



# NEW MEXICO STATE INVESTMENT COUNCIL

## Investment & Pensions Oversight Committee

Representative Tomás E. Salazar, Chairman

Senator George K. Munoz, Vice-Chair

Steve Moise, NM State Investment Officer

Vince Smith, Deputy SIO

June 20, 2017



# STATE INVESTMENT COUNCIL

Assets Under Management: \$22.18B



- Fund values, May 31, 2017:

Land Grant

Permanent Fund:

**\$16.11 billion**

Severance Tax

Permanent Fund:

**\$4.88 billion**

Governmental

Clients:

**\$957 million**

Tobacco Settlement

Permanent Fund:

**\$184 million**

Water Trust

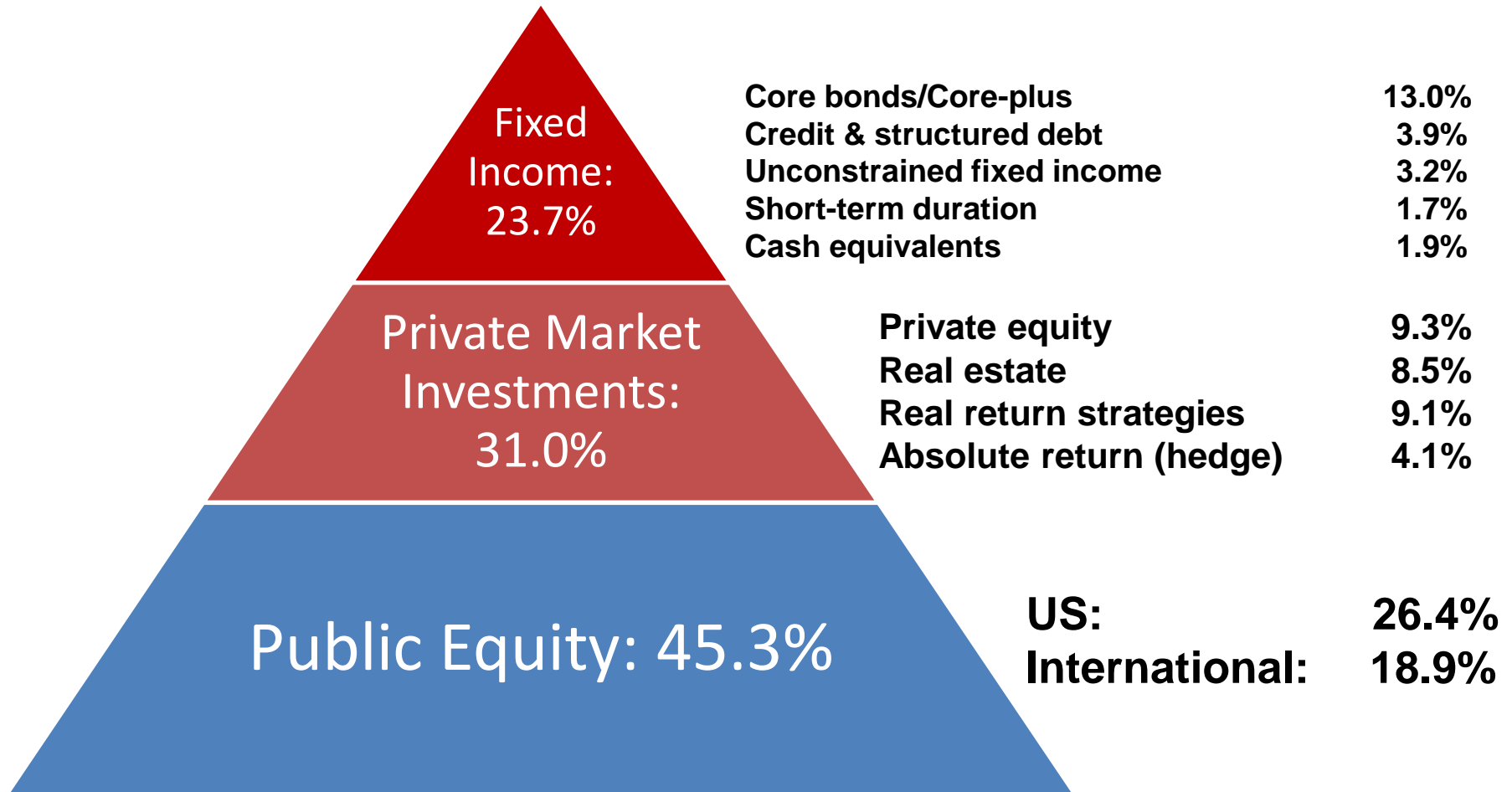
Permanent Fund:

