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## FY 2026 Annual Investment Plan

### Introduction

It is with pleasure that we present the fiscal year 2026 Annual Investment Plan. This year's plan is the fourteenth iteration of investment plans written since fiscal year 2013.

The investment plan uses a 7-10 year forward horizon in the development of the outlook for the economy, financial markets, and for the development of longer-term investment themes and strategies. It is written with a ranging readership in mind. Historically we've focused discussion on the largest of economic and financial market variables -- economic growth, inflation, interest rates and the basic investment markets of stocks and bonds -- using as little industry terminology and jargon as possible. Financial analyses found here are simplified to the degree practical and presented in easy-to-read tables and charts. Investment plans for the individual asset classes are presented in a structured format, to ease understanding of expected investment activity across the full portfolio for the fiscal year.

This work is the organized accumulation of investment knowledge, thought and input across as many fund fiduciaries as possible: the Council, the Council investment committee, the investment office management group and investment staff, external investment consultants and external investment managers. It has the purpose of transparency of our investment process as a lead objective, and seeks to be informative, and educational where possible.

We begin on the next page.

## Part I: Macro Outlook, Financial Markets Implications and Broad Investment Strategy

### Macro Outlook

Regular readers of this Investment Plan will recognize that changes in our investment environment outlook and investment strategies from year-to-year are incremental in nature. This is to be expected; if investment conditions and financial markets behave with “normal” variability and volatility in the shorter-term (1-3 years), then generally there should be just incremental change in our longer-term (7-10 year) outlook year-to-year. In our daily work, we place significant focus on identifying longer-term developments and trends around the main factors that affect our investments—such as economic growth, inflation, interest rates, valuations, and much more—while trying to filter the shorter-term “noise” of normal, year-to-year variations in these factors. When larger-than-normal changes occur in the short-term, the impact on our investment strategy and asset allocations is a function of how well we anticipated the change and to the degree which we prepared in advance.

Over the last three years, there’s been significant changes in important investment environment factors. But we offer just incremental change this year to our investment strategy and none to our long-term asset allocations as nearly all of them were identified in advance and they moved in the expected direction of our longer-term outlook.

Collectively, we’ve been describing these changes as an “inflection point” in the investment environment. We describe the most meaningful individual factors below:

- Longer-term interest rates bottomed from a 44-year downtrend and the uptrend to higher rates is strong. From peak rates on the bellwether 10-year US Treasury note of nearly 16% in the fall of 1981, rates bottomed in the pandemic-driven recession in 2020. We had been anticipating the process of a bottom and turnaround as discussed in previous Annual Investment Plans. Our expectations are that rates will continue to head back toward long-term averages of 5-7%, with cash rates in the 3-4% area, during our 7-10 year forward horizon. This more “normal” yield curve in both shape and level has significant meaning to our portfolio construction for the outlook period.
- Inflation emerged sharply higher in 2021 from a long bottoming period which began in 2014-2015 and ended with the blow-out federal spending and federal debt ramp we witnessed in the pandemic. This turn, too, we’ve been expecting. Coincident with the beginning of the bottoming period was the initiation of our Real Assets portfolio and target allocation of 12% in our growth funds, and the expansion of the Real Estate portfolio from 3% allocation to target allocation of 12% in the growth funds. Each allocation is constructed to help the broad portfolio defend against—and in some cases benefit from—higher structural rates of inflation.
- Half of the Baby Boom generation (born 1945-1964) has passed into retirement age (65yo+) and the handoff of economic power to the much smaller Gen X generation (born 1965-1980) is in full swing. We first began to incorporate discussion of demographic shifts and potential effects on the economy and investment environment into Annual Investment Plans several years ago. The midpoint of the Boomer generation hit retirement age in 2021 and with it came increasing structural change in demand, spending and investment patterns from this large group of people. While an examination of this is outside the scope of this writing, the basic effect on this generation is lower income, lower spending, lower tax contribution, increase in social safety net

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demands (social security and Medicare), movement of investments from capital gain-seeking to income-producing assets and the beginnings of a wealth transfer to the next generation. Gen X increasingly steps into the breach of being the most powerful generation in terms of income-earners, taxpayers, capital providers, and economic and policy decision-makers. The “rub” is that the Boomers are a much larger generation than Gen X adding some trickiness to the handoff. Economists generally see labor market stress (shortage) as the Boomers exit, greater investment risk-capital scarcity and supply/demand/funding mismatch for the social safety net, healthcare, and other areas. These stresses will last throughout our 7-10 year outlook horizon and until 2038, at which time half of Gen X will be at retirement age or older and the much larger Millennial generation (born 1981-1996) will take over as the economy’s most economically powerful age group. We expect at that time the aforementioned stresses will be easing. All of that to say that over the next several years demographics will feed and support the ‘higher interest rate/higher inflation’ portion of our outlook over the 7-10 year horizon.

- Still unresolved against our expectations for change and ongoing concerns (all on the menu in the forward 7-10 year outlook period) are the following:
  - The reversal in the ‘globalization’ of the world economy since the pandemic. Globalization of the worldwide economy and broad international engagement among countries began to slow following the presidency of George H.W. Bush. U.S. presidents elected since that time (in order: Bill Clinton, George W. Bush, Barack Obama, Donald Trump, Joe Biden, and Donald Trump) instituted economic, trade and foreign relations policy increasingly viewed through a ‘national interest’ lens. “9/11” brought major changes in foreign relations and our security apparatus; the pandemic led to a thorough examination of and significant changes to supply chains and trade and was the catalyst for what we see as a reversal in the globalization trend. Geopolitics has re-emerged as a significant concern in the economic decision-making calculus over the last few years. Determining where this takes us over our 7-10 year outlook horizon is more of an exercise in speculation than it is forecastable, making the monitoring of developments in this trend for impacts on our investments critical.
  - Resolution of record valuations afforded the U.S. publicly-traded equity markets. U.S. publicly-traded equities, since 2019, have defied most-if-not-all primary historical valuation benchmarks. We’ve written every year regarding our concerns over this since then. U.S. publicly-traded equity prices currently have as little to do with traditional fundamentals such as earnings base, expected earnings growth, book values and bond yields, than almost ever. Given that U.S. equities as an asset class are a major component of our asset allocations, we’ve addressed this over time with a low-end allocation of 20% to the asset class (previous allocations were as much as 60%), and increasing the diversification of our risk-assets in our asset allocations. We also more closely monitor and manage our liquidity profile, to be able to rebalance (and perhaps increase our exposure to U.S. equities to something above 20%) in the event of a sharp reckoning of valuations. Exactly how prices become more in line with fundamentals is a source of conjecture, but we do believe they will get closer together and that it will be price that changes the most.
  - Extended economic cycles and our late (late, late) position in the debt cycle. The last serious recession and forced deleveraging in the U.S. was in 2008-2009, nearly 20 years ago. There were two mild recessions prior to that—eight months of 2001 following the stock market bust in 2000 and eight months in 1990-1991 mainly from an oil price shock

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due to war in Iraq and Kuwait—which did little to cause systemic deleveraging. Prior to those, a deep and lengthy recession from July 1981 to November 1982 and a nasty-but-short recession a year earlier caused significant deleveraging and restructuring across the economy. The greatly extended periods of economic growth, lack of ‘cleansing’ recessions, and falling interest rates since 1982 have supported a buildup in debt in the economy. We’ve written about these things at length in previous Annual Investment Plans.

Corporate debt as a percentage of global GDP almost doubled in the period 1981-2024. But likewise, corporate profits almost doubled as a percent of global GDP in the same period, allowing strong debt service capability. The trouble we foresee is that corporate profits as a percent of global GDP were at low levels in 1981 and interest rates were peaking and beginning to fall. The opposite is true today; corporate profits are at record levels relative to global GDP and interest rates have bottomed and are rising. We see a potential debt/financial squeeze coming for corporations in our 7-10 year outlook period with interest costs increasing and profitability levels declining.

The elephant in the “debt” room, however, are governments. If we are to see debt-related economic problems in our forward 7-10 year period, it could be the government sector first. Government debt burdens have increased dramatically across the globe in the last 40+ years. In the U.S., Federal debt held by the public ballooned from right before the 1980-1982 recessionary period at 24% of GDP to an astounding level of 97% of GDP this year (gross Federal debt, which includes intergovernmental debt such as that owed to Social Security, is nearer to 120% of GDP). We believe this eclipses the previous record made in 1946, driven by the Second World War. Driving the debt build-up this time are:

- Demographics/aging population--Social Security and Medicare demand as the Boomers retire and the small Gen X generation become the prime taxpayers. The Congressional Budget Office projections regarding Social Security and Medicare show steady growth in outlays of around 5.5% over our 7-10 year horizon.
- Persistent budget deficits—the Federal government has not run a budget surplus since a few years in the early 1990s, and in this, too, the CBO shows alarming deterioration over our outlook horizon with total annual deficits of 5.5%-6.0% of GDP.
- Higher interest costs--a more recent factor because of debt buildup combined with higher interest rates. The CBO rides in again with a depressing outlook for interest costs as a percentage of the Federal budget. Net interest is expected to grow from 12.9% of outlays in 2024 to 16.6% by 2035, and with modest assumptions regarding the level of interest rates over the period (an average of 3.8% on the 10-year Treasury versus our assumptions of something closer to 5%). Net interest has exceeded defense spending since FY24 and will be the third largest category in the Federal budget, not far behind Social Security and health care programs.

This debt load is subject to similar pressures as the corporate debt load, particularly from the rising interest rates we foresee. Managing the debt load through austerity doesn’t look very plausible given the reasons for how it came about and how it continues to

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build. “Growing” our way out of it also seems somewhat implausible for some of the same reasons—demographics and higher interest rates in particular—but also lower GDP growth “potential” than in the longer-term past. The CBO seems to agree with this analysis as their forecasts for U.S. debt held by the public over our 7-10 year outlook horizon is for it to grow to \$52 trillion from today’s \$29.6 trillion, or to 130% of GDP.

Historically when governments become significantly over-indebted one of two things usually results: (1) default or (2) structurally higher inflation. Carmen Reinhart and Kenneth Roghoff’s book “This Time It’s Different” gives an insightful review of history in this regard. Suffice it to say that this portion of our outlook places a checkmark squarely in the “higher inflation” box.

Two more items to put in our ‘identified, unresolved, but could happen in the outlook period’ box, and we can move on with financial market implications of all of this.

- China. We cannot leave our list of trends impacting our investment environment without very briefly addressing China. If the deficit/debt issue in the U.S. is eye-opening, China is here to say ‘hold my beer’. Government debt-to-GDP in China (inclusive of “LGFVs”—local government finance vehicles directed top-down—and state-owned corporation/enterprises) is a multiple of the U.S. in an economy that is on par in size with the U.S. It’s unknowable how this condition will play out but we do know it is getting worse. And if you have concern over the demographic position of the U.S. as described above, China is here to say ‘hold my beer AND my sunglasses’. China is in a very difficult demographic situation. By the end of our 7-10 year outlook horizon in 2035, the working age population in China will decline by about 12%. The retirement-aged population (65yo+) will grow by 88%; the number of children in China will fall by nearly 40%. Comparable statistics in the U.S. are: 5.6% growth in the working-age population, 26% growth in retirement-age population and about 2% growth in children. By the end of the century, 2100, China’s population is expected to fall by 57%, with a downside estimate of a 71% collapse. Right now, today—and expected to worsen over our outlook horizon--China imports almost 60% of its food demand. It imports a significant percentage of its energy usage and energy sources are heavily weighted to coal (58%). By the end of our outlook horizon, China, a major global economic agent today, will be a changed place and this will have significant impact on the global economic system.
- Artificial Intelligence (AI). Technology comes in waves, in revolutions. And does A.I. ever look like a doozy of a revolution. We are literally going to write only four sentences here as no one knows where this technology will take us and how fast. Suffice it to say it is critical for us to monitor this technology literally every day and have resources in place to help us incorporate it and judge it for the economic disruptor it clearly is.

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## **Financial Market Implications**

This is the “crystal ball” section of the report, and each year we write it humbly.

Given nearer-term factors of...

- An extended economic cycle;
- High debt loads;
- Federal budget deficits we may soon be forced to deal with or suffer currency and/or security marketability issues;
- Near-record-to-record valuations on U.S. stocks and rising interest rates;

And outlook period-long factors of...

- Higher inflation;
- Higher interest rates;
- Shifting international economic relationships and trade to increased nationalistic footing;
- (Intractable) economic and demographic problems facing China, an economic whale globally;
- Demographics globally pressuring growth prospects, risk-capital availability, government budgets, and social and political systems;

...we think it fair to continue our outlook of a generally lower expectation for investment returns relative to history. Going back to the early 1990s and reviewing rolling 10-year annualized returns for large public investment funds (primarily pensions), the median fund in “normal” investment environments earns about 2.50% to 4.00% over the starting yield on the 10-year Treasury note. With today’s 10-year Treasury yielding about 4.25%, this implies that returns of 6.75%-8.25% compounded annually over the next 10 years are available. We just don’t see a clear path to the high end of that range given all the wind in our face as described above. It is quite possible that higher rates of inflation could mitigate our anticipated shortfall, but in a “real” return sense, it’s hard to make a case for average-to-above-average returns over our 7-10 year outlook period.

## **Broad Investment Strategy**

Historically, periods of weaker investment returns rarely are calm and steady in character. More often they are volatile—inclusive of large sell-offs and short periods of dramatic recovery and run-ups—which “net” to lower returns over the longer period. We suspect the turn we’ve ridden through the last three years has aimed us in this direction.

Last year we detailed two primary strategies to take on an environment such as described and we are inclined to stick with them for the forward 7-10 year outlook period:

### ***1. Enter these periods with a highly diversified portfolio of investment assets and strong liquidity.***

Since about 2019, the Council has been highly focused on further diversifying our portfolios across a widely varied selection of assets to build portfolio resiliency, cash flow and improved (lower) correlation with any particular asset type (such as stocks or bonds) or market conditions. The result is a portfolio which has better protection from lower growth environments, higher interest rates, higher rates of inflation, weaker equity markets—all risks we see in our look-forward period. Massive new inflows from

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the NM State Land Office and the NM Legislature since 2022 have raised liquidity levels across the funds enormously. In light of these things, we believe we are about as prepared as we can be.

### ***2. Tough periods in the economy and financial markets historically have created enormous future opportunities.***

The awful period of the Great Depression in the 1930s, which brought economic chaos and a nearly 3-year bear market that took stocks down more than 80% was followed by a 14-year period where stock gains averaged 17% annually. The late 1960s and early 1970s featured two large drawdowns. The first one lasted about eighteen months beginning in 1968 and took stocks down 36% before a 2.5 year rebound that saw stocks return 25% per year annualized. The second was a drawdown of 43% over almost two years before a massive 13-year run at 19% per year returns. The Dot.Com bubble crash in 2000-2002 took stocks down 49% followed by a 5-year recovery at 15.5% annualized. The Great Financial Crisis of 2008-2009 drew stocks down more than 50% over about five quarters, only to see them run at an 18% annual pace in returns through 2018. A 20% drawdown at the end of 2018 and the 30% COVID drawdown in the first quarter of 2020 saw similarly-sized annualized recoveries. Having the staying power of a diversified portfolio to weather tougher times combined with liquidity to position into risk assets when things look darkest and ahead of the profitable recoveries is a time-proven strategy.

One last piece to our investment strategy is the ‘game-changing’ level of inflows into the Permanent Funds, projected to continue for the entirety of our 7-10 year outlook period. These inflows present the Council with a rare opportunity in public fund investing to build asset allocations into our growth funds which are aimed at maximizing the compounding power of our returns. With annual inflows expected to meet or exceed statutory annual distributions, investment earnings are retained in the portfolio and create a ‘compounding’ effect. The result will be dramatically higher NAVs than otherwise achievable during the timeframe in which this will occur.

Next, we detail the “inflow” picture.

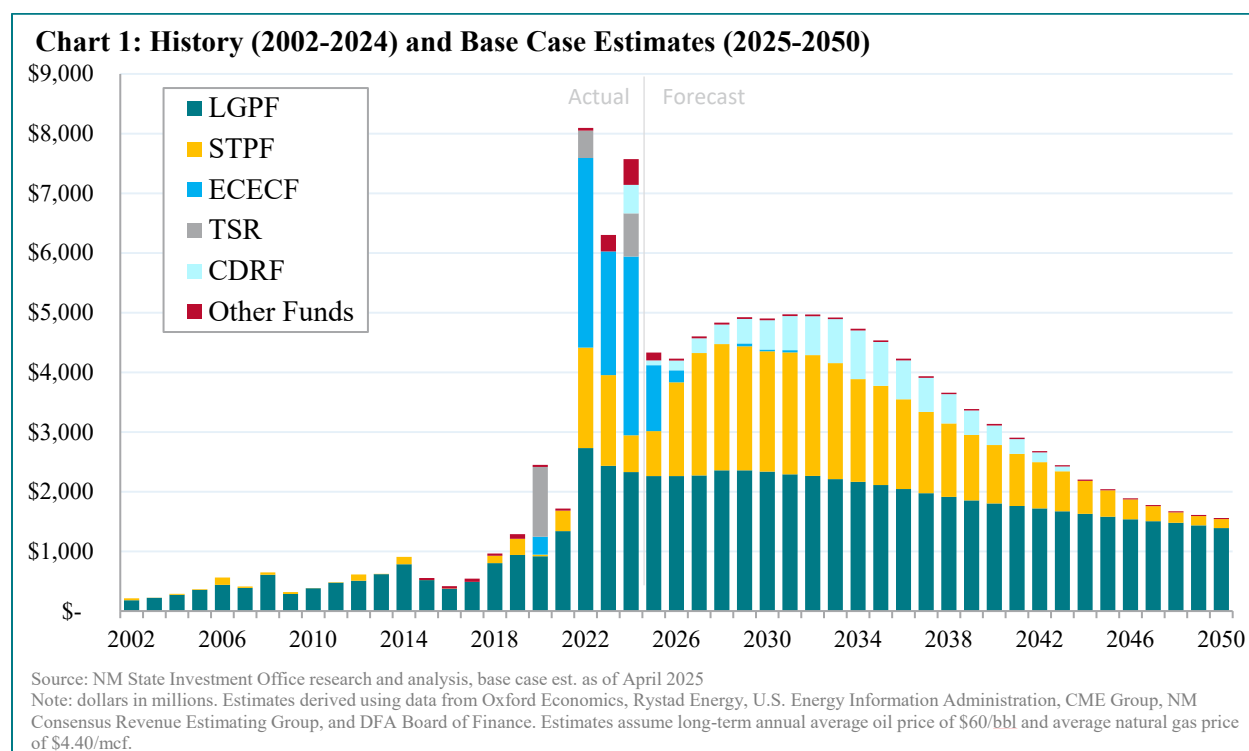


## Part II: Inflows Analysis

Inflows across all NMSIC-managed funds totaled about \$22 billion from 2022-2024. To put this figure into context, the Council's total AUM at the end of 2021 was \$36.8 billion. Current estimates suggest the funds could receive over \$4 billion in 2025. Strong inflows continue to result in excess liquidity as staff work diligently to achieve the funds' target asset allocations – see the pacing analysis in Part IV of this report.

