolio stability and also liquidity in times of market upheaval. The primary goal of the core bonds portfolio is to preserve capital, produce income, and protect against the volatility of public equities and other risk assets. The allocation is composed of high quality, highly liquid assets like U.S. treasuries and highly rated corporate securities that provide diversification and downside protection to the total portfolio.

## Non-Core Fixed Income

The non-core portfolio is intended to produce yield and generate returns above what's expected in publicly traded securities. Non-core assets do this by capturing liquidity and complexity premiums through private assets with a contractual yield component or securitization of an asset like real property.

## PRIVATE EQUITY INVESTMENTS

Historically, private equity has demonstrated some of the highest returns among the various asset classes.

**The Council** has been investing in private equity funds since 1989, and **currently has over \$2.7 billion in these assets** and a long-term allocation target of 11% for this strategy. Mercer, the SIC's private equity advisor, consults the Council in regard to its private equity portfolio and performs due diligence on prospective fund investments.

Private equity commitments are also vetted during public meetings of the Council Investment Committee, followed by a vote of the Council. The Council currently has exposure to hundreds of private companies, through dozens of managers and more than 100 limited partnerships.

## New Mexico Private Equity Investments

The SIC may also invest in New Mexico-based private equity funds, and is statutorily authorized to commit up to 11% of the STPF to this strategy. By statute the Council is allowed to consider economic

benefits to the state in addition to potential financial returns when considering this type of fund commitment.

The Council has focused primarily on funds capable of creating market-rate returns (about 9.2% over the past decade), which has resulted in improved investment performance. Mercer also serves as the Council's advisor for the New Mexico Private Equity Investment Program (NMPEIP), which launched in 1993.

The NMPEIP, by investing in startups and other new businesses, has helped the state bring in out-of-state venture capital firms (whose SIC investments reassure these outside firms of these state startups' promise). The NMPEIP has also brought in local VC firms.

When the Great Recession hit in 2008, the SIC laid low until 2014, when it once again began to invest in New Mexico businesses, via a co-investment fund managed by Sun Mountain Capital.

New Mexico statutes allow the STPF to invest in regional private equity funds; **currently, the SIC has over \$400 million in these private equity investments.**

This allocation plays a dual role in the portfolio. The first allows for the enhancement of the overall return of the portfolio through investment in young, early-stage regional companies. The second provides investment capital that may ultimately provide economic benefits—jobs and industry creation—to the State of New Mexico.

When analyzing regional private equity-fund commitments, the Council can consider the economic benefits to the state in addition to potential financial returns.

## NEW MEXICO COMPANIES

Thanks to the SIC's slow-and-steady philosophy, its sure-handed guidance, and its commitment to New Mexico's venture investment ecosystem, in which it has continued to provide financial support to local startups, the state's private equity programs have been able to do quite well, even during and after the pandemic.

After launching the NMPEIP in 1993, the initiative has picked up steam in recent years. Between 2014 and 2019, the SIC signed off on \$82 million for seven out-of-state venture funds (which have since invested in New Mexico startups). Similarly, the Council has sent \$105 million to the Catalyst Fund since 2016, which has invested in six new micro funds throughout the state.

As of 2019, venture investment in 29 New Mexico companies totaled \$302 million. Some of the Council's investments have been sizable, \$20 million, for example, to the data analytics firm Descartes Labs.

But the Council's support hasn't only been financial—many other New Mexico companies cite its wisdom, its philosophy, its approach, and its belief in New Mexico talent as having been vital to their getting off the ground, surviving, and succeeding.

"Companies like ours have a lot of potential and hurdles to go through so **the support from the SIC—it's been vital,**" says Mo Vargas, president and CEO of BayoTech, maker of hydrogen fuel cells. "The SIC offer that early gave us solid support that commercial markets don't. They offered a very fair evaluation through different rounds of funding. They're not cheap but they're fair. And it's a fantastic program that helps tremendously. They can make their dollar stretch in New Mexico. They're willing to listen and at the end of the day, they supported us and it paid off for them."