**\$44 million**



# STATE INVESTMENT COUNCIL

## Investment Allocation as of 5/31/17





# New Mexico State Investment Council

## Permanent Fund Facts

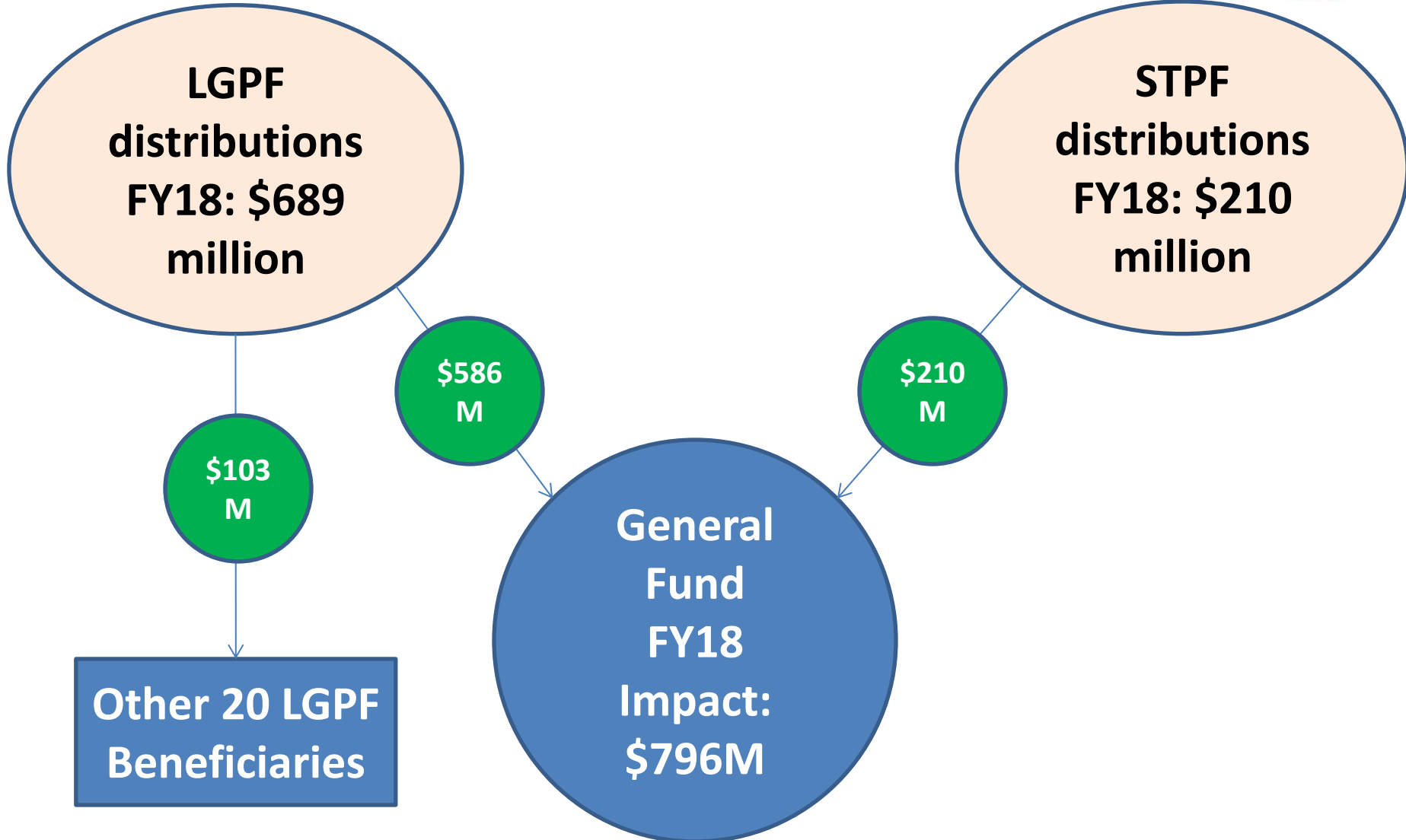


- Total fund distributions FY 1998: \$299.8 Million
- Total fund distributions FY 2017: \$838.5 Million
- Total fund distributions FY 2018: **\$899.6 Million**
  
- Actual Distributions 2008-2017: \$7.4 Billion
- Projected distributions 2018-2027: **\$11 Billion**
  
- Distributions account for 12-15% of state budget
  
- Average annual tax savings:
  - **\$449** per person
