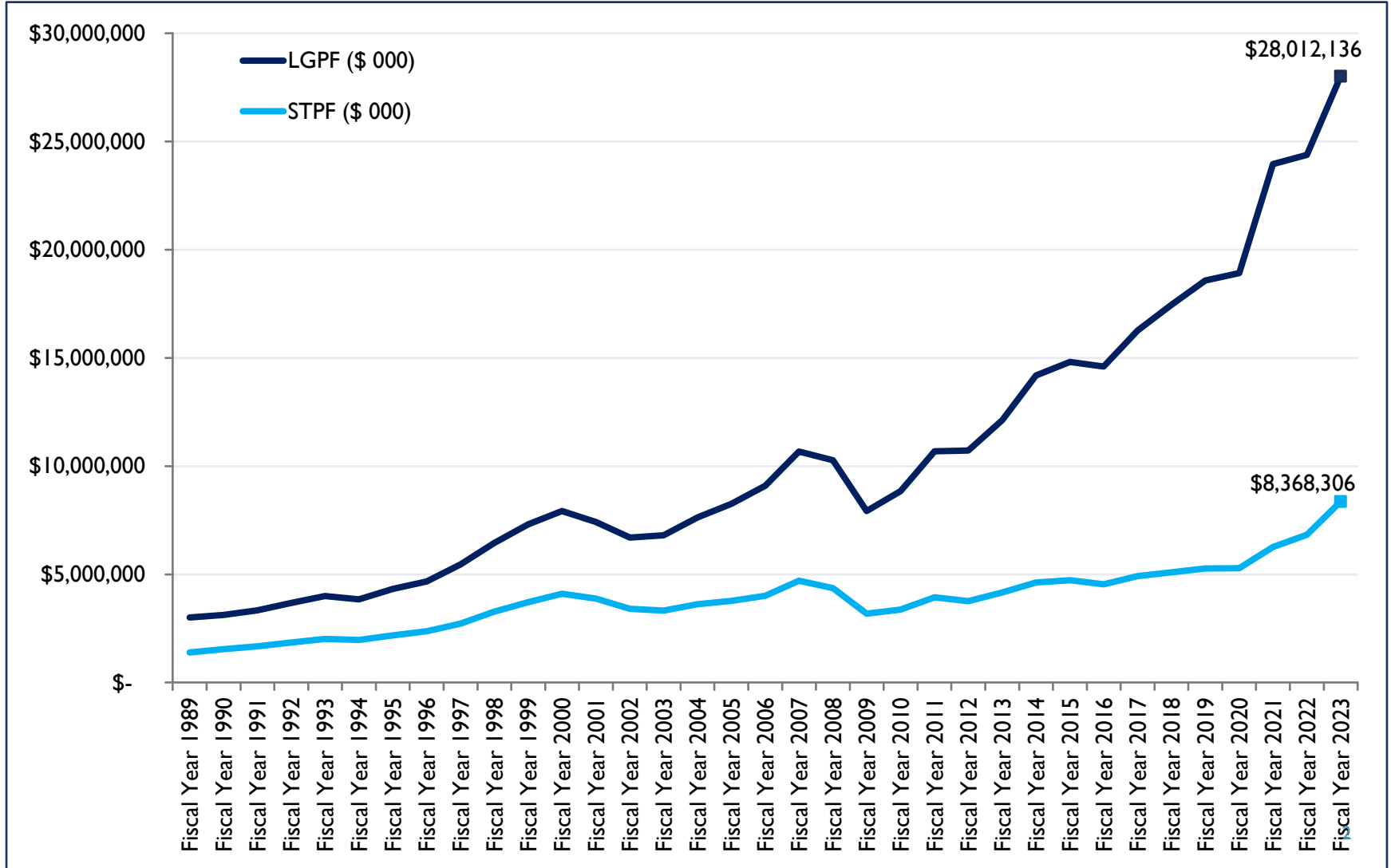

INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE: SIC UPDATES

Senator Roberto “Bobby” J. Gonzales, Chairman
Representative Patricia Roybal Caballero, Vice-Chair

NM State Investment Officer Steve Moise
Chief Investment Officer Vince Smith
July 26, 2023