BayoTech has doubled its staff in New Mexico and will double that number again in August, giving

them close to 100 people by the end of 2021. And sales are near \$1 billion.

"Their fund is industry-agnostic," adds Chief Financial Officer Wendy Rollstin. "It's good to invest in things that have good potential. It doesn't have to all be oil and gas."

"There is a mortality rate," admits Vargas. "Some companies don't make it. But if you're only looking to have winners, that means the process is too tight and so that business might go outside the state."



Keeping these businesses in state, and supported, is largely the SIC's goal. "It's about the broader economic ecosystem,

and the SIC has a broad objective of helping New Mexico businesses," says Srinivas Mukkamala, CEO and founder of RiskSense, an Albuquerque-based cybersecurity company that now has 65 employees and contracts throughout the world. "There's a vested interest to make New Mexico better. And **entrepreneurs here should take bold advantage of what the state has.**"



Even so, Mukkamala is bullish on having even more in-home backing. "We should be doing more.

We don't do enough. If you look at other incubators like those in Virginia or Utah in terms of pure high tech, we are only a handful. We need more from the state in terms of development. We need more funds."

Lisa Albrecht, co-founder of Skorpios Technologies, a semiconductor company that delivers highly integrated communications products based upon their proprietary, wafer-scale, silicon photonics process, came to the SIC via Sun Mountain. "Most



states have some type of economic support for start-up companies," says Albrecht, "but few offer a VC market approach through SMC like

the SIC. The SIC offers high-value investors, with the money and support to help companies build a business. **The SIC should definitely continue the VC market approach.**"

## Small Business Investment Corporation (SBIC)

Though not controlled by the SIC, investments made by the SBIC reside in the Severance Tax Permanent Fund and impact STPF returns. By statute, the SBIC is allocated 2% of the STPF (currently over \$100 million), to encourage New Mexico business expansion and job creation. The SBIC currently has \$17.9 million deployed in small business loans to 621 New Mexico companies, and has \$11.4 million of equity investments across 21 New Mexico companies.

The SBIC was established in 2001 to help create new job opportunities throughout the state, which it can do by providing equity and debt capital to small businesses through its Lending Program and Equity Program.

## New Mexico Recovery Fund

In response to the needs of businesses hit hard by the COVID-19 pandemic, in April 2020 the Council authorized an emergency short-term loan fund for medium-to-large-size New Mexico businesses with approximately 40 or more employees. These loans helped bridge the gap for enterprises that were profitable prior to the lockdown and that had good prospects thereafter but which may not have qualified for other loans from the federal government, state, or private banks.

## New Mexico Recovery Act

Separate from the Recovery Fund, this legislative bill signed into law by the governor in March of 2021 extended the Small Business Recovery and Stimulus Act into May of 2022, increasing the funding from \$400 million to almost \$500 million. Small businesses (with at least 10 New Mexicans and net revenues less than \$5 million in a year) can receive up to \$150,000 in low interest loans from the state and at below-market terms. The New Mexico Finance Authority is overseeing the \$500 million loan fund on behalf of the state.

## Pandemic Changes and Effects

Like many government agencies, the SIC closed its offices in March 2020 and shifted to remote operations (pursuant to statewide public health orders).

Online operations included ongoing investment management and monitoring, due diligence for current and pending investments, and all related accounting and administrative duties normally handled by the office.

The Council itself shifted its meetings from in-person to telephonic gatherings, with the public being able to listen to the meetings online and provide comments to the Council via electronic submissions. (Council meetings are permanently archived online for future access or review and can be accessed here: [www.siconline.org](http://www.siconline.org).)