  - **\$1100** per NM household



# STATE INVESTMENT COUNCIL

## Permanent Fund Distributions



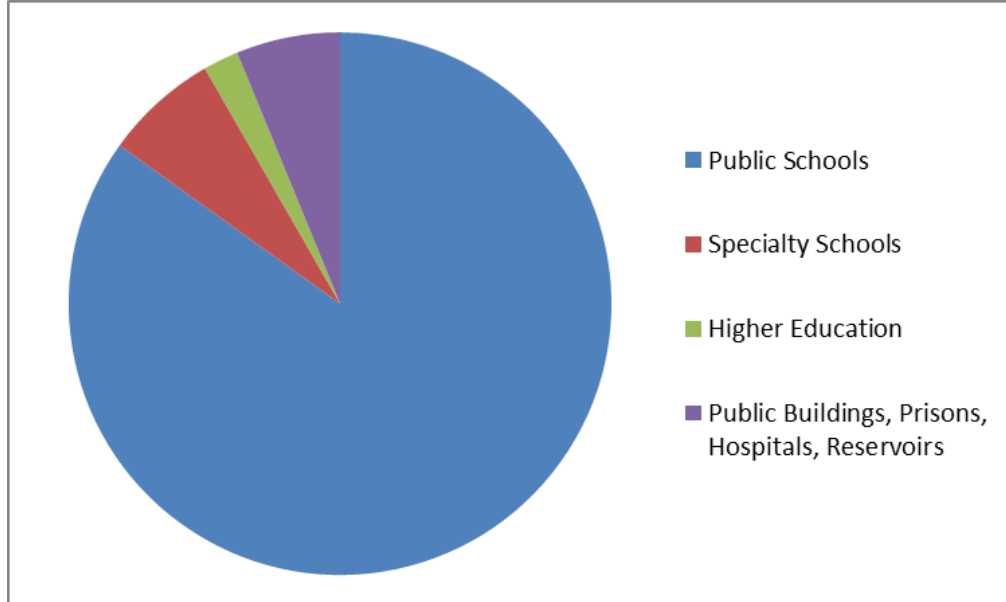


# New Mexico State Investment Council

## LGPF Distributions in Detail



<u>LGPF Beneficiaries</u>	<u>Trust Share</u>	<u>Est. Distribution FY2018</u>
<b>Public Schools</b>	<b>85.0%</b>	<b>\$585.8 million</b>
<b>Specialty Schools</b>	<b>6.8%</b>	<b>\$46.9 million</b>
<b>Public Buildings, Prisons, Hospitals, Reservoirs</b>	<b>6.2%</b>	<b>\$42.7 million</b>
<b>Higher Education</b>	<b>2.1%</b>	<b>\$14.4 million</b>