Our largest funds (LGPF, STPF and ECECF) primarily receive inflows from tax and royalty collections on oil and natural gas production in the state. New Mexico's production nearly doubled between 2020 and 2024. Oil prices, which averaged about \$46/bbl from 2015-2020, rose to an average of about \$78/bbl between 2021-2024. Together these two factors created a powerful combination for generating royalties and severance taxes. Assuming oil prices remain above \$60/bbl, production in the state is expected to continue growing (albeit at a slower pace) over the next few years before entering a structural decline as the Permian Basin matures and the transition to alternative energy sources weighs on global fossil fuel demand.

As such, inflows are expected to gradually decline over time but remain at levels well above historical averages (see Chart 1 below). Given the inherent volatility of energy markets and sensitivity to shocks that cannot be predicted, these estimates are subject to considerable uncertainty. Many factors including supply and demand fundamentals, monetary policy changes, OPEC+ strategy, geopolitical tensions, and the pace toward global transition to renewable energies could ultimately change the outlook—for the better, or worse. We believe the estimates below serve as a reasonable guidepost to inform this year's Annual Investment Plan.



**Land Grant Permanent Fund Inflows** – The Land Grant Permanent Fund (LGPF) receives royalty contributions from the State Land Office for mineral production on state trust lands. State Land Office contributions were \$2.3 billion in 2024, down slightly from the \$2.4 billion received the year prior. Looking

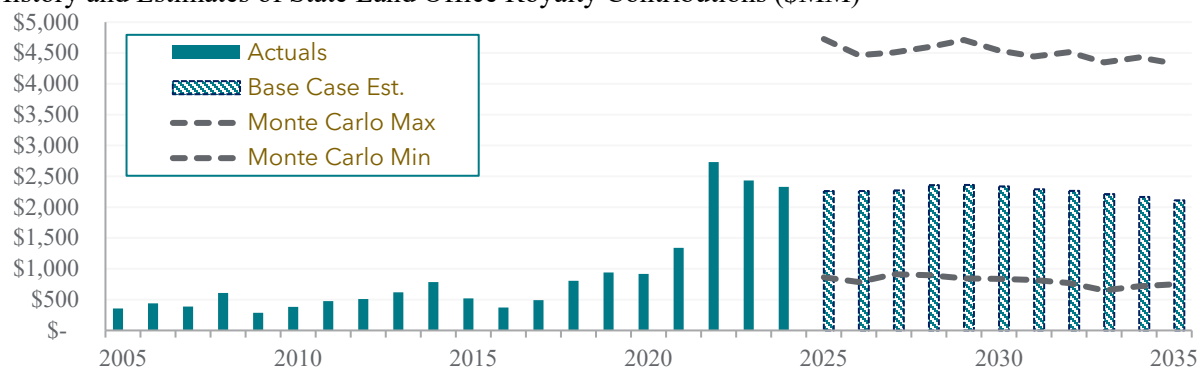


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forward, baseline estimates of future energy prices and production continue to suggest royalty contributions from state trust lands could continue to exceed \$2 billion annually over the next 10 years. Again, given the volatile nature of the funds' revenue sources, these figures should only be used as a guide.

**Chart 2: Land Grant Permanent Fund**

History and Estimates of State Land Office Royalty Contributions (\$MM)



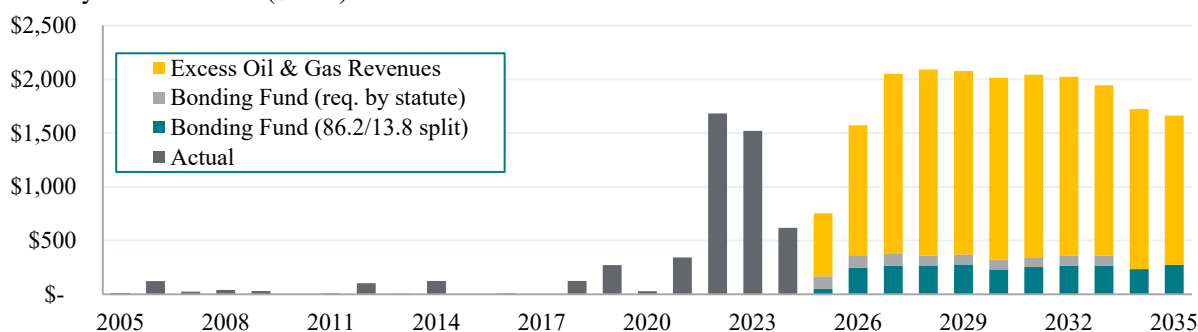
Source: NM State Investment Office research and analysis. Base case estimate as of April 2025. Monte Carlo simulation assumes annual average oil prices between \$30-\$120/bbl and annual average natural gas prices between \$1.50-\$7.00/mcf.

**Severance Tax Permanent Fund Inflows** – The Severance Tax Permanent Fund (STPF) receives the portion of the state's severance tax revenues that is not used to bond for capital outlay projects. Growing severance tax collections combined with the statutory limits on state bonding capacity resulted in large deposits into the STPF in recent years. Absent an unexpected energy market shock, we continue to expect meaningful contributions to the STPF from the bonding fund over the 7-10 year period, albeit at levels much lower than that of the last two years (see Chart 3).

However, the new statutory mechanism to send excess oil and natural gas revenues to the STPF<sup>1</sup> remains a potential “game-changer” for the fund. The STPF is expected to receive its first contribution from this new mechanism in 2025. Based on the current revenue estimates and energy market outlook, those contributions could exceed \$1 billion/year for at least the 7-10 outlook. Again, given the volatile nature of the funds' revenue sources, the same cautions as above apply.

**Chart 3: Severance Tax Permanent Fund Fund**

History and Estimates (\$MM)



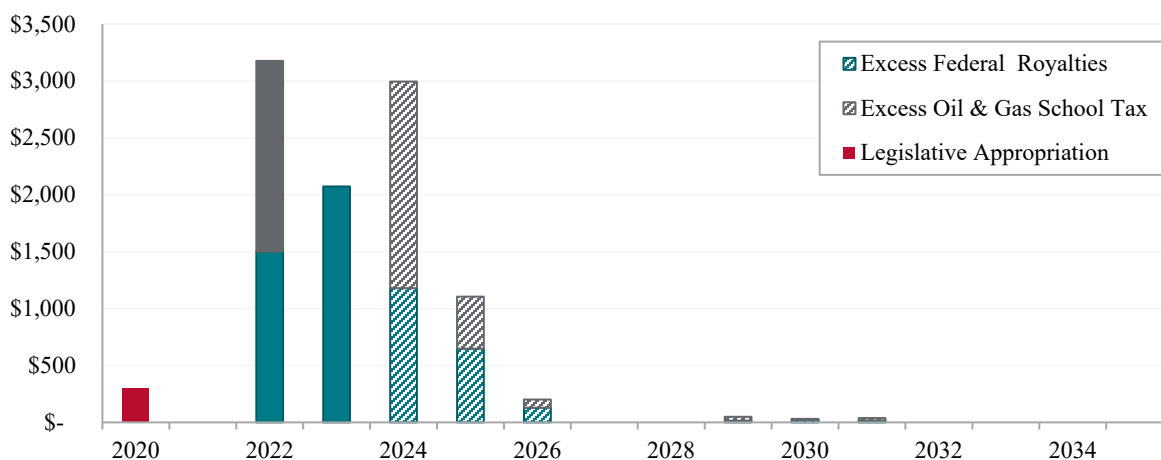
Source: NM State Investment Office research and analysis. Base case estimate as of April 2025.

<sup>1</sup> Senate Bill 26 (2023) sends any revenue above the amount the state general fund received in FY24 from the oil and gas emergency school tax and federal mineral leasing payments to the STPF. The distribution does not change the statutory allocations of these revenues to the Early Childhood Education and Care Fund or the Tax Stabilization Reserve.

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**Early Childhood Education and Care Fund Inflows** – The Early Childhood Education and Care Fund (ECECF) received large inflows of excess production tax collections and federal royalty payments from 2022-2024 as part of a statutory mechanism that invests windfall oil and gas revenues above a five-year average into the fund. Based on the current energy market outlook, 2025 is expected to be the last year of large contributions to the ECECF, after which little revenue above the five-year average is expected unless there is an upside shock in oil and gas prices. Again, given the volatile nature of the funds' revenue sources, the same cautions as above apply.

**Early Childhood Education and Care Fund, Inflow Estimates (\$MM)**



Source: NM State Investment Office research and analysis. "Excess" revenue refers to the expected amount of school tax and federal royalty payments exceeding the five-year average.

**Capital Development and Reserve Fund** – The Capital Development and Reserve Fund (CDRF), created in the 2024 legislative session, was established from a one-time distribution of \$476 million in FY24 from excess cash remaining in the severance tax bonding fund at the end of the fiscal year.

Beginning in FY25, the CDRF will receive annual distributions from the bonding fund consisting of savings generated by limiting long-term bond issuances to median state debt ratios, when such savings exist. This distribution should not affect STPF revenues from the bonding fund, since the statutory allocation of severance tax revenue available for bonding capacity was not changed in the legislation creating the CDRF.

Preliminary analysis from the state's Board of Finance suggests the fund could receive \$82 million in FY25 and would continue to receive at least that amount each year for 10 years.<sup>2</sup> If in future fiscal years the state's debt capacity continues to exceed median state debt ratios, the CDRF could receive additional inflows equivalent to the 10 years of debt savings.

**New Funds and Other Inflows** – The Legislature created two new funds during the 2025 legislative session for the Council to manage. A new Behavioral Health Trust Fund (BHTF) will be seeded with a \$100 million general fund appropriation in FY26.<sup>3</sup> The fund could also receive state agency budget reversions from

<sup>2</sup> Per the fiscal impact report for House Bill 253 (2024), the Board of Finance will issue short-term severance tax notes at the end of FY25 in the amount determined by the Board to be the savings due to capped debt capacity. The December 2024 consensus revenue estimate suggests this amount could be \$82 million for FY25, which represents the amount of debt payments the state would have made each year for 10 years had the state issued bonds against the full uncapped debt capacity. The Board would transfer that same amount (\$82 million) annually for a total of 10 years (FY26-FY35) to the CDRF, as long as severance tax revenues remain high enough to cover the transfer.

<sup>3</sup> See Senate Bill 1 (2025)

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certain behavioral health appropriations made in the legislative session. Additionally, the Legislature passed a bill that will divert 50% of the excess oil and gas school tax revenue to the BHTF that would have otherwise been deposited into the ECECF for fiscal years 2026-2028.<sup>4</sup> As discussed above, since the current outlook is for there to be little above-average revenue from this funding source in the coming years, this mechanism is not expected to result in significant inflows into the BHTF; however, the fund would benefit should the energy markets experience a significant rise in oil and gas prices.

The second new fund – called the Medicaid Trust Fund (MTF) – did not receive an initial appropriation. Instead, the legislation creating the fund established rules in which the MTF could receive state agency budget reversions under certain conditions.<sup>5</sup> These inflows could range from tens to hundreds of millions in a given year but are impossible to predict since they depend on agencies not spending the full amount of monies appropriated to them each year. Additionally, the trust fund will receive 50% of federal royalty payments from FY26-FY28 that would have otherwise been deposited into the ECECF.<sup>6</sup> Like the discussion above, this mechanism is not currently expected to be a significant revenue generator for the MTF, but the fund would benefit from an upside shock in oil and gas prices.

Table 1 below summarizes the recent history of total dollars contributed to each fund the Council manages, including estimates for the 2025 calendar year.

**Table 1: Summary of NMSIC Fund Inflows, 2019-2025 (dollars in millions)**

Calendar Year Fund Contribution	2019	2020	2021	2022	2023	2024	2025 est.
Land Grant Permanent Fund	\$ 941	\$ 918	\$ 1,340	\$ 2,732	\$ 2,433	\$ 2,328	\$ 2,262
Severance Tax Permanent Fund	\$ 271	\$ 29	\$ 342	\$ 1,682	\$ 1,519	\$ 619	\$ 753
Early Childhood Edu. & Care Fund	\$ -	\$ 300	\$ -	\$ 3,176	\$ 2,073	\$ 2,995	\$ 1,105
Tobacco Settlement Perm. Fund	\$ 75	\$ 34	\$ 36	\$ 36	\$ 25	\$ 27	\$ 27
Tax Stabilization Reserve	\$ 527	\$ 1,167	\$ -	\$ 459	\$ -	\$ 724	\$ -
Water Trust Fund	\$ -	\$ -	\$ -	\$ -	\$ 100	\$ 50	\$ -
Rural Libraries Endow. Fund	\$ 1	\$ 2	\$ -	\$ 10	\$ 15	\$ 2.5	\$ -
Conservation Legacy Perm. Fund	\$ -	\$ -	\$ -	\$ -	\$ 50	\$ 300	\$ -
Opioid Settlement Reserve Fund	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ 23	\$ 3
Workforce Devel. & Appren. Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30	\$ -
Higher Education Trust Fund*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 959	\$ -
Capital Development & Res. Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 476	\$ 82
Behavioral Health Trust Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100
Medicaid Trust Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10
<b>Total*</b>	<b>\$ 1,815</b>	<b>\$ 2,450</b>	<b>\$ 1,719</b>	<b>\$ 8,096</b>	<b>\$ 6,300</b>	<b>\$ 7,573</b>	<b>\$ 4,231</b>

Source: Investment Holdings Reports

\* Note, Higher Education Trust Fund inflow funded by a transfer from the Tax Stabilization Reserve - amount not included in 2024 total

<sup>4</sup> See House Bill 71 (2025)

<sup>5</sup> See Senate Bill 88 (2025)

<sup>6</sup> See House Bill 71 (2025)

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## Part III: Portfolio Analysis

The chart below summarizes the asset allocations for funds under NMSIC management, illustrated on a spectrum of focus between growth and preservation.

### Summary Matrix of NMSIC Funds

Group Name	High Growth	Growth	Growth w/ In-State PE & ETI	Moderate Growth	Enhanced Liquidity	Stability-Focus	Workforce Development
NMSIC Funds	WTPF   RLF	LGPF   CLPF	STPF	ECECF   HETF   TSPF   OSRF	CDRF	TSR	WDAF****
Distribution Rate (%)	2.7% (WTPF)*** 5.0% (RLF)	5.0% (LGPF) -- (CLPF)	4.70%	5.0%* 4.7%**	5.0%	--	17%
Target Return (%)	--	7.0% (LGPF)	6.75%	--	--	--	--
Long-Term Targets (%)							
US Equity	15%	20%	20%	20%	15%	--	
Non-US Equity	15%	20%	20%	20%	15%	--	
Low Duration FI	--	--	--	--	10%	35%	Following Year's Distribution Amount
Public Market FI	7%	6%	5%	13%	20%	20%	50% of Remaining Amount
Private Market FI	8%	15%	11%	20%	20%	30%	50% of Remaining Amount
Real Return	15%	12%	11%	10%	10%	--	
Real Estate	15%	12%	11%	7%	5%	15%	
Private Equity	25%	15%	10%	10%	5%	--	
SVCP & ETI*****	--	--	12%	--	--	--	
Cash Equivalents	--	--	--	--	--	--	Current Year's Distribution Amount
2025 RVK Capital Market Assumptions (%)							
Expected Compound Return	7.2%	7.1%	7.0%	6.8%	6.4%	5.5%	5.1%
Estimated Annual Yield	2.6%	3.2%	2.9%	3.7%	4.3%	5.6%	6.0%
Max Drawdown (1-Year)	-28.0%	-26.6%	-27.6%	-22.1%	-14.0%	-1.4%	-1.7%

\*ECE has a minimum distribution of \$500 million.

\*\*TSPF distribution rate is 4.7%.

\*\*\*The WTPF distribution of \$4M represents 2.70% of the December 2024 market value.

\*\*\*\*WDAF will distribute \$5M in the first two years, with a \$3M annual distribution thereafter until the Fund is exhausted. Annual distribution rate represents 17% of the initial funding amount. Expected return and risk reflect the estimated profile upon initial funding and will vary over the life of the Fund.

\*\*\*\*\*SVCP & ETI refers to Strategic Venture Capital Program & Economically Targeted Investments.

### Land Grant Permanent Fund

**Discussion** – The LGPF ended 2024 with a market value of \$32.972 billion, up about \$3.2 billion from the prior year thanks to continued strong inflows from the State Land Office and a net investment return of 7.9% for the calendar year.