PERMANENT FUND GROWTH, 1989-2023



SIC EXPANSION & TOTAL ASSET GROWTH 2020-PRESENT

<u>Fund Valuations (\$Millions)</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>	<u>6/30/2022</u>
Land Grant Permanent Fund (LGPF)	\$ 19,724.2	\$ 21,599.2	\$ 25,766.2	\$ 25,770.5	\$ 28,012.1
Severance Tax Permanent Fund (STPF)*	\$ 5,630.3	\$ 5,849.5	\$ 6,733.8	\$ 7,644.0	\$ 8,368.3
Tobacco Settlement	\$ 237.0	\$ 262.2	\$ 298.1	\$ 306.1	\$ 329.6
Water Trust Fund*	\$ 41.7	\$ 39.7	\$ 43.9	\$ 41.3	\$ 42.6
Tax Stabilization Reserve	\$ 538.6	\$ 1,768.2	\$ 1,856.5	\$ 2,304.4	\$ 2,329.4
Rural Libraries Endowment*	\$ 1.0	\$ 3.1	\$ 3.3	\$ 13.4	\$ 13.4
Early Childhood Ed. & Care	\$ -	\$ 306.1	\$ 314.1	\$ 3,462.0	\$ 3,569.5
Opioid Settlement Restricted*	\$ -	\$ -	\$ -	\$ -	transfer pending
Conservation Legacy Perm. Fund*	\$ -	\$ -	\$ -	\$ -	transfer pending
Government Clients	\$ 1,272.0	\$ 1,515.6	\$ 1,814.5	\$ 1,709.7	\$ 1,902.3
Total Assets under management	\$ 27,444.8	\$ 31,344.0	\$ 36,830.3	\$ 41,251.3	\$ 44,567.2

*FY24 Legislative Appropriations Pending:

STPF: \$475 million, Water: \$100 million, Conservation: \$50 million, Rural Libraries: \$15 million, Opioid: \$200 million est. transfer

FUND VALUES 6/30/23 & FY24 DISTRIBUTIONS

Land Grant
Permanent Fund
\$28.01 billion



**LGPF Beneficiary
Distributions
FY24:
\$1,339.47M***

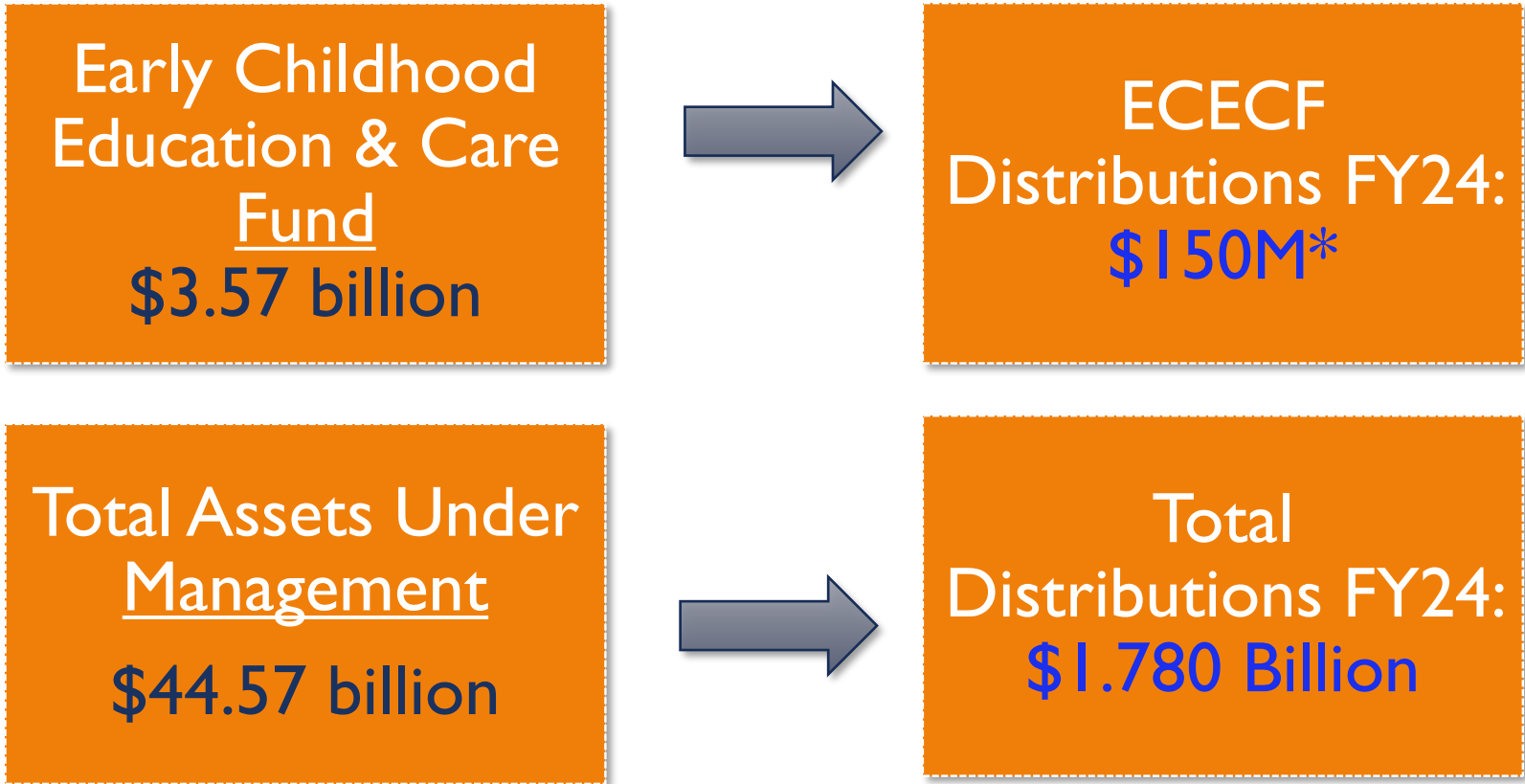
Severance Tax
Permanent Fund
\$8.37 billion