In response to the lockdown and its effects on New Mexico businesses, the SIC also took early direct action: at its April 2020 meeting, the SIC approved a \$100 million New Mexico Recovery Fund to assist and support New Mexico businesses. The low-cost loan Fund was designed to support medium-to-large-size businesses not necessarily being served by other federal and state grant or loan programs. The Council's program complemented the efforts of the governor and legislature, which passed the NM Recovery Act, authorizing hundreds of millions in small-business loans during the 2020 special and 2021 legislative sessions. Funding for both of these initiatives, as well as tens of millions of dollars in business loans from the Small Business Investment Corporation, originated with dollars from the Severance Tax Permanent Fund.



## SIC Governmental Clients

The Council manages more than \$1.5 billion for 23 New Mexico state agencies, cities, counties, and other governmental entities. These clients, whose assets range from just over a quarter million dollars (Springer Schools) to nearly \$925 million (NM Retiree Health Care Authority), participate in investment pools across a wide range of investments (side-by-side with the Land Grant Permanent Fund and other Council investments). The primary investment pools involve publicly traded assets such as stocks or bonds, in both domestic and international markets, that are either actively or passively managed.

Larger clients with assets greater than \$10 million may also participate in the Council's longer-term investment strategies, including private equity, real estate, real assets, and credit/structured finance.

The Council does not charge any fees related to its overhead costs, which means clients only pay for the actual fees/expenses related to their pro rata share of the investment pools. This allows for clients to access high-quality investment managers at the same lower institutional rates commanded by the Council's \$31 billion in assets.

Each client must structure their own investment portfolio based on their own goals and risk/return profiles. The Council offers a menu of investment choices, but it is up to each individual client to develop a long-term investment allocation plan.



## SIC GOVERNMENTAL CLIENTS

Totals invested as of Dec. 31, 2020:

<b>Central NM Community College</b>	<b>\$2,401,951</b>
<b>Children Youth and Families Department</b>	<b>\$8,322,498</b>
<b>City of Albuquerque</b>	<b>\$659,749</b>
<b>City of Las Cruces</b>	<b>\$30,295,937</b>
<b>Clovis Community College Foundation</b>	<b>\$4,067,836</b>
<b>Eastern New Mexico University</b>	<b>\$19,550,134</b>
<b>Interstate Stream Commission</b>	<b>\$63,771,895</b>
<b>John R. Carver Testamentary Trust</b>	<b>\$839,829</b>
<b>Los Alamos County</b>	<b>\$58,462,675</b>
<b>New Mexico Commissioner of Public Lands</b>	<b>\$21,985,421</b>
<b>New Mexico Higher Education Dept</b>	<b>\$2,933,152</b>
<b>New Mexico Highlands University Endowment Fund</b>	<b>\$15,695,115</b>
<b>New Mexico Highlands University Foundation</b>	
<b>New Mexico Institute of Mining and Technology</b> (seven accounts with the SIC)	<b>\$113,310,401</b>
<b>New Mexico Military Institute</b> (six accounts with the SIC)	<b>\$54,396,949</b>
<b>New Mexico Mortgage Finance Authority</b>	<b>\$69,972,892</b>
<b>New Mexico Public Schools Insurance Authority</b>	<b>\$35,151,842</b>
<b>New Mexico Retiree Health Care Authority</b>	<b>\$924,474,377</b>
<b>New Mexico School for the Blind and Visually Impaired</b>	<b>\$12,879,883</b>
<b>New Mexico Small Business Investment Corporation</b>	<b>\$18,752,682</b>
<b>Office of Superintendent of Insurance</b>	<b>\$44,184,910</b>
<b>San Juan College Foundation</b>	<b>\$13,551,541</b>
<b>Springer Municipal School District</b>	<b>\$268,382</b>
<b>Total</b>	<b>\$1,515,627,839</b>

# STATE INVESTMENT COUNCIL MEMBERS

The State Investment Council is composed of 11 members, including Governor Michelle Lujan Grisham (Chair), Land Commissioner Stephanie Garcia Richard (Vice-Chair), and Treasurer Tim Eichenberg. Four members are appointed by the Governor, and four members are appointed by the Legislative Council. Only two legislative appointees can be from any one political party. All public members must be confirmed by the New Mexico State Senate. Council terms are five years, staggered to ensure board continuity, and members may be reappointed.