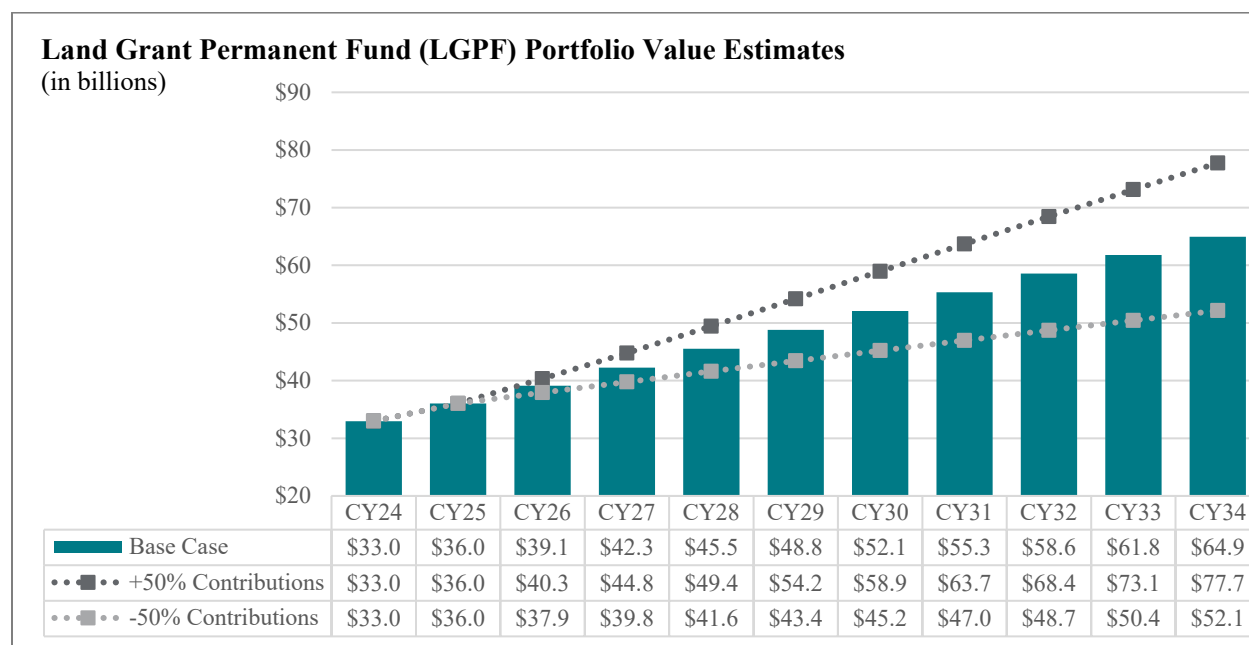
Notably, 2024 marked the seventh consecutive year in which contributions to the LGPF exceeded distributions to the fund's beneficiaries, and our current estimates show inflows could continue to largely offset or exceed distributions for the 7-10 year horizon. The ability of inflows to cover all or more of the distributions for an extended period provides the opportunity to capitalize on the compounding power of returns and was the basis for several of the asset allocation changes the Council made in 2023.

**Portfolio Value** – With inflows poised to exceed distributions for much of the investment horizon, the financial model developed by investment office staff for the LGPF projects the fund could grow to nearly \$65 billion over a 10-year investment horizon, an annualized increase of about 7.1%. This estimate is based upon RVK's long-term assumptions for investment return, estimated contributions from the New Mexico State Land Office outlined in the inflows analysis section above, and the fund's constitutional distribution

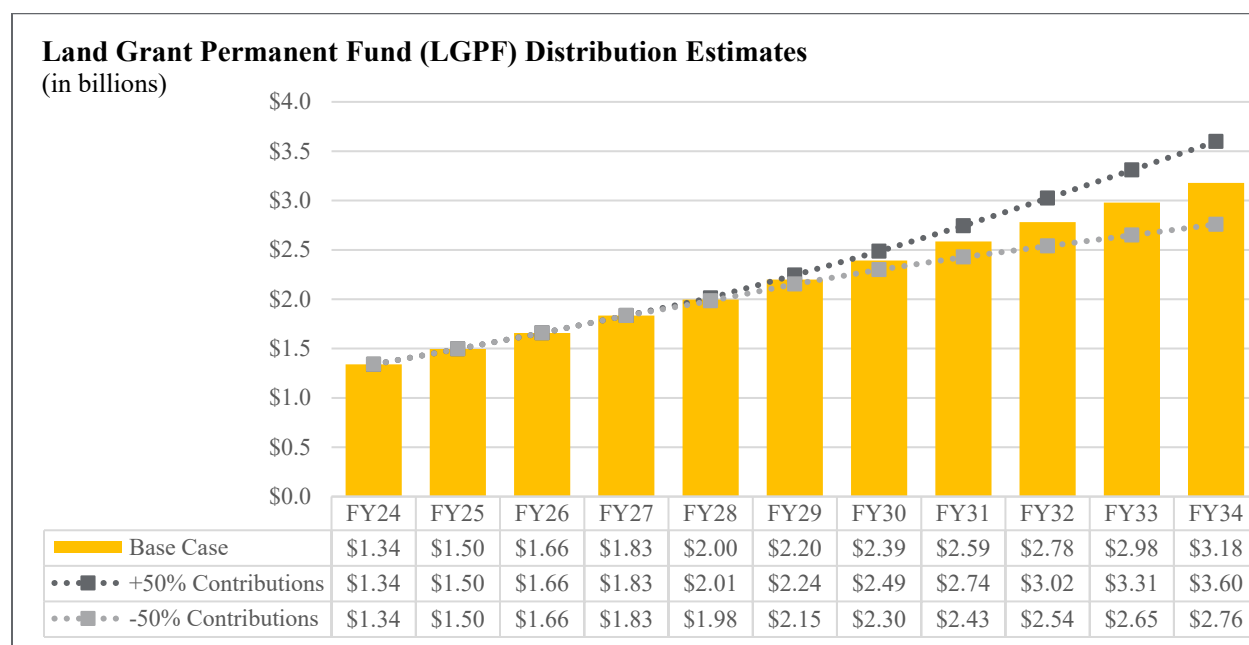
## FY 2026 Annual Investment Plan

policy. Given the increased uncertainty in the economy and financial markets, as well as potential volatility in energy-related fund contributions, these figures should only be used as a guide.

Strong inflows are a significant driver of the fund's projected growth over the investment horizon. To show the impact of the inflow estimates on the fund growth projections, the chart below illustrates the differences in expected portfolio value if contributions to the fund are assumed to be +/- 50% of the estimates in our base case.

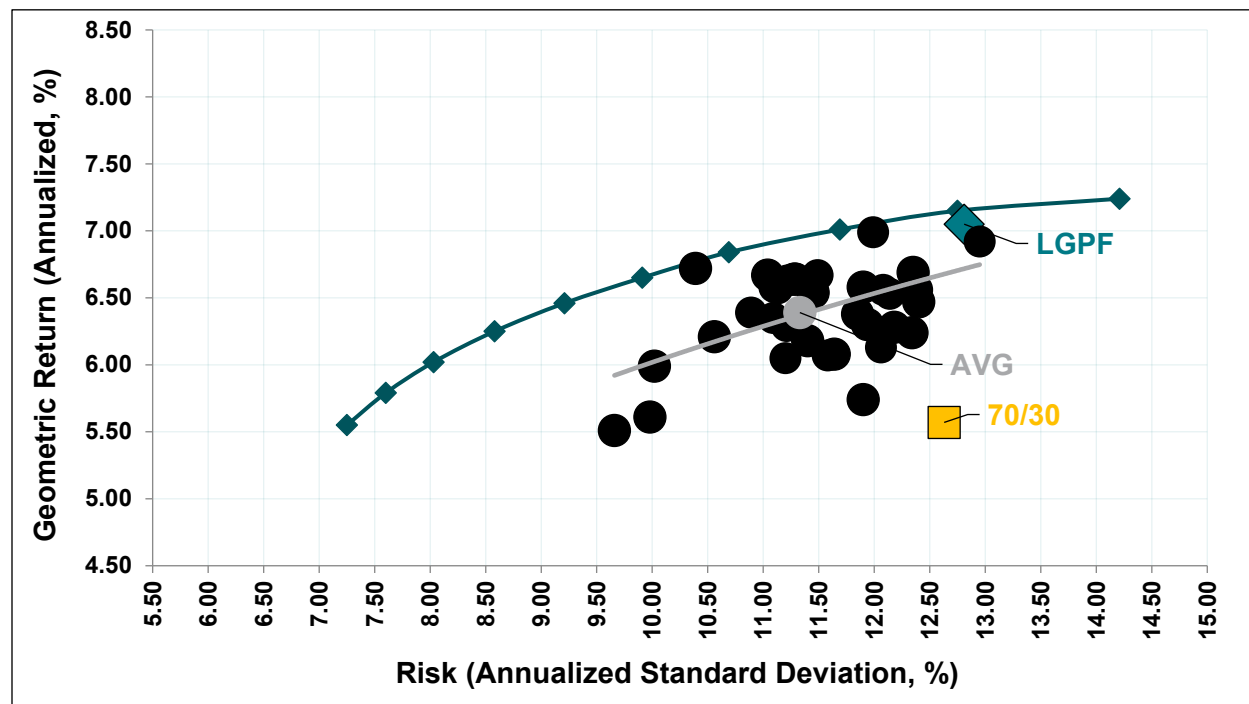


**Distributions** – Using the same long-term assumptions, annual distributions from the LGPF are projected to rise to roughly \$3 billion by the end of the 10-year investment horizon. This equates to an annualized growth rate of about 9%. The same cautions as above apply.



## FY 2026 Annual Investment Plan

**Black Dot Analysis** – The “Black Dot” analysis utilizes a custom peer group of 34 public investment funds as a point of comparison for the LGPF. Data for each institutional fund is collected from their respective annual reports, and the LGPF’s asset allocation is compared with the projected returns and risk profiles of the peer group using RVK’s 2025 capital market assumptions. As shown in the chart below, the LGPF is among the most efficiently allocated funds when compared to the Black Dot peers.



### Severance Tax Permanent Fund

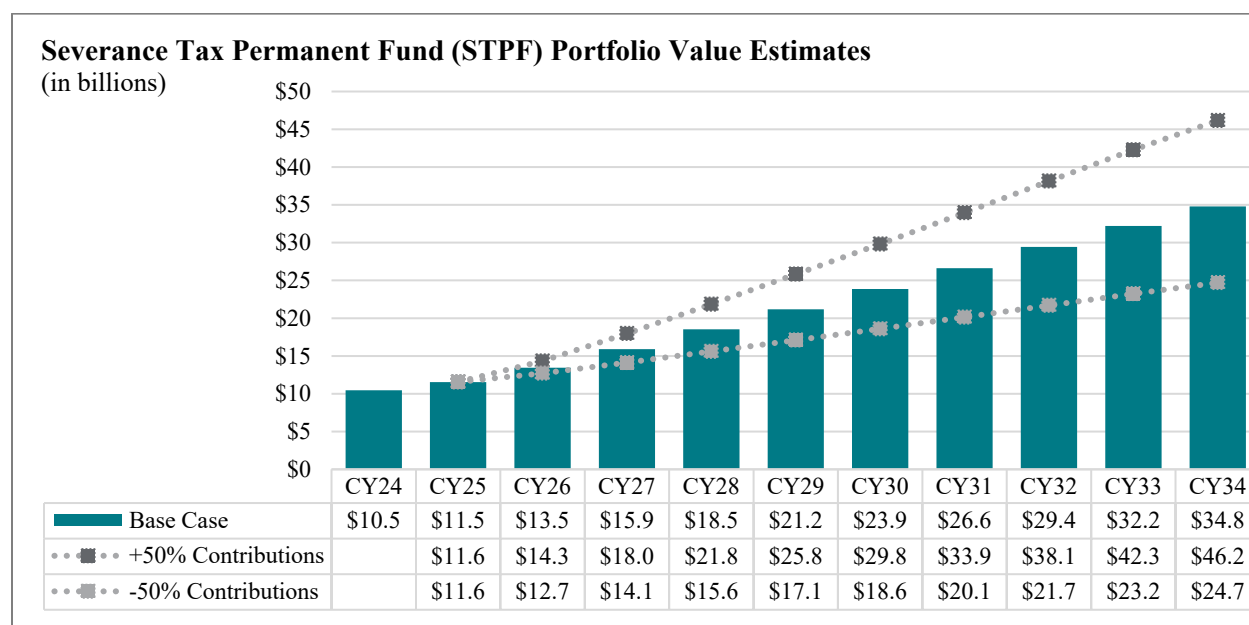
**Discussion** – The STPF ended 2024 at \$10.469 billion, an increase of over \$900 million from the prior year, driven by another year of strong inflows. The STPF had a net return of 6.56% for the calendar year, lower than that of the LGPF primarily due to the STPF’s allocations to the New Mexico private equity program and in-state economically targeted investments, which both saw negative performance over the calendar year.

With the STPF set to receive two new sources of oil and gas revenues in addition to severance tax receipts, contributions into the fund are expected to continue to exceed distributions from the fund for the investment horizon. This is rather extraordinary for the STPF since inflows exceeded distributions just once in the 20 years prior to 2020.

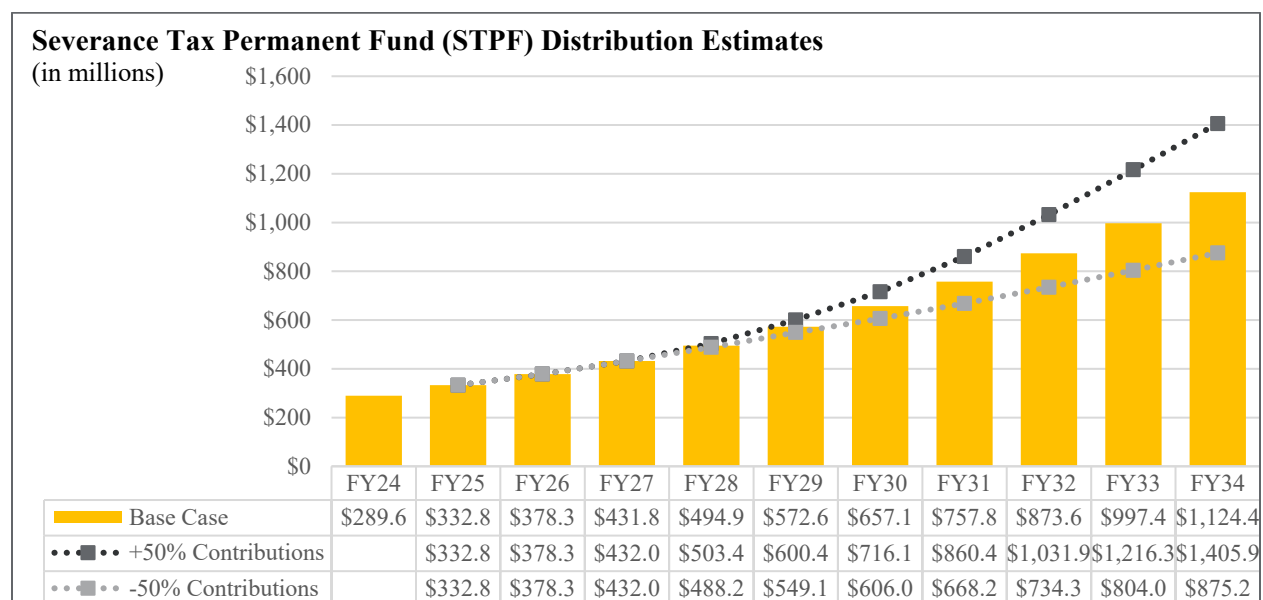
**Portfolio Value** – The STPF is modeled in a similar manner to that of the LGPF. The fund is projected to grow to more than \$34 billion over the 10-year investment horizon, an annualized increase of 12.7%. This projection is based upon RVK’s long-term assumptions for investment return, estimated inflows from tax and royalty collections outlined in the inflows analysis section of this report, and the fund’s constitutional distribution policy. Given the uncertainty in the economy and financial markets, as well as potential volatility in energy-related fund contributions, these figures should only be used as a guide.

## FY 2026 Annual Investment Plan

Because of their importance, it is worth reemphasizing that the new revenue sources into the fund are the primary driver of the STPF growth expectations illustrated below. These projections are heavily dependent on the assumption that no legislative changes to the statutory formulas for distributing tax and royalty collections to the STPF are made and that those tax and royalty collections are in line what we are expecting based on the current outlook for oil and natural gas prices and production trends in New Mexico. The chart below illustrates the differences in expected portfolio value if contributions to the fund are assumed to be +/- 50% of the estimates in our base case.



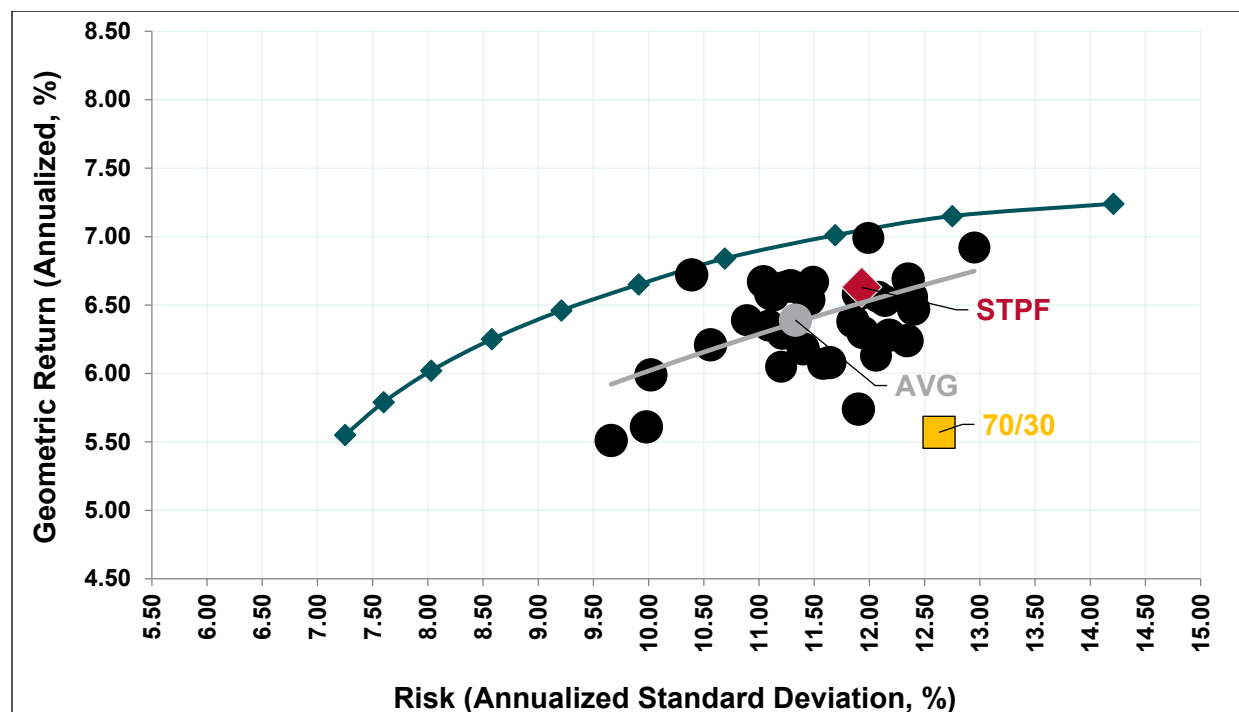
**Distributions** – Using the same long-term assumptions, annual distributions from the STPF are expected to rise to over \$1.1 billion by the end of the 10-year investment horizon. This equates to an annualized growth rate of about 14.5%. With these estimates heavily dependent upon the new sources of oil and gas tax and royalty inflows into the STPF, the same cautions as above apply.