<u>LGPF Beneficiaries</u>	<u>Trust Share</u>
The Common (public) Schools	84.96%
NM Military Institute	3.05%
NM School for the Deaf	1.86%
NM School for the Blind	1.86%
Penitentiary of NM	1.88%
University of NM	1.33%
Capital Buildings	1.06%
Water Reservoirs	0.98%
Miners Colfax Medical Center	0.88%
Penal & Reform Institutions	0.78%
NM State University	0.42%
NM Behavioral Health Institute	0.33%
Rio Grande Improvements	0.22%
NM Institute of Mining & Tech	0.19%
Eastern NM University	0.08%
Saline Lands	0.04%
NM Highlands University	0.03%
Western NM University	0.03%
Northern NM College	0.02%
Children Youth & Families Dept	0.01%
Carrie Tingley Hospital	0.001%



# New Mexico State Investment Council Distributions Year-Over-Year



- FY18 distribution of \$899.6 million, a new record

	FY17 Distribution (\$M)	FY18 Distribution (\$M)	Difference
Land Grant Permanent Fund	\$638.1	\$689.2	<b>+\$51.1 million</b>
Severance Tax Permanent Fund	\$200.4	\$210.4	<b>+\$10.0 million</b>
Tobacco Settlement Permanent Fund*	\$109.1	\$0.0	<b>-\$109.1 million</b>
Water Trust Permanent Fund	\$4.0	\$4.0	\$0

\*TSPF is part of state budget reserves; FY17 distribution was legislatively-authorized, and the only since inception



# STATE INVESTMENT COUNCIL

## Investment Performance



- Annualized returns, net of fees, as of 4/30/17:

	1-year	3-year	5-year	10-year
LGPF	11.29	5.70	8.00	4.87
<i>Benchmark</i>	<i>10.17</i>	<i>5.89</i>	<i>7.84</i>	<i>4.42</i>
Difference	1.12	-0.19	0.16	0.45
STPF	11.33	5.66	7.88	4.28
<i>Benchmark</i>	<i>10.29</i>	<i>5.93</i>	<i>7.86</i>	<i>4.39</i>
Difference	1.04	-0.27	0.02	-0.11

– Long-term return targets:

- LGPF: 7.0%
- STPF: 6.75%





# New Mexico State Investment Council

## Return Expectations



	Last 10 Years (3.31.2017)		Long Run Historical	Strategy Group Expectations (7-10 Years Fwd)	
	Compound	Range*		Compound	Range*
U.S. GDP (Real)	1.35%	1.25%-3.00%	2.50-4.50%	1.50%-3.00%	0.50%-3.25%
U.S. Inflation (CPI)	2.00%	1.75%-3.00%	2.00-6.00%	2.00%-2.50%	1.00%-4.00%
U.S. GDP (Nominal)	3.70%	3.00%-5.35%	5.00-9.00%	3.50%-5.00%	4.00%-7.00%
U.S. Stocks	~4.20%		9-11%	~5.75%	
U.S. Bonds	~4.50%		4-7%	~2.60%	
65/35 Stocks/Bonds Return	~4.30%		~8.50%	~4.65%	
Median Public Fund (\$1 Billion+)	5.41%		20 Yrs=7.18% 30 Yrs=8.19%	~5.75%	

\* "Range" refers to observations based upon a time series of quarterly moving, three year compounded growth rates



# New Mexico State Investment Council

## High Market Valuations



Forward 10 Year Annualized Real Return by Shiller PE-10 Quintile					
Quintile	Shiller PE-10			Median Return	
	Low		High	Real	Nominal
Low 20%	5.6	▲	10.9	11.0%	16.0%
Next 20%	10.9	▲	13.9	11.1%	14.8%
Mid 20%	13.9	▲	17.8	7.3%	10.3%
Next 20%	17.8	▲	19.9	6.4%	8.7%
High 20%	20.2	▲	44.2	2.9%	5.9%
Curr 29.7x				-0.50%	2.07%

Note: From 1929 forward



# New Mexico State Investment Council

## Possible IPOC Subjects



- Topics to consider:
  - Permanent fund investments in NM
  - Reasonableness of investment management fees
  - Portfolio overview
  - Governance overview
  - Legal recoveries update
  - Possible legislation
- Q&A