## Elected Members



Governor Michelle Lujan Grisham (2019- )



Land Commissioner Stephanie Garcia Richard (2019- )



Treasurer Tim Eichenberg (2015-2022 )

## Governor's Appointees



Debbie Romero, Dept. of Finance & Admin. Secretary (2019- )



Nicolas M. Telles, Santa Fe Community College CFO (2019- )



John Bingaman Public member (2021-2026)



L. Michael Messina Public member (2019-2024)

## Legislative Appointee



Catherine A. Allen Public member (2021-2025)



Timothy Z. Jennings Public member (2013-2023)



Harold W. Lavender Jr. Public member (2013-2023)



Leonard Lee Rawson Public member (2010-2022)

## SIC Committees

After the Council was restructured by the legislature in 2010, the SIC established working advisory committees to serve various Council needs. These include the Investment Committee, Audit Committee, and Governance Committee. The committees are not established by statute, but rather by the Council appointing either its own members or other qualified volunteers who can bring sector or domain expertise to this advisory role. Committee decisions are not binding but assist the Council in its oversight of the funds.

Committee meetings are publicly announced on the SIC website and elsewhere, and notes from these meetings are published to subsequent Council meeting materials for review.

### Investment Committee

Harold Lavender (Chair)  
Nicolas Telles  
Michael Messina

### Audit Committee

Nicolas Telles (Chair)  
Leonard Lee Rawson  
Michael Everett (advisory)

### Governance Committee

Catherine Allen (Chair)  
Michael Messina  
Debbie Romero

## SIC STAFF

### LEADERSHIP

Steven K. Moise  
Robert "Vince" Smith  
Brent H. Shipp  
Evan L. Land  
Charles V. Wollmann

State Investment Officer  
Chief Investment Officer  
Chief Financial Officer  
Chief Counsel  
Director, Communications, Legislative and Client Relations

### INVESTMENT

Robert "Vince" Smith  
Starla Bennett  
Paul Chapman  
David Lee  
Keith Sabol  
Mikhail Kuznetsov  
Clayton Camper  
Nino Carpenito  
Christopher Cassidy

Chief Investment Officer  
Director, Public Equity  
Director, Real Estate and Real Return  
Director, Private Equity  
Director, Stable Value  
Investment Strategist  
Investment Analyst, Real Estate and Real Return  
Investment Analyst, Real Estate and Real Return  
Portfolio Manager, Private Equity

### FINANCE

Brent H. Shipp  
Nicole Gallegos  
Rita Scheett  
Thu Sanchez  
Andrea Cohen

Chief Financial Officer  
Manager, Investment Accounting  
Financial Coordinator  
Financial Coordinator  
Investment Accounting Analyst

### LEGAL

Evan L. Land  
Bruce Brown  
Gordon Sellers

Chief Counsel  
Deputy General Counsel and Compliance Officer  
Legal Assistant

### SUPPORT

Kerri Segell  
Dave Jackson  
Claire Sevigny

Executive Assistant  
Network Administrator  
Administrative Assistant



## **PUBLIC RECORDS REQUESTS**

The Inspection of Public Records Act is intended to provide the public with access to governmental information. The law requires public access to virtually all public records, with a few exceptions. A reasonable fee may be charged for a copy of a public record. The NMSIC fee for documents 11" x 17" or smaller is .25¢ per page. For records other than documents, the fee is \$6.75 for videos and DVDs and \$2.75 for audio tapes. The records custodian may request that applicable fees for copying public records be paid in advance, before copies are made. A receipt indicating that fees have been paid for making copies of public records will be provided upon request.

Records requests for the State Investment Council should be addressed to:

NMSIC Records Custodian  
41 Plaza la Prensa  
Santa Fe, NM 87507  
Fax: (505) 424-2510  
Email: [nmsicrecordsrequest@state.nm.us](mailto:nmsicrecordsrequest@state.nm.us)