## FY 2026 Annual Investment Plan

**Black Dot Analysis** – Using the same “Black Dot” custom peer group of 34 public investment funds, the STPF’s long-term asset allocation is compared with the projected returns and risk profiles of the peer group using RVK’s 2025 capital market assumptions.



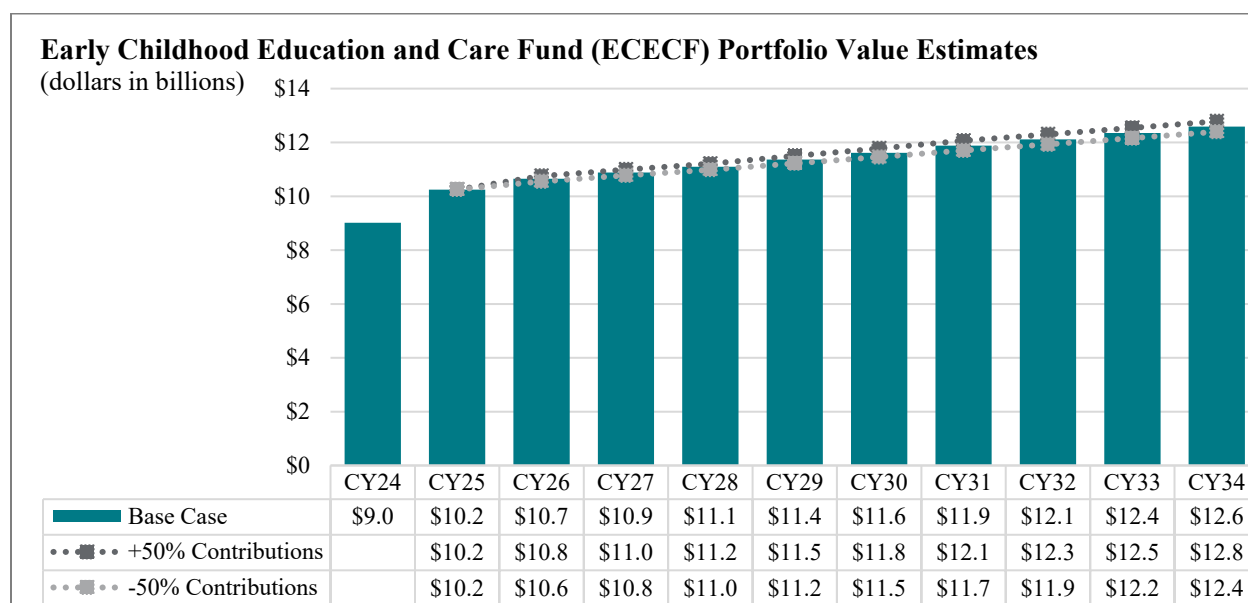
### Early Childhood Education and Care Fund

**Discussion** – The remarkable growth of the ECECF continued in 2024. The fund ended the year at \$9.016 billion, up from \$5.7 billion in CY23 due to massive contributions of windfall oil and gas tax and royalty revenues. However, as discussed in last year’s annual investment plan, contributions into the fund are likely to dry up over time as the threshold for transfers to the fund (oil and gas tax and royalty revenues exceeding a five-year average) increases and becomes harder to beat. As contributions into the fund dwindle, the ECECF will likely need to rely on investment returns to cover future distributions, a prospect that underpins many of the differences in the fund’s asset allocation than that of the LGPF or STPF.

**Portfolio Value** – The ECECF is also modeled in a similar manner to the LGPF. The fund is estimated to reach more than \$12.5 billion over the 10-year investment horizon, an annualized increase of 3.4%. This projection is based upon RVK’s long-term assumptions for investment return, estimated inflows from windfall oil and gas production taxes and federal royalties outlined in the inflows analysis section of this report, and the fund’s statutory distribution policy.

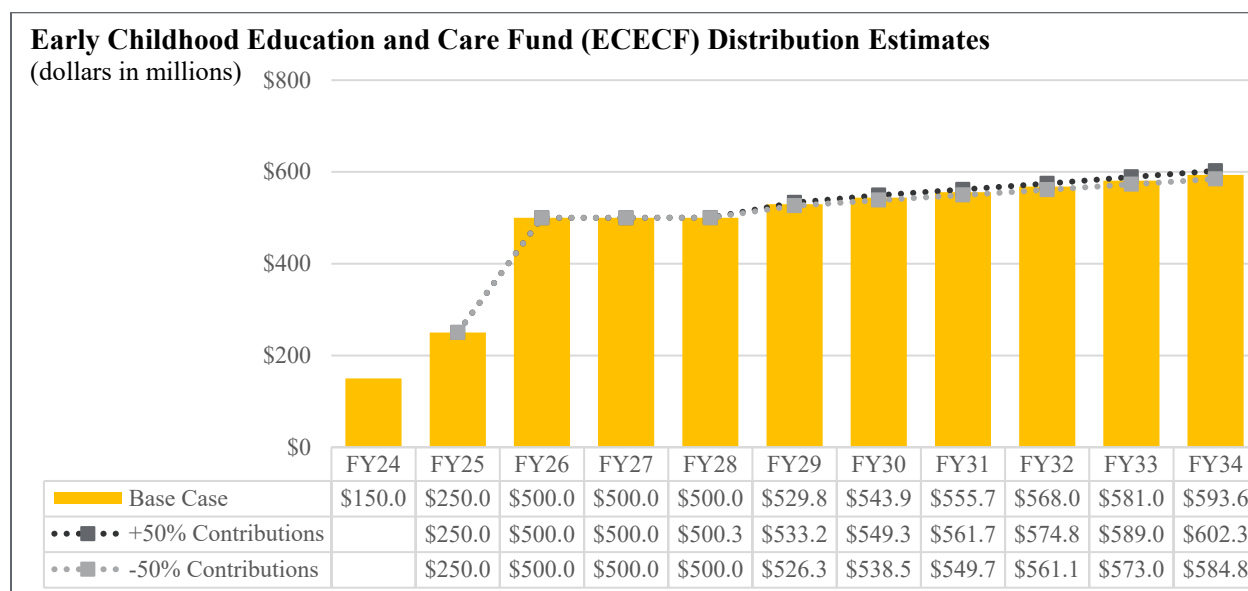
In prior years’ annual investment plans, we noted the significant impact oil and gas inflow estimates had on the future portfolio value estimates for the ECECF. However, with future contributions to the fund expected to diminish, the impact of a +/- 50% inflow estimate no longer has the same impact on expected future fund growth that it’s had in previous iterations of this report, as illustrated in the chart below. Still, a sudden spike in commodity prices could raise oil and gas tax and royalty collections above their five-year averages unexpectedly, resulting in greater contributions to the fund than our current estimates anticipate.

## FY 2026 Annual Investment Plan



**Distributions** – In the 2025 legislative session, the Legislature increased the minimum distribution from the ECECF from \$250 million to \$500 million.<sup>7</sup> Our models suggest the fund would have grown to that distribution amount organically over the next few years, and the increase in the minimum distribution effectively “sped up” the timing for distributions of that size to occur.

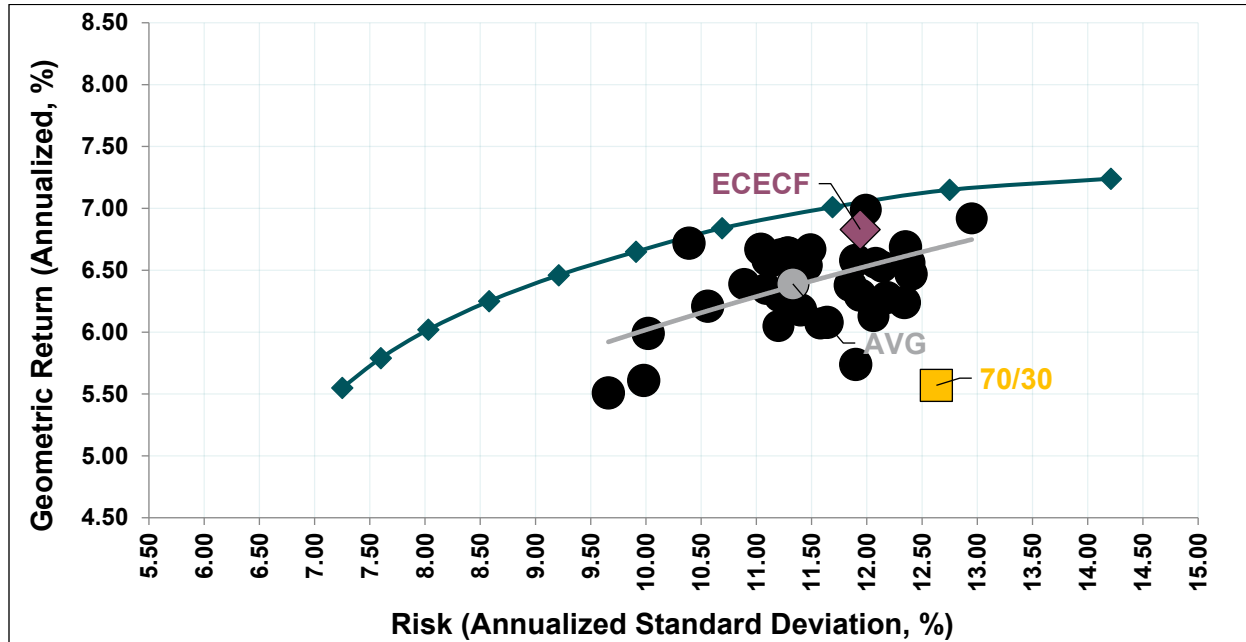
Using the same long-term assumptions as described above, we expect the fund to distribute the minimum required \$500 million for about three years before the fund’s statutory spending policy – which distributes 5% of the three-year average market value of the fund – to grow above the minimum threshold. By the end of the 10-year investment horizon, we expect fund distributions could reach about \$594 million, which is slightly lower than the expectation in last year’s annual investment plan, largely due to the near-term speed up in distributions.



<sup>7</sup> See House Bill 71 (2025)

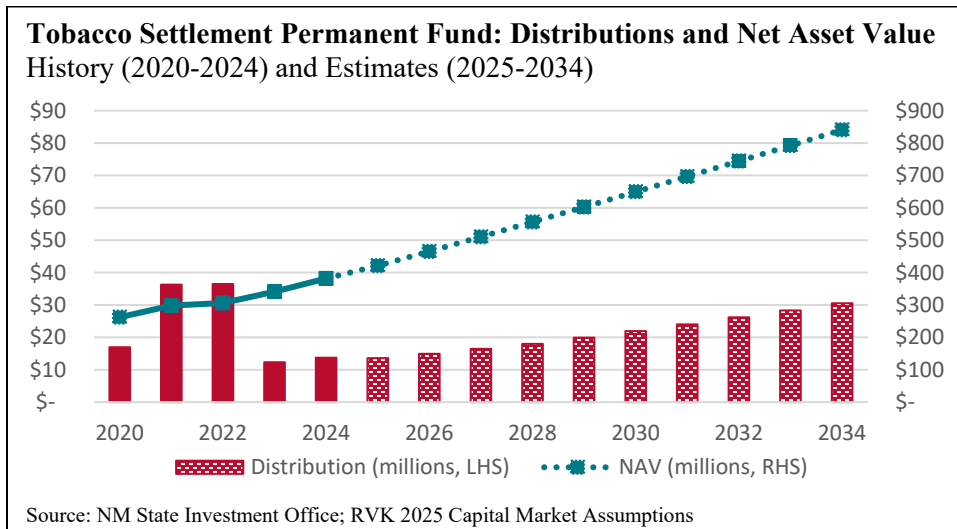
## FY 2026 Annual Investment Plan

**Black Dot Analysis** – Using the same “Black Dot” custom peer group of 34 public investment funds, the ECECF’s asset allocation is compared with the projected returns and risk profiles of the peer group using RVK’s capital market assumptions. The chart below shows the ECECF is efficiently allocated funds when compared to the Black Dot peers.



### Tobacco Settlement Permanent Fund

**Discussion, Portfolio Value & Distributions** – The Tobacco Settlement Permanent Fund (TSPF) ended 2024 with a market value of \$381.9 million, up nearly \$41 million from 2023 and returning 7.74% for the calendar year. The chart below illustrates potential growth of the TSPF and its distributions over the investment horizon. This projection is modeled based on RVK’s long-term assumptions for investment return, estimated inflows from tobacco settlement revenues, and the fund’s statutory distribution policy of 4.7% of the 5-year average market value of the fund. Given the increased uncertainty in the economy and the financial markets, these figures should only be used as a guide.



## FY 2026 Annual Investment Plan

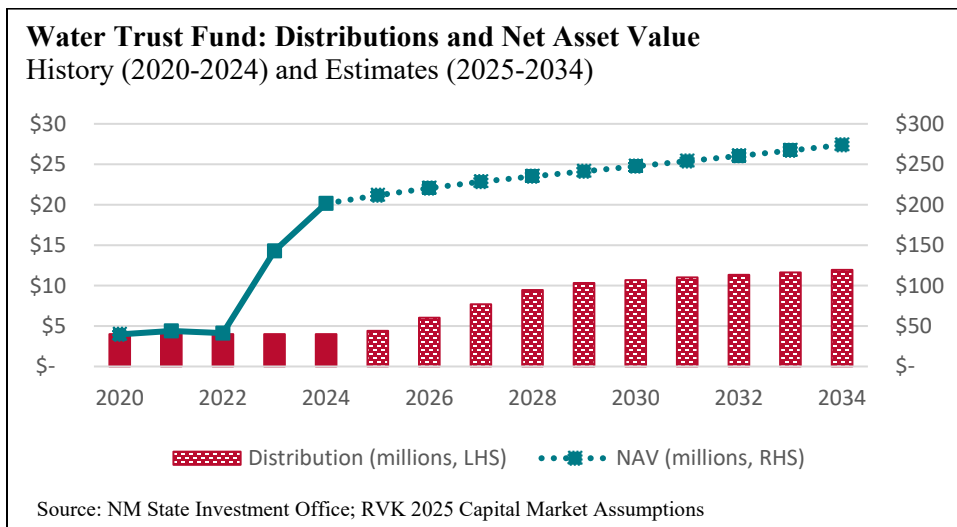
### Water Trust Fund

**Discussion, Portfolio Value & Distributions** – The Water Trust Fund (WTF) ended 2024 with a market value of \$201.6 million, up about \$59 million from the prior year, and earning a 7.73% return over the calendar year.

The WTF relies on one-time legislative appropriations for inflows, and the fund’s spending policy is set in statute at \$4 million/year, until the time in which a distribution of 4.7% of the rolling 5-year average would exceed that amount. The fund has historically only distributed the \$4 million annually, since the aggressive spending policy relative to the fund’s size hindered its ability to grow.

Fortunately, recent legislative appropriations (including an additional \$50 million deposited in FY25) are expected to sustain the fund for many years to come. Additionally, these deposits effectively sped up the timeline for the fund to begin distributing more dollars via the 4.7% mechanism. The fund will distribute \$4.4 million in FY26, with distributions have the potential to grow to more than \$10 million by the end of the 10-year investment horizon.

This projection is modeled based on the long-term assumptions for investment return, the fund’s statutory distribution policy, and assuming no additional legislative appropriations. Given the increased uncertainty in the economy and the financial markets, these figures should only be used as a guide.



### Tax Stabilization Reserve

**Discussion, Portfolio Value & Distributions** – The Council began managing the Tax Stabilization Reserve (TSR) in 2019 and since then the fund has grown from \$527 million to a market value of \$2.24 billion at the end of 2024. The rapid growth of the fund is primarily attributable to large inflows received in 2020 and again in 2022, totaling about \$1.2 billion and \$460 million, respectively. The TSR received another \$724 million in excess operating reserve revenues at the beginning of CY24.

During the 2024 legislative session, the Legislature transferred \$959 million out of the TSR to fund the new Higher Education Trust Fund. Additionally, the Legislature removed the provision allowing the TSR to receive excess operating reserve revenues, which was responsible for over 80% of the fund’s growth since 2019. With total general fund reserve balances currently sitting at healthy levels, we do not expect the TSR to receive any additional oil and gas tax revenue – therefore, we are not expecting any additional contributions into the TSR over the investment horizon.

## FY 2026 Annual Investment Plan

Although the TSR does not have a regular distribution policy, as a reserve fund it is one of the first ‘points-of-contact’ to shore up the state budget should there be a shortfall of general fund revenue. Such occurrences are difficult to predict, but we recognize the possibility of unexpected drawdowns and have structured the fund’s asset allocation with that understanding in mind.

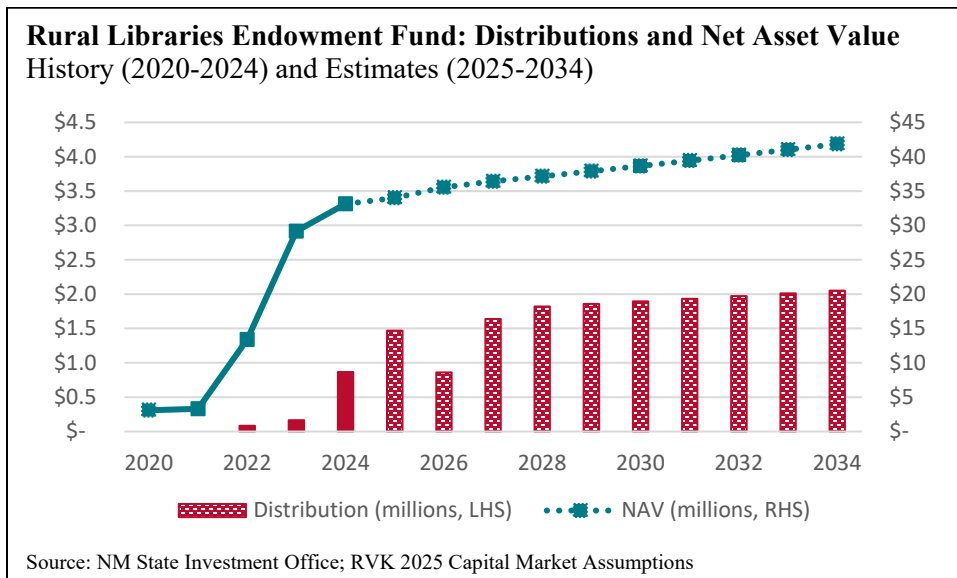
### **Rural Libraries Endowment Fund**

**Discussion, Portfolio Value & Distributions** – The Rural Libraries Endowment Fund (RLEF) was created in 2019, seeded with a \$1 million appropriation and since receiving additional appropriations of \$2 million in 2020, \$10 million in 2022, \$15 in 2023, and \$2.5 million in 2024. As of the end of the 2024, the fund was valued at \$33.1 million and earned an investment return of 7.84% for the calendar year.

For FY22-FY27, the fund’s spending policy is limited to the difference between investment income in the prior calendar year and all fund distributions, up to 5% of prior calendar year-end value. The RLEF distributed about \$772 thousand in FY25 and is expected to distribute about \$1.5 million in FY26. Beginning in FY28, the fund will distribute the average of fund investment income yielded in the prior five calendar years, up to 5% of prior calendar year-end value.

Like the Water Trust Fund, the RLEF relies on legislative appropriations for inflows, and given the fund’s size and manageable spending policy, the Council has structured this fund to match the WTF’s asset allocation with a high growth focus and larger allocations to private asset classes.

The chart below illustrates potential growth of the RLEF and its distributions over the investment horizon following the recent legislative appropriations. This projection is modeled based on the long-term assumptions for investment return, the fund’s statutory distribution policy, and assuming no additional legislative appropriations. However, because the RLEF distributes investment earnings rather than a percentage of the fund’s market value, distributions are entirely dependent on annual portfolio performance and are likely to be more volatile than is illustrated below.



### **Conservation Legacy Permanent Fund**

**Discussion, Portfolio Value & Distributions** – The Conservation Legacy Permanent Fund (CLPF) was created with a \$50 million appropriation in 2023 and later bolstered with a \$300 million appropriation in

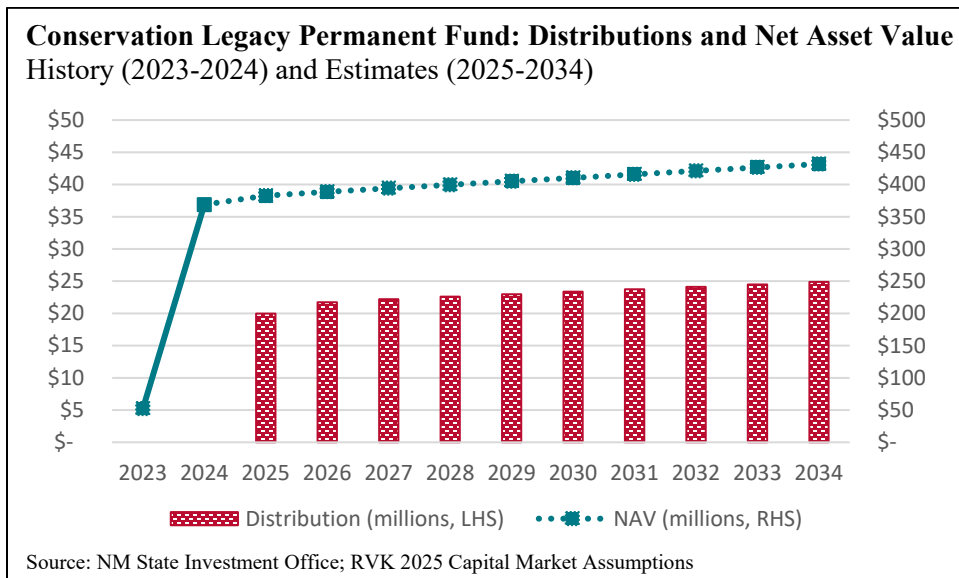
## FY 2026 Annual Investment Plan

July 2024. Like many of the new funds under the Council’s management, inflows to the fund are conditional upon one-time legislative appropriations.

The CLPF distributes any investment earnings exceeding \$5 million from the previous fiscal year, if the balance of the fund on July 1 is more than \$150 million. For FY24 and FY25, the fund was unable to satisfy both conditions and no distribution was made. Given the new appropriations into the fund, the CLPF is expected to begin making distributions in FY26, assuming investment earnings for the prior fiscal year exceeds \$5 million.

Since the fund distributes any investment earnings over \$5 million, this also means growth of CLPF’s market value due to investment return is limited to a maximum of \$5 million per year.

The chart below illustrates potential growth of the CLPF and its distributions over the investment horizon following the recent legislative appropriations. This projection is modeled based on the long-term assumptions for investment return, the fund’s statutory distribution policy, and assuming no additional legislative appropriations. However, because the CLPF distributes investment earnings rather than a percentage of the fund’s market value, distributions are entirely dependent on annual portfolio performance and are likely to be more volatile than is illustrated below.



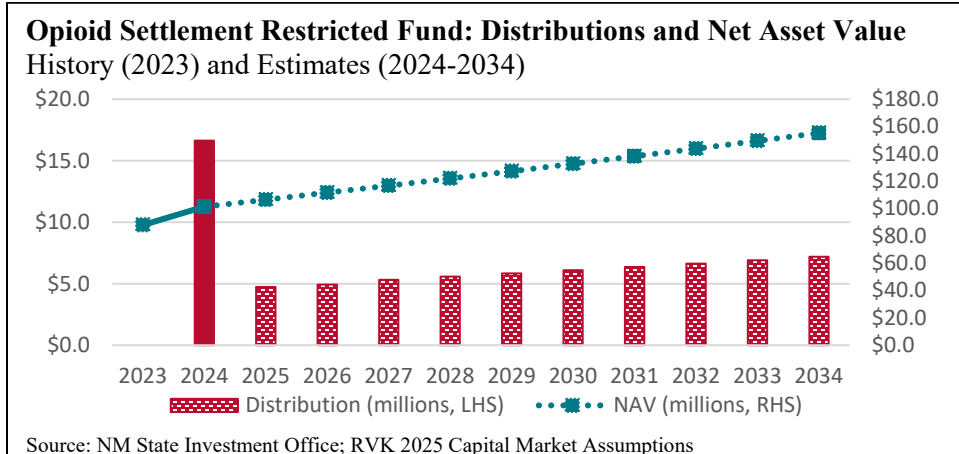
### **Opioid Settlement Restricted Fund**

**Discussion, Portfolio Value & Distributions** – The Opioid Settlement Restricted Fund (OSRF) was created in 2023 through settlement dollars from opioid crisis litigation. The fund initially received \$85.5 million in 2023 and an additional \$22.7 million in 2024. The fund has the potential to receive ongoing settlement revenues; however, the size and timing of these potential inflows are currently unknown. The Legislative Finance Committee’s fiscal impact report of the original bill creating the fund estimated the fund could receive about \$3 million per year for 18 years.

The OSRF’s distribution policy is 5% of the fund’s three-year average market value. The Legislature appropriated \$12.7 million in FY24 from the corpus of the fund for opioid crisis recovery programs, and the OSRF distributed \$3.9 million in FY25 as part of its normal distribution policy. The fund is expected to make a \$4.7 million distribution in FY26.

## FY 2026 Annual Investment Plan

To model potential growth in the portfolio value and distributions, we assume an inflow of \$3 million per year for 18 years, distributions consistent with the statutory distribution policy, and investment returns consistent with our long-term capital market assumptions. However, given the increased uncertainty in the economy and the financial markets, as well as uncertainty regarding potential future appropriations from the corpus of the fund, these figures should only be used as a guide.

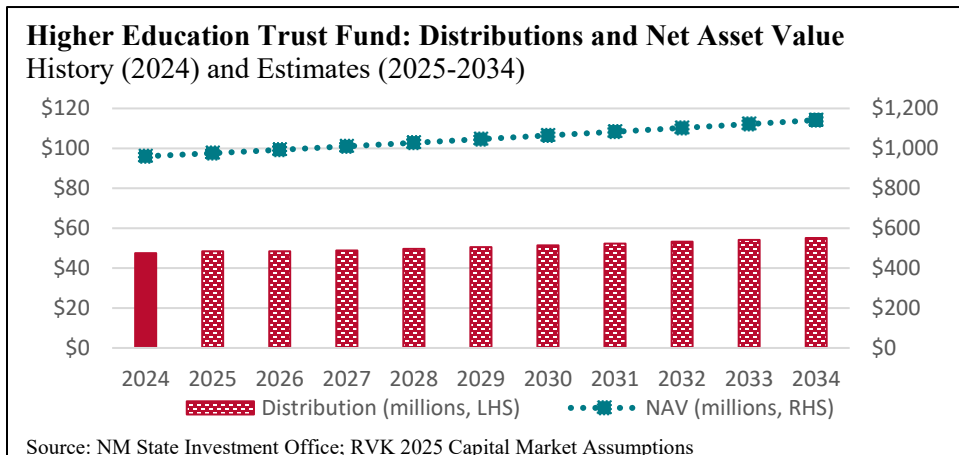


### Higher Education Trust Fund

**Discussion, Portfolio Value & Distributions** – The Higher Education Trust Fund (HETF) was created in May 2024 through a \$959 million transfer from the Tax Stabilization Reserve. Similar to other new funds under our management, the HETF relies on one-time legislative appropriations for inflows.

The trust fund made its first distribution in FY25 of \$47.95 million as required by statute. Beginning in FY26, the HETF's distribution policy will be 5% of the rolling three-year average market value of the fund, with an expected distribution amount of \$48 million.

In May 2024, the Council approved an allocation for the HETF equivalent to that of the Early Childhood Education and Care Fund due to the similar characteristics of the two funds. The chart below illustrates potential growth of the HETF and its distributions over the investment horizon. This projection is modeled based on the long-term assumptions for investment return, the fund's statutory distribution policy, and assuming no additional legislative appropriations. Given the increased uncertainty in the economy and the financial markets, these figures should only be used as a guide.





# FY 2026 Annual Investment Plan

## Capital Development and Reserve Fund

**Discussion** – The Capital Development and Reserve Fund (CDRF) was created in the 2024 legislative session through a one-time sweep of cash balances in the severance tax bonding fund in FY24 that totaled \$475.8 million. Investment earnings for the remainder of the calendar year pushed the CDRF’s year-end market value to \$497.3 million.

The CDRF has a statutory spending policy to distribute 5% of the rolling three fiscal year average on January 1 of each year. The fund’s first statutory distribution of \$23.8 million will occur 2025.

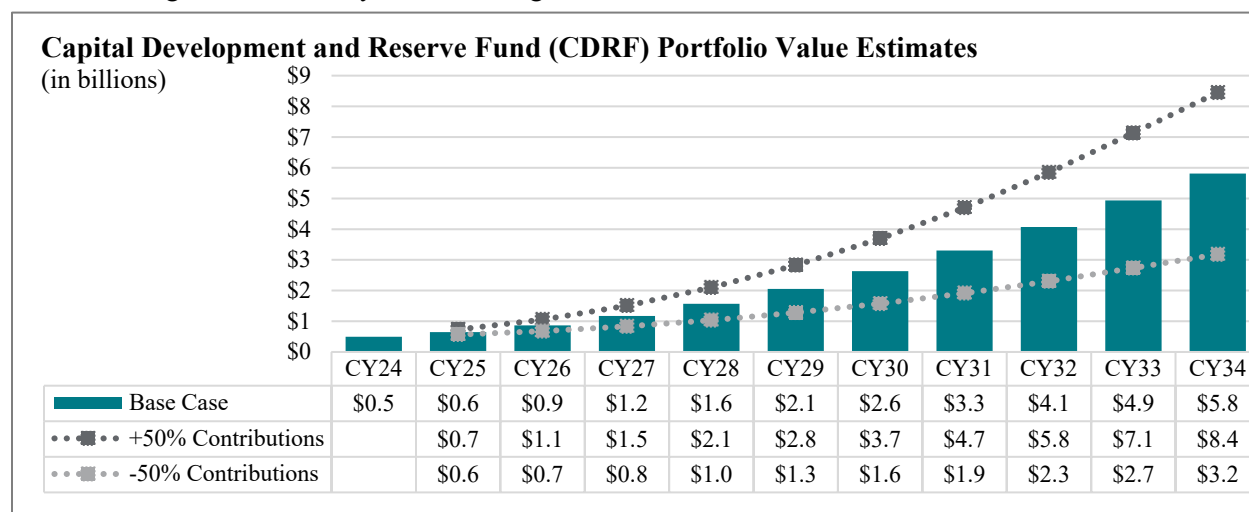
In addition to the regular statutory distribution, the corpus of the CDRF is subject to unlimited appropriation by the legislature for capital projects. It is unclear whether and how often the legislature may exercise this authority; however, given that the fund is subject to full appropriation at any time, a high degree of liquidity is needed. Therefore, the Council approved an asset allocation for the CDRF that emphasizes liquidity while maintaining moderate exposure to higher-growth assets to support the 5% annual distribution rate.

The fund will receive inflows from the state’s bonding fund, with the amount subject to bonding fund revenues and the state’s debt ratios, as discussed in the inflow analysis section above. The estimates are subject to considerable uncertainty and numerous factors such as volatility in oil and gas severance tax revenues, growth in outstanding debt across the state’s various bonding programs, state population growth, and state income growth.

**Portfolio Value** – The estimates below are modeled based upon RVK’s long-term assumptions for investment return, estimates from the NM Board of Finance on inflows from state debt savings, and the fund’s statutory distribution policy. Importantly the estimates assume the Legislature does *not* exercise its appropriation authority to spend directly from the corpus of the fund.

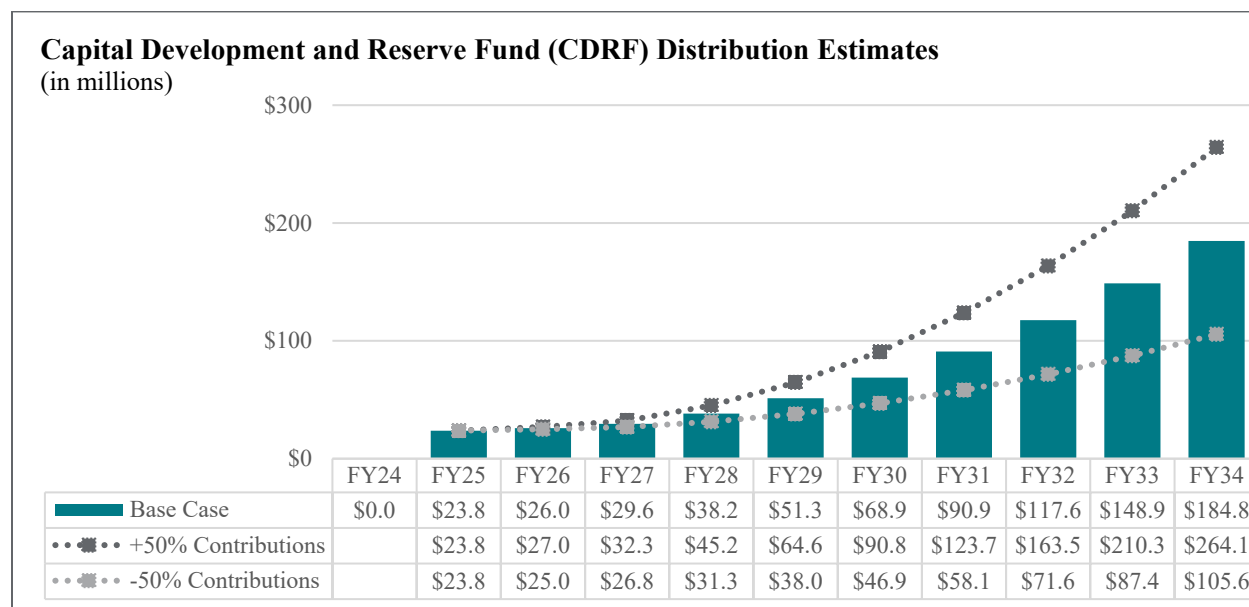
The potential for strong inflows is a significant driver of the fund’s projected growth over the investment horizon. To show the impact of the inflow estimates on the fund growth projections, the chart below illustrates the differences in expected portfolio value if contributions to the fund are assumed to be +/- 50% of the estimates in our base case.

Given the uncertainty in the economy and financial markets, as well as potential volatility in energy-related fund contributions, as well as uncertainty regarding potential future appropriations from the corpus of the fund, these figures should only be used as a guide.



## FY 2026 Annual Investment Plan

**Distributions** - Using the same long-term assumptions, annual distributions from the CDRF could rise to nearly \$185 million by the end of the 10-year investment horizon. The estimates are heavily dependent upon the inflows from state debt savings into the CDRF, as well as the assumption that the Legislature does not make appropriations directly from the corpus of the fund.



### **Workforce Development and Apprenticeship Trust Fund**

**Discussion, Portfolio Value & Distributions** – The Workforce Development and Apprenticeship Trust Fund (WDAF) was created in the 2024 legislative session with a \$30 million legislative appropriation. The fund has a statutory distribution policy of \$5 million per year the first two years and the \$3 million per year every year thereafter until the fund is exhausted. The first \$5 million distribution was made in July 2024.

Given the annual distribution amount is expected to comprise a significant and growing proportion of the Fund balance over time (e.g. 17% of the initial fund appropriation amount will be distributed in year 1), the Council approved an investment strategy that uses a multi-tiered approach to emphasize liquidity of near-term distributions and supports a modest expected return for the balance.

Without the benefit of investment earnings, the WDAF’s spending policy would deplete the fund within 8 years. Under the approved asset allocation structure, the fund may be able to achieve an additional 1-3 years of distributions. However, the exact final year of distribution is highly dependent on the prevailing interest rates within the respective liquidity tiers.

WDAF Asset Allocation		
Liquidity Tier	Asset Class	Long-Term
Tier I	Cash & Cash Equivalent	Current Year’s Distribution Amount (\$5M for 2024)
Tier II	Low Duration Fixed Income	Next Year’s Distribution Amount (\$5M for 2025)
Tier III	Public Market Fixed Income	50% of Remaining Amount (Credit Plus Pool)
	Private Market Fixed Income	50% of Remaining Amount

Asset allocation approved by the Council in June 2024.

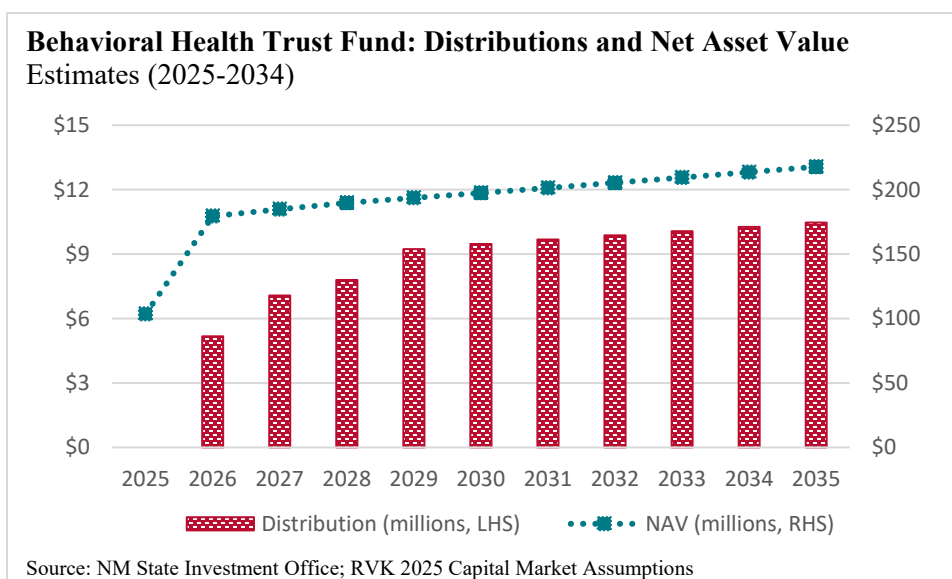
## FY 2026 Annual Investment Plan

### **Behavioral Health Trust Fund**

**Discussion, Portfolio Value & Distributions** – The Behavioral Health Trust Fund (BHTF) was created with a \$100 million appropriation in the 2025 legislative session. The fund may receive future inflows from state agency reversions from unspent monies on behavioral health appropriations. Additionally, from FY26-FY28, the fund will receive 50% of the oil and gas tax windfalls what would have otherwise gone to the Early Childhood Education and Care Fund.

Beginning in FY27, the BHTF’s distribution policy will be 5% of the rolling three-year average market value of the fund, with an expected first distribution amount of about \$5 million. In June 2025, the Council approved a growth-based asset allocation for the fund similar to that of the LGPF.

The portfolio value and distribution estimates below are modeled based on RVK’s long-term assumptions for investment return, estimated inflows from windfall oil and gas production taxes and federal royalties outlined in the inflows analysis section of this report, and the fund’s statutory distribution policy.



### **Medicaid Trust Fund**

**Discussion, Portfolio Value & Distributions** – The Medicaid Trust Fund (MTF) was created 2025 legislative session. The fund did not receive an initial appropriation but may receive revenues from state agency budget reversions and oil and gas royalty payment windfalls as detailed in the inflows analysis section above.

Beginning in FY30, the MTF’s distribution policy will be 5% of the rolling three-year average market value of the fund, provided that the fund’s market value is at least \$500 million. Additionally, the Legislature can make unlimited appropriations from the fund if federal Medicaid dollars fall below certain thresholds. Because the fund is subject to full appropriation at any time, a high degree of liquidity is needed. Therefore, the Council approved an asset allocation for the MTF that emphasizes liquidity while maintaining moderate exposure to higher-growth assets to support the fund’s ability to reach its distribution threshold.

## FY 2026 Annual Investment Plan

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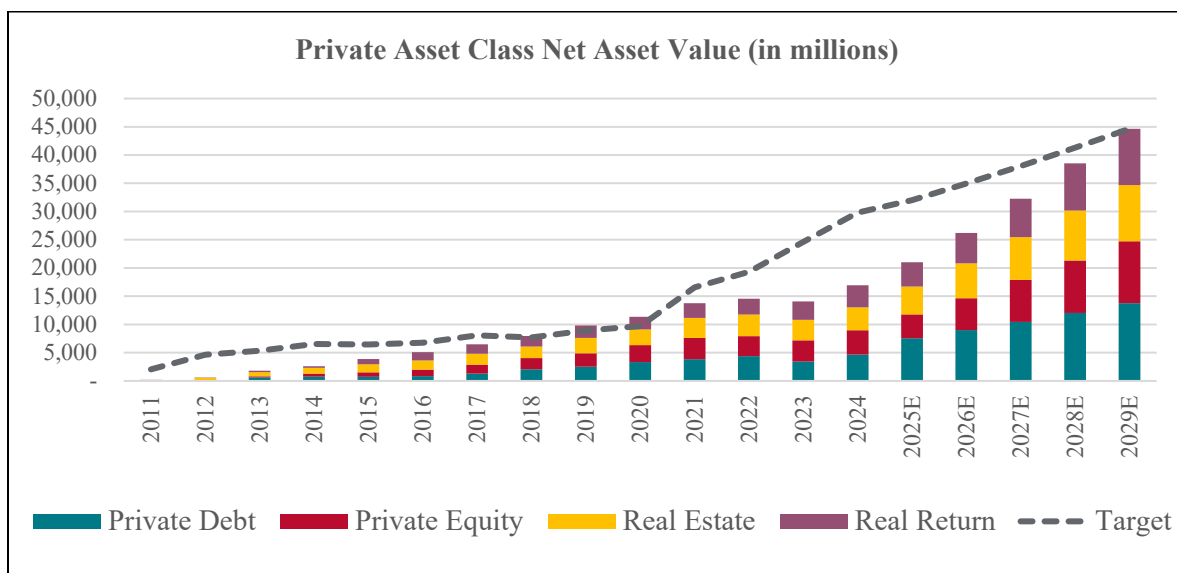
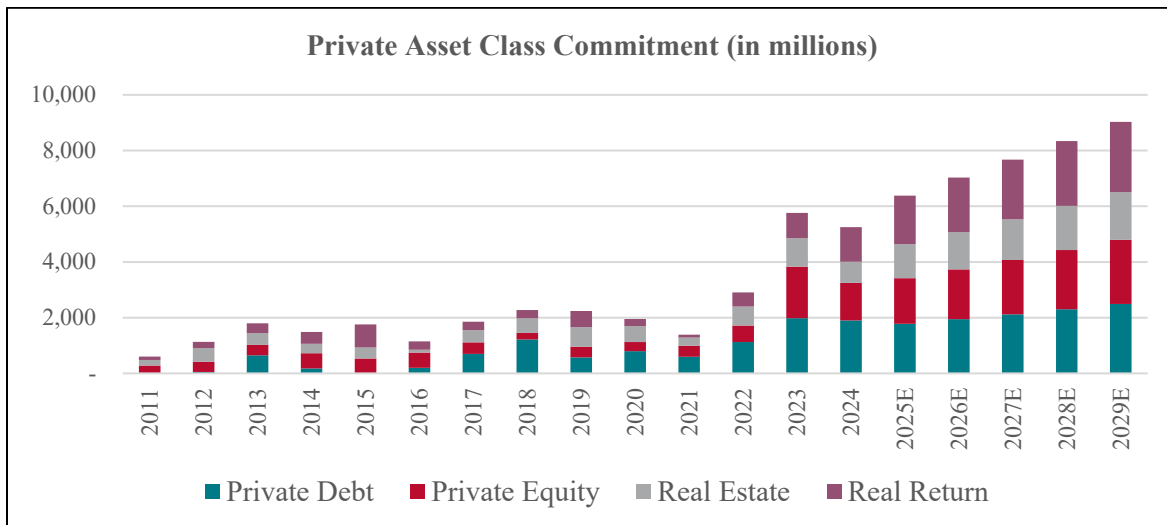
Our current estimates suggest the fund will not reach the threshold market value to begin making distributions within the 10-year investment horizon unless agency budget reversions are unexpectedly large or a commodity price spike sends oil and gas royalty payments well above their five-year averages.

# FY 2026 Annual Investment Plan

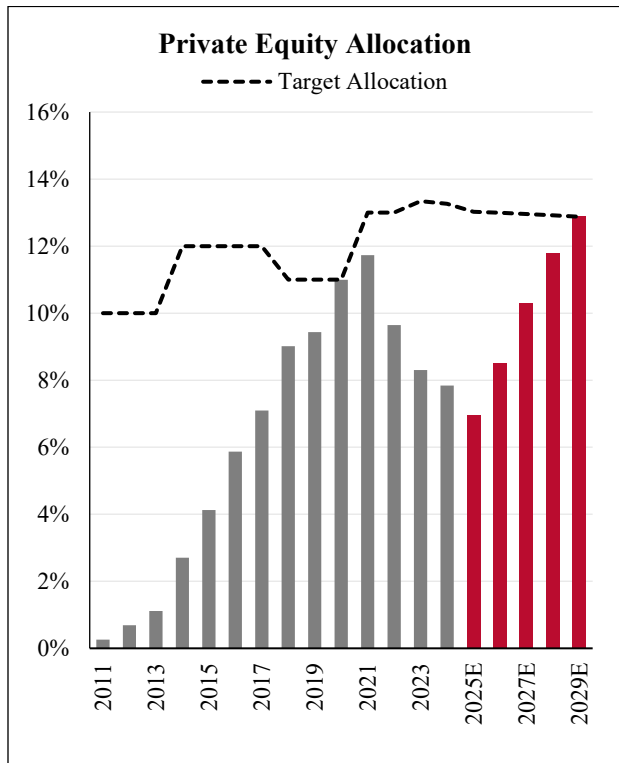
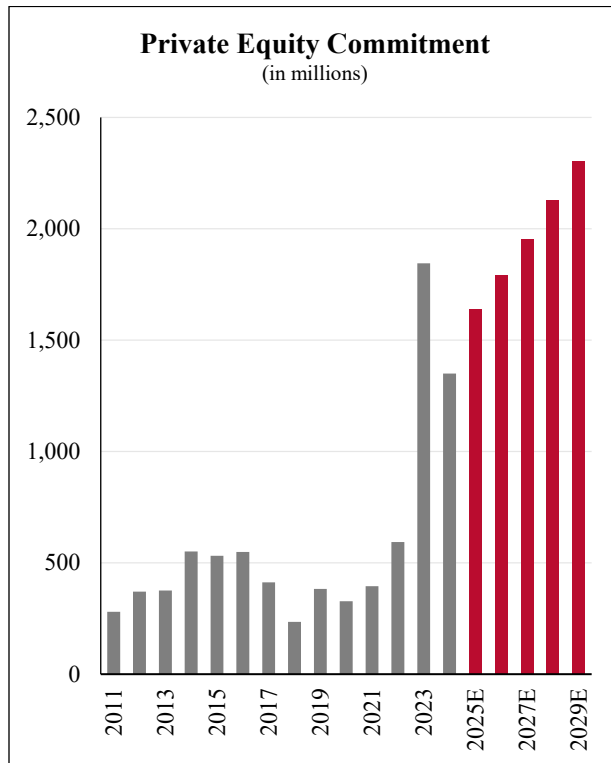
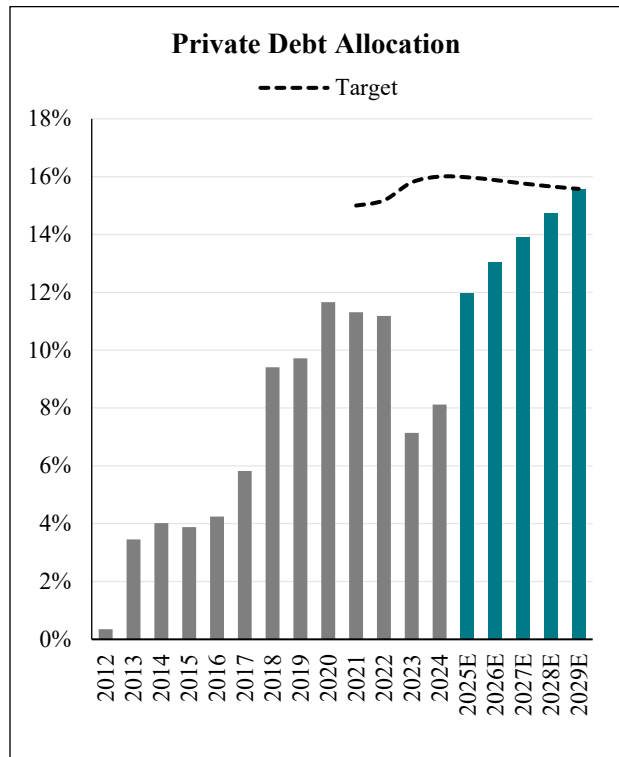
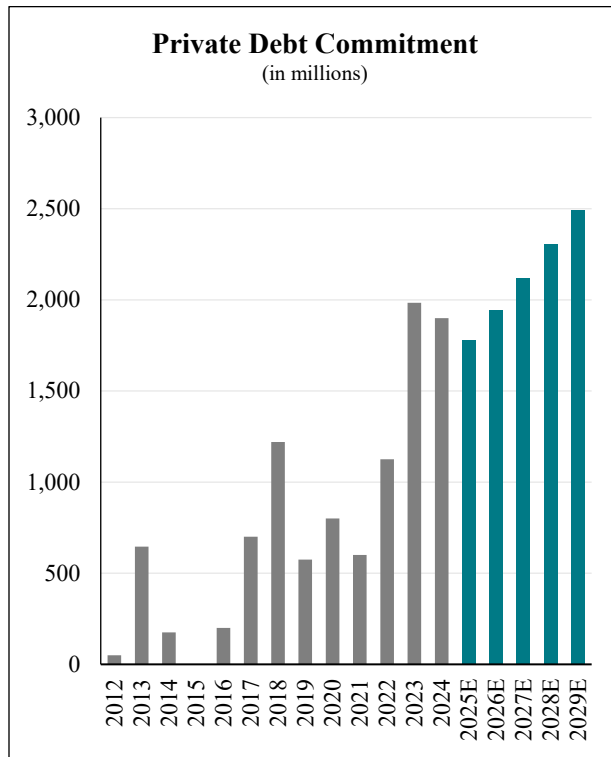
## Part IV: Pacing Analysis

Our pacing models project the annual level of commitment needed to achieve the target allocation for private asset classes over a specified period. The models use multiple inputs to forecast contributions, distributions, and net asset values. These inputs are largely based on historical data, with a subjective overlay applied to incorporate our forward-looking expectations. The models are frequently updated with actual information to reflect current market conditions.

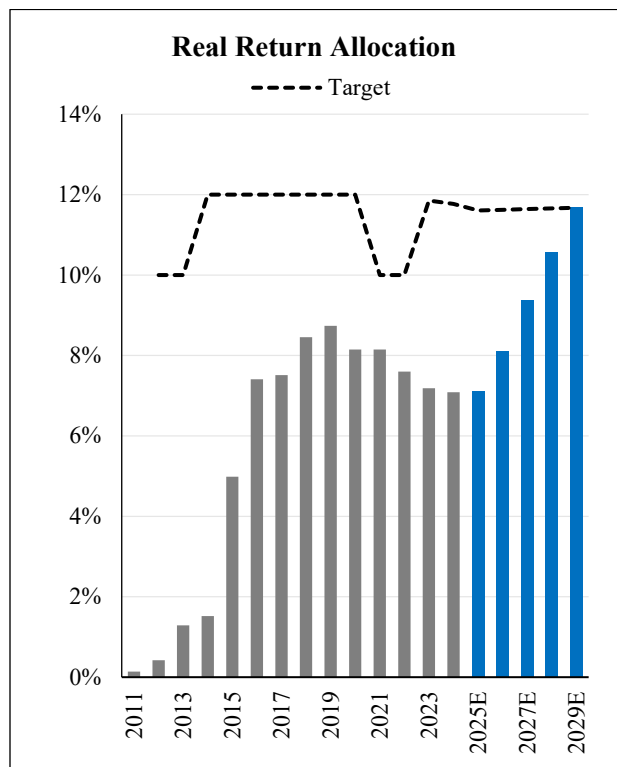
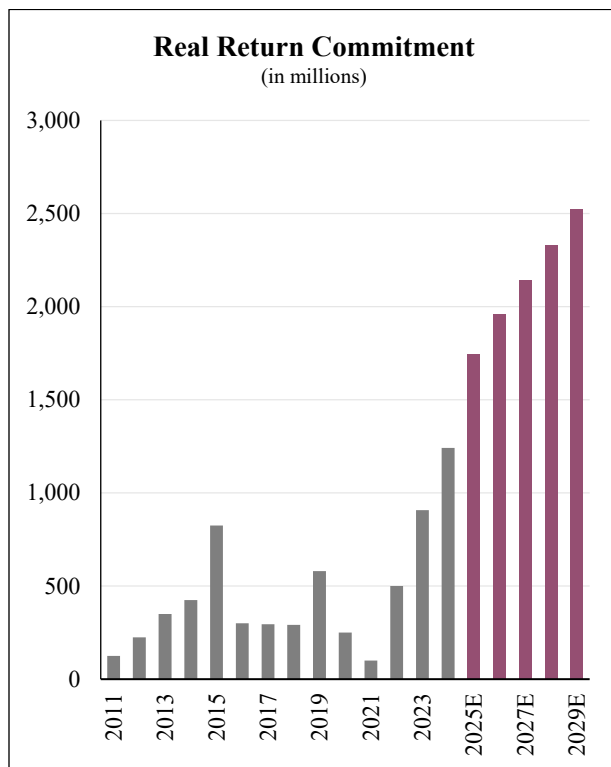
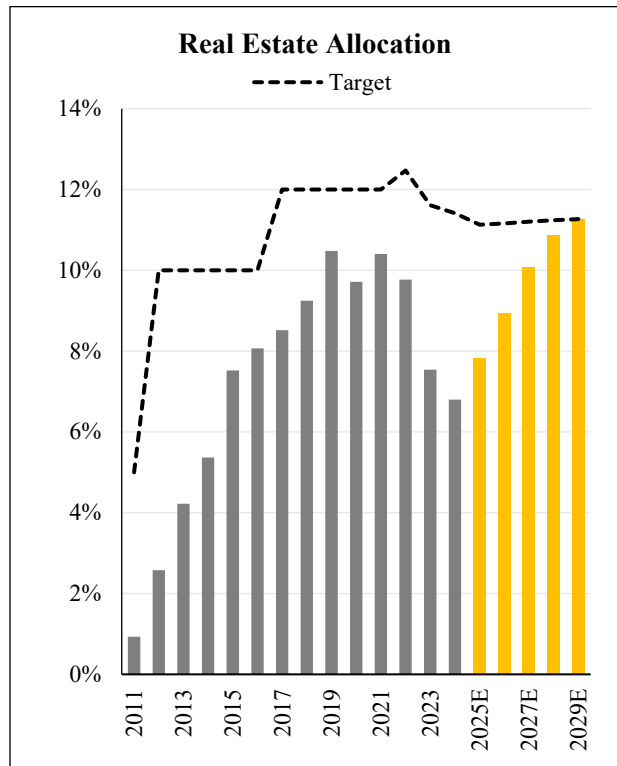
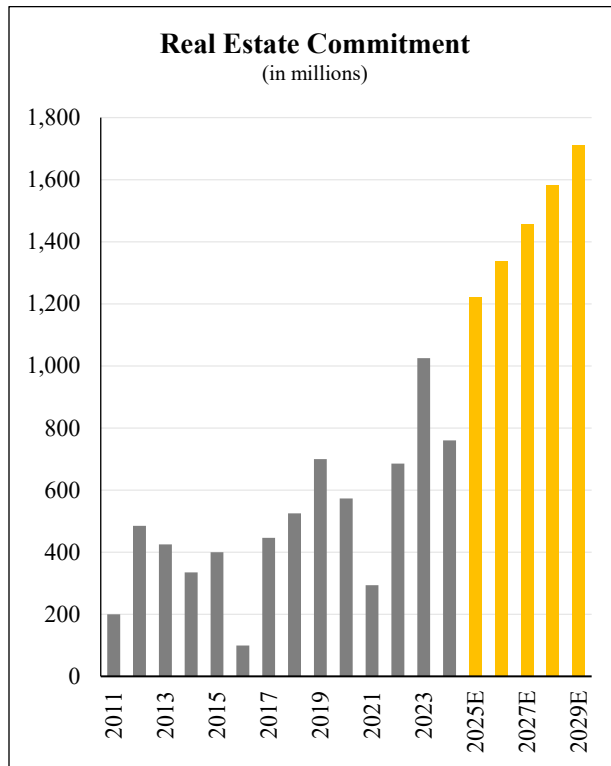
The charts below and on the following pages show the forecasted commitments, net asset values, and allocations since inception for each of the private asset classes. The conditions described throughout this plan have resulted in increasing levels of commitment. The contributions from increased levels of commitment have begun to inevitably overwhelm distributions, resulting in net cash flows deepening further, which should help to absorb some of our excess liquidity. By remaining deep into the j-curve, our capital can continue to compound. The target net asset values and allocations are expected to be achieved by the end of the 5-year period.



# FY 2026 Annual Investment Plan



## FY 2026 Annual Investment Plan





# FY 2026 Annual Investment Plan

## Part V: Asset Class Plans

### Public Markets: Equity

**Asset Class Summary** — The publicly traded equity portfolio is one of the cornerstone investments of the Permanent Funds and the most liquid of the major allocations within the Funds. The role of this portfolio is to generate meaningful real returns through long-term capital appreciation and dividend income.

Equity exposure is achieved through a combination of low-cost passive investments and targeted active management. In more efficient markets, such as US large-cap stocks, the focus is increasingly on capturing market returns through the use of low-cost index strategies. In less efficient areas such as international markets and small cap stocks, greater focus is given to identifying skilled active managers that we believe can achieve superior risk-adjusted returns.

The Public Equity asset class has a target allocation of 40% of the Land Grant Permanent Fund and Severance Tax Permanent Fund total assets, with current US and ex-US target allocations of 20% each, or 50% of public equity assets each.

The table below shows the actual and target allocations of the public equity portfolio.

% of Public Equity Asset Class (12/31/2024)					
Sub-Asset Class	Target (%)	Actual (%)	Target	Actual	Strategies (#)
<b>Global</b>				<b>\$19,941,499,469</b>	
<b>US</b>	<b>50.0%</b>	<b>49.73%</b>	<b>\$9,970,749,735</b>	<b>\$9,916,001,169</b>	
Active	16.0%	20.2%	\$3,190,639,915	\$4,031,452,709	4
Passive	34.0%	29.5%	\$6,780,109,819	\$5,884,548,459	1
<b>Ex-US</b>	<b>50.0%</b>	<b>50.27%</b>	<b>\$9,970,749,735</b>	<b>\$10,025,498,300</b>	
Active	45.0%	42.6%	\$8,973,674,761	\$8,498,742,399	8
Passive	5.0%	7.6%	\$997,074,973	\$1,526,755,901	2

**Portfolio strategy, markets, and recent performance** — The publicly traded equity portfolios are primarily constructed to match the market sensitivity of the benchmark while focusing on the efficient deployment of active risk. In-depth studies have been undertaken by staff, with the assistance of general consultant RVK, to identify market segments in which managers can more reliably generate long-term excess returns, with market-cap passive strategies receiving higher allocations in more informationally efficient segments.

Active risk strategies have been evaluated and selected in the context of their respective US or ex-US composites, with the objective of maintaining idiosyncratic stock exposures, managing tracking error and factor risks. Individual active risk managers are expected to maintain portfolio exposures consistent with their mandates and established risk budgets, while generating positive excess returns against their respective

## FY 2026 Annual Investment Plan

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benchmarks, both in up and down-market conditions. This structure is intended to result in diversified exposures across size, style and geographic categories, allowing the publicly traded equity composite to consistently generate excess returns in all types of market environments.

The calendar year of 2024 was another constructive year for stocks. In the United States, the Russell 3000 Index returned 23.8%. It was a year of disparate outcomes by sector as the Technology, Communication Services, and Financial sectors each delivered greater than 30% returns. In contrast the Consumer Staples, Energy, Basic Materials, and Healthcare sectors delivered low single digit returns. The Magnificent 7 stocks again led the way, delivering a whopping 67% return. Across the market earnings growth was strong, helping to push the forward P/E multiple of the Russell 3000 Index from 20x, at the beginning of the year, to 22x at the end of the year. From a historical perspective the P/E is very high. From that same perspective the margin and growth profile of the market are also very high, providing some justification. The combination of historically high market concentration and valuation multiples may drive higher market volatility in the near to medium term.

International markets, while not as strong as their domestic counterparts, performed solidly in 2024. The MSCI All Country World Ex US Index returned 6.1%. International sector performance was mixed in 2024, reflecting varying regional economic conditions and sector-specific dynamics. The Financial sector led gains with an 18% increase, supported by stable interest rate environments and improved profitability across global banks. In contrast, the materials sector experienced the most significant decline, falling 12%, driven by uneven economic conditions across regions.

For the twelve months ending December 31, 2024, the SIC portfolio volatility, tracking error, fees and relative performance were in line with peers and largely consistent with expectations and the structure of the portfolio.

The US Portfolio's net of fees return was 23.09% versus 23.81% for the Russell 3000 Index. The modest underperformance can be attributed to the portfolio's active large cap growth manager lagging its benchmark. The active strategies, in the large cap value and small/mid cap asset classes, both outperformed their respective benchmark. The small cap exposure in the portfolio was a slight drag, as large cap stocks outperformed small cap stocks by a wide margin. The majority of the portfolio is invested in passive strategies, leading to the small deviation from market returns.

The ex-US portfolio net of fees return was 6.27% versus 5.23% for the MSCI All Country World ex-US Index. Outperformance was largely attributable to strong performance from the actively managed strategies in developed markets.

***Portfolio activity and forward-looking strategy*** — During the course of 2024 an International Public Equity Structure Study was conducted by SIC staff and the general consultant RVK and approved by the New Mexico State Investment Council. The Structure Study led to a large manager search which resulted in the selection of 12 new managers to be added to the portfolio. The Structure Study did not lead to any changes in terms of risk parameters, excess return goals, and portfolio structure. The new managers coming into the portfolio will increase diversification and add tactical flexibility. In some cases, new managers will be replacing existing managers that have not met performance standards and/or have had negative structural changes.

In 2025, SIC staff and general consultant RVK will conduct and present a structure study for the US Public Equity Portfolio.

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SIC staff and general consultant RVK continue to closely monitor the active managers in the portfolio. Tracking results, attributes and conducting regular due diligence interviews (in person and via zoom). We do this with the goal of gaining greater understanding of the strengths and weaknesses of the manager, adherence to the mandate, and potential for enhancements to the processes and investment teams at each firm.

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## **Public and Private Markets: Fixed Income**

**Asset Class Summary** – The objectives of debt investments are tied to the investment goals of the SIC’s multi-asset class portfolio:

- Relatively predictable and consistent source of income
- Reliable liquidity to meet expected near-term and intermediate-term cash needs
- Diversification and mitigation of mark-to-market losses
- Maximization of returns within the asset class and multi-asset class portfolio

Debt portfolios seek to achieve these objectives by investing in a variety of government, corporate, and asset-backed debt across public and private markets. The primary macroeconomic drivers of performance are interest rates (combination of real rates and inflation), risk of default and liquidity. The portfolio is divided into Public Market and Private Market strategies.

**Public Market Strategies** – The Public Market allocation is a highly marketable, lower credit risk portfolio with the objective of providing liquidity in the event of a severe market dislocation. Consequently, the Public Market allocation is subdivided into Short Duration, Core, and Credit Plus pools, each with a specific purpose:

- Short Duration Pool: Provides both liquidity and lower sensitivity to changes in interest rates while generating income through exposure to short duration investment grade and short duration high yield strategies.
- Core Pool: Includes U.S. Treasuries for liquidity and intermediate term investment grade credit for income and real capital preservation.
- Credit Plus Pool: Enhances current income production with measured exposure to credit risk through investment grade and high yield strategies.

**Private Market Strategies** – The Private Market allocation’s primary objective is to generate returns above those available in publicly traded securities while diversifying the portfolio and mitigating downside volatility of the equity exposures in the multi-asset class portfolio. The Private Market Strategies portfolio is prioritizing the following:

- Yield as the primary driver of return
- Downside protection while opportunistically capturing upside
- Re-investing (capital and income) rather than taking distributions
- Greater collateral diversification
- Leverage the SIC’s size to drive improved economics
- Customized and evergreen structures

The SIC utilizes four primary strategy types in Private Markets to achieve the portfolio’s objectives:

- Direct Lending: Enhances current income production with illiquid corporate credit exposure.
- Asset-Based: Improves diversification and current income production with structured exposure to consumer and business critical credit.
- Special Situations: Provides diversification and current income production while seeking alpha through complex and bespoke capital solutions.

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- **Diversifying:** Increases diversification and current income production through a range of sub-sectors including Real Estate debt.

**Current Exposures** – The long-term target allocations for Public Debt Market Strategies are 6% for the Land Grant Permanent Fund (LGPF), 5% for the Severance (STPF), and 13% for the Early Childhood Education Fund (ECECF). The long-term target allocations for Private Market Strategies are 15% for the LGPF, 12% for the STPF, and 20% for the ECECF. Other funds under the Council’s management also have allocations to public and private debt markets as summarized at the beginning of the portfolio analysis section of this report.

Sub-Strategy	Allocation 6.30.23	Allocation 12.31.23	Allocation 6.30.24	Allocation 12.31.24	Long-Term Target	Primary Purpose
<b>Public Market Strategies</b>						
Short Duration Pool	24%	27%	26%	26%	10% - 30%	Liquidity/ Duration mgmt.
Core Bonds Pool	40%	39%	28%	29%	20% - 40%	Interest rate exposure
Credit Plus Pool	36%	34%	46%	46%	25% - 65%	Interest rate and credit exposure
<b>Private Market Strategies</b>						
Asset-Based	4%	9%	9%		20% - 30%	Structured credit exposure
Direct Lending	11%	19%	26%		20% - 40%	Corporate credit exposure
Diversifying	23%	40%	39%		10% - 20%	Credit/Alpha exposure
Special Situations	22%	26%	24%		20% - 40%	Credit/Alpha exposure
Legacy	<1%	<1%	<1%		---	---
Liquidating	39%	6%	2%		---	---

**Performance** – In the first half of FY25, debt markets were characterized by an easing of central bank interest rate policy, a steeper yield curve (albeit shorter-term yields remain inverted), strong credit fundamentals, tight spreads, and uncertainty regarding the economic outlook. The second half saw episodes of greater volatility and moderate spread widening as markets reacted to uncertainty around the Trump Administration’s trade policy. Inverted shorter-term yields created attractive opportunities in shorter duration assets while strong fundamentals provided select opportunities in credit amid a volatile spread environment. The Public Market Strategies portfolio benefitted from its shorter duration positioning and was less sensitive to interest rate changes.

The benchmark for the Public Markets Allocation is the Bloomberg U.S. Aggregate Bond Index which returned 1.25% in CY2024, while the SIC’s Public Markets Strategies portfolio returned 4.00%, generating 275 bps of excess return. Short duration credit strategies were the best performers over CY2024. The Private Markets Allocation generated an absolute return of 8.68%, 468 bps more than the Public Markets Allocation. Cash generated a 5.25% return for the year.

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**Recent Activity and Forward-looking Strategy** – The Debt Market portfolio’s diversified array of strategies positions it to weather a broad range of economic and liquidity disruptions. Allocations approved by the SIC over the prior year ensure the SIC is positioned to be a liquidity provider. The table below summarizes commitments approved over FY2025:

Fund Name	Sector	Strategy	Effective Date	Commitment
Pemberton Strategic Credit Fund IV	Special Situations	Opportunistic	8/20/24	\$150,000,000
Orchard EganTree Opportunities Master Fund III	Diversifying	Regulatory Capital	10/22/24	\$150,000,000
Berkshire Multifamily Credit Fund IV	Diversifying	Real Estate Debt	11/19/24	\$150,000,000
Contract Renewal --BlackRock Passive U.S. Treasury Strategy <sup>8</sup>	Core	Passive U.S. Treasury	1/28/25	--
BBH Short Duration Credit <sup>9</sup>	Credit Plus	Short Duration Multi-Asset Credit	1/28/25	--
Co-Invest -- Silver Rock Lobo Fund Class B Share Class <sup>10</sup>	Diversifying	Opportunistic	2/25/25	\$100,000,000
Castlelake Asset-Based Private Credit Fund III Evergreen	Asset-Based	Specialty Finance	2/25/25	\$300,000,000
Contract Renewal -- JPM Short Duration IG Strategy <sup>11</sup>	Short Duration	Investment Grade	4/22/25	--
Evolution Credit Partners Credit Opportunities Fund III	Special Situations	Capital Solutions	4/22/25	\$150,000,000
Ares Sports, Media and Entertainment Fund II	Special Situations	Capital Solutions	4/22/25	\$150,000,000
<b>FY2025 Total</b>	--	--	--	<b>\$1,150,000,000</b>

<sup>8</sup> Assets under management in the strategy was \$2,044,885,623, at the time of the contract renewal.

<sup>9</sup> Staff expect to the fund the strategy with \$500 million over the summer of 2025.

<sup>10</sup> NMSIC approved a commitment of up to \$300 million to Silver Rock Tactical Allocation Strategy Class A through the Lobo Fund (Fund of One structure) in April 2023. In March 2024, in recognition of the SIC’s increasing AUM, NMSIC approved an additional commitment of \$150 million to the Silver Rock Tactical Allocation Strategy Class A through the Lobo Fund to bring total commitment to \$450 million. The co-investment commitment adds \$100 million to total Lobo Fund commitments.

<sup>11</sup> Assets under management in the strategy was \$2,185,177,131 at the time of the contract renewal.

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### **Private Markets: Real Return**

**Asset Class Summary** — The Council’s Real Assets portfolio is a multi-asset, multi-market portfolio constructed to generate differentiated returns by focusing on factors different than those that drive returns of publicly-traded equity and traditional fixed income investments. NMSIC’s Real Assets portfolio consists of investments in Infrastructure and Natural Resource categories. Income generation is expected to be a notable part of the total return. These assets are expected to be advantaged over equities and bonds in an economic and financial market environment where growth is a little slower than average and inflation and interest rates are rising.

The Council began building its Real Assets portfolio in 2011, and the current allocation is intended to comprise approximately 12% of the SIC’s aggregate portfolios. As of CYE 2024, the Portfolio represents approximately 6.8% of the Fund on an NAV basis. Despite pacing ahead of plan, strong inflows coupled with weak deployment by managers have sustained a large gap between target and actual weights.

**Recent Performance, Markets and Portfolio Strategy** — As of 12/31/2024, the Real Return program since inception IRR is 6.7%. This trails the new public market equivalent benchmark (CPI+4%) that has a 7.3% IRR for the same period. Since inception IRRs in Infrastructure investments generally outperformed the PME benchmark while most other investments including agriculture, timber, and MLPs have lagged. Near-term performance will face a significant headwind from the J-Curve effect, but this will moderate over time as inflows slow in relation to portfolio size.

In 2024 the SIC approved the following commitments to the real assets class:

Count	Fund Name	Commitment (USD Millions)
1	Antin Infrastructure Fund V (EUR 220 MM)	\$230 (est.)
2	Ardian Infrastructure Fund VI	250
3	Copenhagen Infrastructure Partners V (Top Up)	100
4	Copenhagen Infrastructure Partners V Co-investment (Top-Up)	38
5	EQT Infrastructure VI (Top Up)	120
6	EQT Infrastructure VI Co-Investment (Top-Up)	45
7	Hull Street Energy Partners III	150
8	LS Power Equity Partners V (Top Up)	100
9	Oaktree Power Opportunities Fund VII	200
Total		\$1,232

Through April 2025, SIC made an additional commitment of \$200 MM, and the estimated total of commitments for real assets for the period of 2025 to 2029 is \$10 billion dollars.

**Recent Activity and Forward-Looking Strategy** — Currently, SIC Staff’s pacing model estimates that approximately \$1750MM of annual commitments will be required to keep up with capital inflows and to migrate the invested NAV of the Real Asset portfolio toward its long-term target allocation.



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This approximately doubles the rate anticipated last year and reflects model changes undertaken to better reflect the expected evolution of the portfolio's investment mix over time. Actual deployments will deviate from modelled levels based on market conditions and the availability of attractive new offerings.

On March 25, 2025, the SIC approved revisions to the Investment Policy Statement (IPS) to reflect last year's Structure Study pertaining to the design of the real assets portfolio. The revised IPS for Real Assets includes an increased return objective defined as Consumer Price Index (CPI) plus 400 basis points, reflecting an additional 100 basis point premium over the former level. Further, the study updated real assets categories and sub-categories and their allowed allocation ranges. Additionally, the Real Asset team has adopted an asset-based NAV roll-up to measure portfolio exposures. We believe this bottom-up approach provides a truer picture of the Portfolio's exposure than aggregating based on fund level strategies. Though no changes were made to the geographic diversification limits the portfolio does exhibit a home country bias. Europe appears underweighted based on NAV, but significant recent allocations to Europe-focused managers should mitigate this as capital is called. Concentration and leverage thresholds remain unchanged.

An analysis of Preqin data presented in the recently delivered structure study showed the market share of Real Assets AUM attributable to Infrastructure has grown steadily since at least 2014. Extrapolating recent AUM growth suggests that 90% of Real Assets AUM could be in infrastructure investments by 2028. Accounting for both accelerating growth and potential reversal of the prevailing trend led to adopting a 75% - 95% range for the infrastructure sleeve, up from the former range of 70% - 90%. Sector and subsector weights at year end and corresponding target ranges for those exposures are illustrated below:

Strategy	Share of Real Assets Portfolio as of Dec. 31, 2024	Target Range	Reference Benchmark
Infrastructure	87.2%	75% to 95%	CPI Price Level Change + 400 bp
Digital	17.4%	0% - 40%	
Logistics & Transportation	17.2%	0% - 40%	
Midstream / Downstream	25.4%	0% - 40%	
Social	1.3%	0% - 15%	
Utilities	24.4%	0% - 40%	
Other	1.5%	0% - 15%	
Natural Resources	12.8%	5% to 25%	
Agriculture	5.9%	0% - 15%	
Hydrocarbon	2.4%	0% - 15%	
Metals & Materials	0.1%	0% - 15%	
Timber	4.3%	0% - 15%	
Other	0.0%	0% - 15%	
Other Real Assets	0.0%		
Total	100%		

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Risk profile selection will increase emphasis on value added and opportunistic strategies which together could reach up to 75% of total exposure, up from the current level of 52%. Given SIC's current and anticipated liquidity profile, increased allocations to higher returning value-added and opportunistic strategies are expected to support achieving the new higher return objective of CPI + 400 basis points.

Broadly speaking, SICs Infrastructure investments, a group including communications, transport, social infrastructure, utilities, midstream oil and gas, and renewable and conventional power generation, have been our best performers. Natural resource investments spanning upstream oil and gas, agriculture and timber have, collectively, been our worst. Within this collection of natural resource investments oil and gas performed best with a 6.6% IRR and agriculture worst at -0.6%. Weaker cross cycle performance in these categories causes us to reconsider how we build out this part of the portfolio. We are likely to assess new investments in these areas through an opportunity cost lens that would force strategies to compete for capital.

Infrastructure investments are valued for their resilience and inflation protection attributes. Core infrastructure investments focus on irreplaceable, long-life assets with inflation linked revenue streams, and ideally, volume characteristics that are minimally GDP dependent. Such assets can generate attractive current distribution yields with distributions that can grow over time, and asset values that should appreciate over time at least in line with replacement costs. Further, because infrastructure assets are long lived, they tend to be financed with long term fixed rate debt. This liability structure supports infrastructure fund NAVs in a rising rate environment. Representative infrastructure investments could include utilities, airports, ports, toll-roads, and railroads. The communications sector which includes towers, data centers, has been a strong performer and is fueled by rapid growth in demand for assets to move, process and store data. The growth, prospective returns, and other characteristics of communications businesses give this segment a risk profile that is more core-plus than core.

Political changes since January have injected uncertainty into long-term planning in power generation businesses. Some businesses are reassessing/rebalancing their mix of assets, and changing financing incentives are creating capital needs in others. This volatility will create plentiful opportunities for new capital to achieve strong returns. Despite the political environment, fundamentals for power demand remain robust. For the first time in decades energy demands on the electric grid are growing, in part due to the computational demands of AI focused data centers. Firms able to triage distribution network pain points and to provide resources to resolve them are well positioned for success.

Returns in agriculture have been low but stable as measured by the NCREIF Farmland Index. Over the prior 5 years, the gross return has been approximately 1.9% annualized. Over longer periods with higher inflation, returns have compounded at low double-digit rates. Last year's -1.32% return marked the first calendar year loss for the index since 2001 when it fell a single basis point. Although viewed as a relatively safe asset class with correspondingly low return expectations, agriculture investments can be exposed to risks from currency movements, sovereign political risks, commodity pricing, regulatory changes, ESG concerns, weather related events, unforeseen supply/demand shocks, consumer preference shifts and shifting geopolitics.

Timberland, as measured by the NCREIF Timberland Property Index, has achieved a 3.1% annualized gross return over the prior five years. Over the prior ten years, the gross return has been

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approximately 2.1% annualized. Results for CY 2024 were 1.4%. The value-weighted fund index returns were modestly lower across all these measurement windows.

While returns in Timber and Agriculture over our investment period have been disappointing, both sectors benefit from strong investor interest due to historical inflation protection and environmental benefits such as carbon sequestration.

Staff and Mercer currently assess that natural resource investments' inflation protection characteristics are not sufficiently robust to justify the potential opportunity costs associated with failing to participate in potentially higher returning investments and are unlikely to contribute meaningfully to the portfolio meeting its revised CPI+400 bp target. We are seeking to identify managers whose strategies are focused on or include strong performing, diversifying approaches to these categories.

Our portfolio continues to hold an approximately \$450MM position in MLPs. Because MLPs are exposed to both the equity risk premium and commodity price risks, they tend to be volatile investments. However, the underlying assets held in MLPs closely resemble the midstream assets held in private investments elsewhere in the portfolio. Research into the performance on a Public Market Equivalent basis of private midstream assets held as sector focused funds or as sleeves within more diversified portfolios suggests there is little difference in the performance of public versus private assets. Because of the shared fundamental drivers of these businesses, staff have consolidated all midstream exposures into a single Midstream/Downstream category.

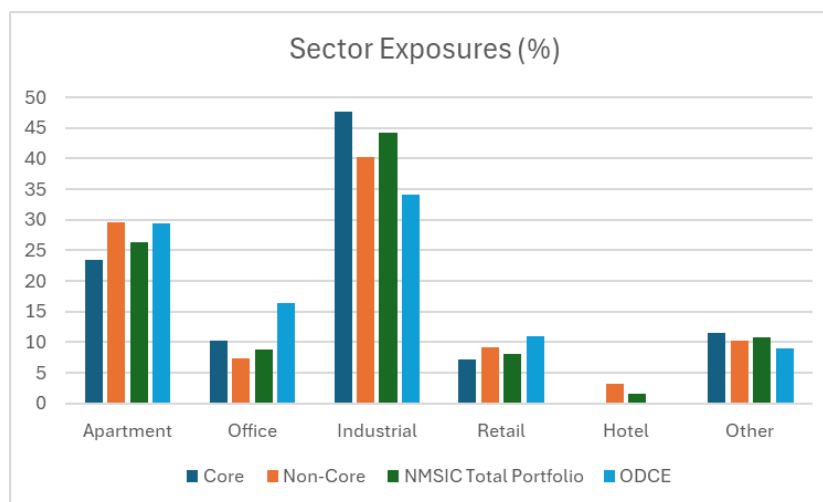
While we will be deploying significant capital across the infrastructure segment in the year ahead, we will seek to increase exposure to communications-oriented infrastructure including towers, fiber, spectrum, and non-US data centers where we believe the portfolio is under-represented. Additionally, we believe mid-market infrastructure managers can be a good source of alpha which is underrepresented in the portfolio. Consequently, we will add multiple mid-market managers to the portfolio. Finally, the anticipated growth in our Infrastructure portfolio may require the addition of investments in Agriculture, Timber, and Metals/Mining/Non-Energy Minerals to maintain appropriate diversification.

Because of the strength of the Funds' endowed inflows staff are in the enviable position of being able to invest when other institutional investors are constrained. We are constantly seeking opportunities to use this position of strength to demonstrate our value as long-term partners to GPs and to seek out arrangements that can be mutually beneficial. Separate accounts, co-investment programs, and secondary transactions could all play a role as we seek to efficiently deploy capital. Looking ahead, SIC will aim for increased implementation efficiency gains and improved alignment with managers.

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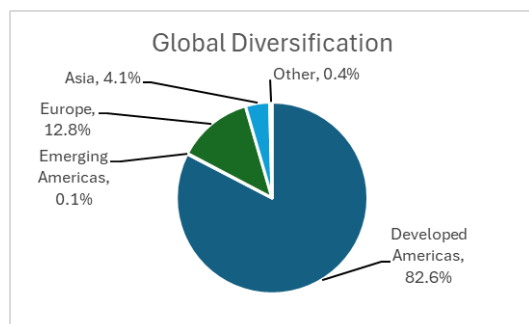
### Private Markets: Real Estate

**Asset Class Summary** — The Council’s Real Estate portfolio has a target allocation of approximately 11.3% of the Fund. As of CYE 2024 the Real Estate Portfolio’s NAV was \$4.2 billion, representing approximately 7.1% of the Fund’s assets. Approximately \$2 billion commitments to new investments were made in the last 24 months; these will move the portfolio closer to its target as the capital is called. The Real Estate Portfolio is well diversified by property type, risk profile, and geography. Relative to property type diversification, the portfolio is guided by the diversification of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index for Open-Ended, Diversified, Core Equity (NFI-ODCE), with a 15% plus or minus relative allocation. Within these bands, staff working in concert with the Real Estate Consultant may over- or under-weight property types to reflect views of operating fundamentals, valuations, or diversification benefits. As an example, below you will note that the portfolio is overweight to the “Other” category relative to NFI-ODCE. Staff and consultants believe that many of the property types that comprise the “Other” category are attractively valued and present a diversification opportunity because their return drivers are less correlated to GDP, they are less institutionally owned and have relatively attractive valuations and growth potential. The property type composition of the Real Estate portfolio is summarized in the table below:



Source: Invient, Townsend

Staff and consultants seek to build a globally diversified portfolio to capture the best available risk - adjusted returns. As much as 40% of the portfolio may be invested internationally. The share of international exposure varies by risk profile with strategies more likely to earn returns sufficient to offset currency risks receiving the highest share. The geographic distribution of the NMSIC real estate portfolio as of December 31, 2024, is illustrated in the adjacent graphics.



Strategy	United States	Rest of the World
Core	94.6%	5.4%
Value Added	92.1%	7.9%
Opportunistic	44.8%	55.2%

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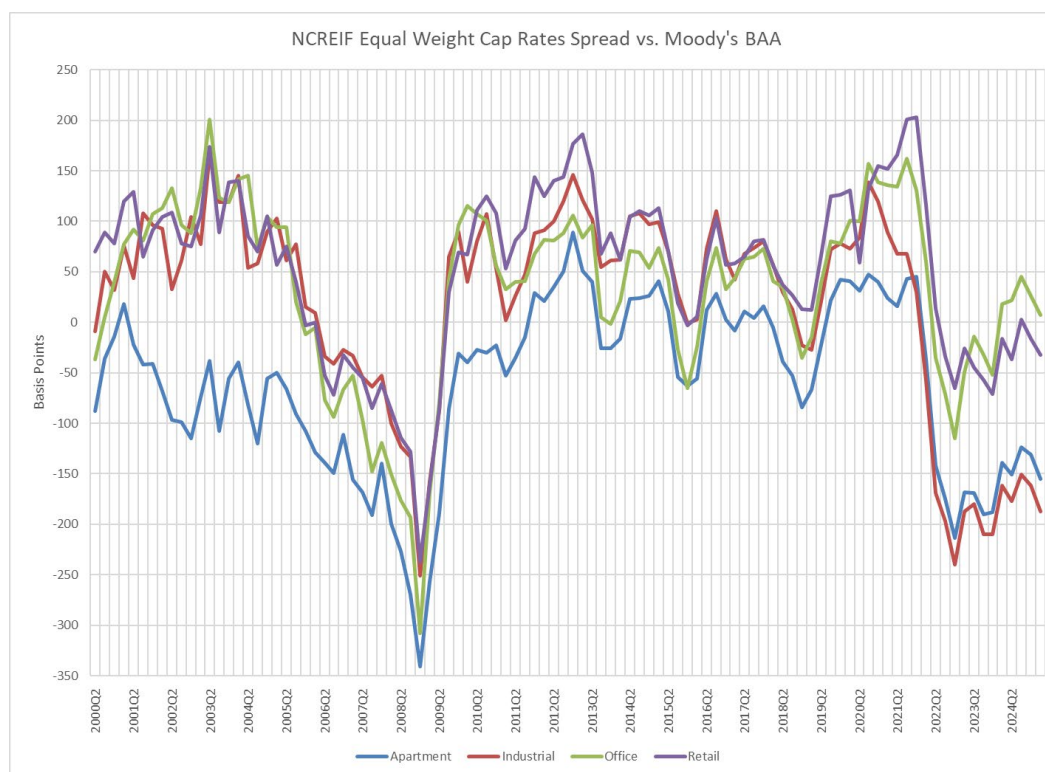
Source: Invient,Townsend

**Recent Performance, Markets and Portfolio Strategy** — The Real Estate portfolio faced challenging market conditions for CY 2024, with rising rates driving borrowing costs higher and pressuring valuations as buyers withdrew from the market. The portfolio declined 1.5% on a net basis, modestly outpacing the NFI-ODCE benchmark's 2.1% decline. The Dow Jones US REIT Index, a broad proxy of REIT and real estate related public equities rose 4.86%. Over three, five, and ten-year horizons, the portfolio continues to out-perform the benchmark.

Fundamentals in industrial and residential property types remained strong. In both sectors vacancy rates stayed low. High home prices and rising mortgage rates have combined to drive home affordability below levels last seen in 1985, as measured by the National Association of Realtors. Home ownership and single or multi-family rentals are substitute goods. Low affordability of homes tends to reinforce demand for rental properties. In both Industrial and Apartment sectors it is anticipated that for the next few years supply will be muted compared to last year, supporting NOI growth.

The office sector of the real estate market remains under pressure. Bid-ask spreads are wide, and transactions are infrequent, causing difficulty in ascertaining valuations at which markets will clear. Anticipated rate cuts by the Federal Reserve could be a lubricant that brings buyers back to the market. In the year ahead, we expect that disciplined capital will find opportunities to acquire assets at compelling prices, particularly those in weak hands or needing to be refinanced.

Staff believe that CY 2025 ODCE (NPI) returns will likely match aggregate NOI growth with some possible upside related to prospective rate cuts. Cap rates have expanded across the sectors. However, the spreads of NCREIF property cap rates to 10-year bond yields and to BAA bond yields, the latter



shown below, are Source: NCREIF, FRED, Staff

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tight especially in the Industrial and Apartment sectors. All else equal, rate cuts would likely help the lower cap rate sectors most. Conversely, those would also likely be most negatively impacted by disappointments in NOI growth.

The portfolio's incremental return is expected to derive principally from price appreciation rather than from income generation, consistent with the NMSIC's projected liquidity and growth. The real estate return benchmark was modified from the ODCE index net of fees (former benchmark), to include a premium of 75 basis points over rolling five-year periods to reflect the expected increased share of Value Add and Opportunistic investments.

Core and core-plus strategies will continue to represent the portfolio's foundation exposure, with a revised range of 25 percent to 50 percent.

During 2024, the following commitments, all in the non-core category, were approved:

Count	Fund Name	Commitment Amount (in USD Millions)
1	ARES European Property Enhancement Partners IV (EUR 200)	\$215 (est.)
2	Carlyle Realty Partners X	300
3	Fairfield U.S. Multifamily Value-Add Fund IV	200
4	Fairfield U.S. Multifamily Value-Add Fund IV (Coinvest)	100
5	FPA Apartment Opportunity Fund IX, L.P.	200
6	Jadian Real Estate Fund II	100
7	WCP NewCold III	150
Total		\$1,265

Through April of 2025, two additional non-core commitments totaling \$450 million were approved. As of December 31, 2024, the actual funded net asset value exposure of real estate was 7.1% of NMSIC's total investment portfolio (12.5% when unfunded commitments are included). Looking ahead considering the expected growth in NMSIC's investment portfolio, commitments of approximately \$7.3 billion will be required to achieve NMSIC's target real estate program composition over a 5-year horizon. It is expected that annual deployments will vary based on market conditions and the availability of attractive new offerings.

Staff and Townsend intend to rebalance the Core portion of the Real Estate Portfolio to ensure that position sizes align with conviction and that underlying sector exposures are appropriate. A significant portion of the rebalancing will be driven by allocating a portion of the next few years of capital commitments to new Core managers.

Staff believe cumulative improvements in NOI are the dominant driver of long-run returns. This insight is reflected in our focus on sectors whose operating performance will likely benefit by long duration secular themes. NMSIC expects to maintain underweight positions in conventional retail and office and to overweight industrial while seeking to increase exposure to multifamily and other niche property types.

## FY 2026 Annual Investment Plan

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We recognize that major portions of the global real estate market are located outside the United States and that assets in other geographies present diversification opportunities. In pursuing opportunities outside of the United States, we must also be cognizant of historically weaker GDP and population growth, potentially less favorable tax regimes, and foreign currency risks.

The recently approved structure study also laid out a tactical use case for Real Estate Investment Trusts or REITs with discretionary allocations of up to 10 percent for completion and to enable quick deployment of capital. Allocations to public securities are not currently contemplated.



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### **Private Markets: Private Equity**

**Asset Class Summary** – The Private Equity portfolio (aka the National Private Equity Program) consists of four categories – Buyout, Growth Equity, Special Situations, and Venture Capital – and continues to serve an important role in enhancing overall portfolio return generation. The main objective of the National Private Equity Program is to generate aggregate annual returns that outperform public equity returns and private equity benchmark returns over longer periods (10 years or more).

**Recent Performance, Markets, and Portfolio Strategy** – The Private Equity portfolio produced a net IRR of 4.9% for the 12 months through December 31, 2024. This performance was slightly better than the 4.8% 1-year return of the Burgiss Global Private Equity Index.

Portfolio strategy has needed to evolve to reflect the SIC funds' increased inflows and AUM. To achieve our increased pacing objectives, we expect to take a balanced approach by increasing 1) the number of GP relationships, 2) the size of our fund commitments, and 3) our co-investment activity through a combination of an SMA with our private equity consultant Mercer and side-by-side co-investment vehicles with our GPs.

**Recent Activity and Forward-Looking Strategy** – The current target allocation for the National Private Equity Program is 15% of the LGPF and 10% of the STPF, with a ~13% blended average target asset allocation across the SIC's funds

This excludes the 9% target allocation in the STPF for the NMSIC Strategic Venture Capital Program (aka the New Mexico Private Equity Program). The New Mexico Private Equity Program was recently restructured and redesigned into a “market rate” NMSIC Strategic Venture Capital Program with the goal of producing a “Double Bottom Line” (i.e., both financial returns and economic impact). The total target allocation for private equity in the STPF is 19%, consisting of the 10% for the National Private Equity Program and the 9% for the NMSIC Strategic Venture Capital Program.

At this time, the pacing model projects near-term annual commitments of at least \$1.5 billion will be necessary to achieve our target for the National Private Equity Program over the intermediate term. The model is re-evaluated annually for potential enhancements.