**General Fund
Distributions
FY24: \$289.62M**

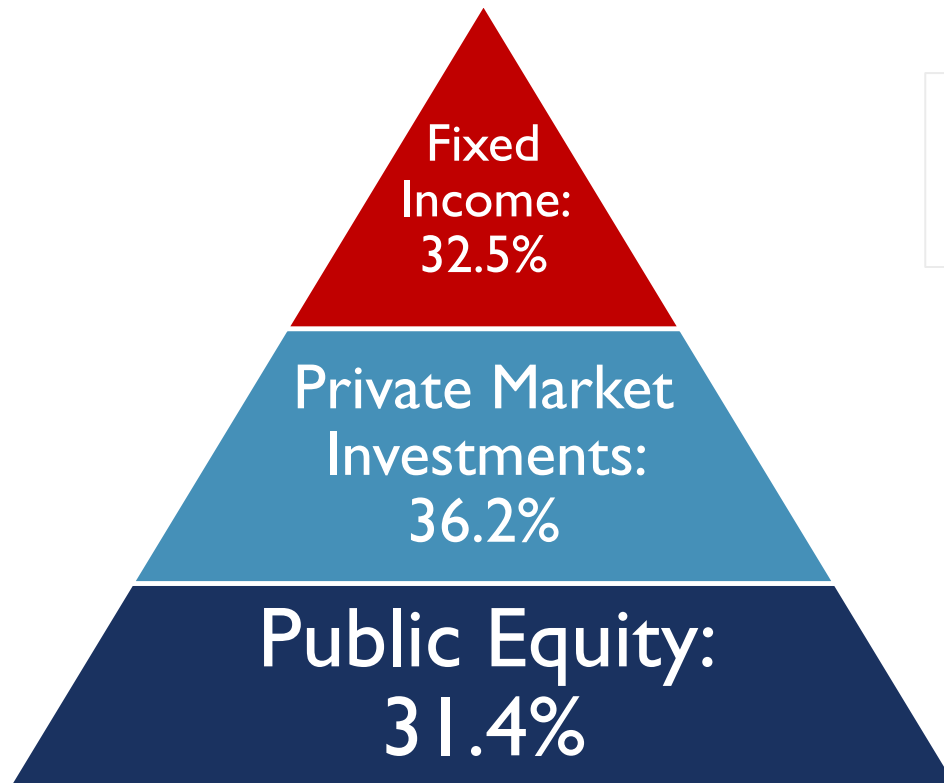
*Includes \$240.3 million to ECE/K-12
from 2022 Constitutional Amendment

FUND VALUES 6/30/23 & FY24 DISTRIBUTIONS



*Pursuant to 2023 HB 191

SIC INVESTMENT ALLOCATION, TOTAL ASSETS:



Core Bonds:	4.8%
Core Plus Bonds:	7.5%
Short Duration:	4.7%
Other Securities/Cash:	15.5%

Real Estate:	8.7%
Real Return:	7.5%
Private Equity (Natl./NM):	9.6%
Credit/Non-Core FI:	10.4%

US Stocks:	17.0%
International Stocks:	14.4%

As of 6/30/23

PERMANENT FUND PERFORMANCE & INVESTMENT RETURNS (net of fees)

As of April 30, 2023

	1-year	3-year	5-year	7-year	10-year
Land Grant Permanent Fund	2.44	9.70	6.68	7.84	7.19
<i>Benchmark</i>	<i>1.43</i>	<i>10.18</i>	<i>6.87</i>	<i>7.73</i>	<i>7.34</i>
Severance Tax Permanent Fund	1.38	7.61	5.14	6.73	6.41
<i>Benchmark</i>	<i>0.71</i>	<i>8.65</i>	<i>6.04</i>	<i>7.17</i>	<i>6.95</i>

Long-term return targets
are 7.0% for LGPF & 6.75% for STPF

SIC FUND GOVERNANCE

11 Council members, all fiduciaries:

3 elected members, 4 Governor's appointees, 4 Legislative appointees

Elected Members:

Gov. Michelle Lujan Grisham

Treasurer Laura Montoya

Land Commissioner Stephanie
Garcia Richard

Legislative Appointees:

Catherine Allen

Tim Jennings

Harold Lavender

Kurt Sommer

Governor's Appointees:

DFA Secretary Wayne Propst

Nick Telles (SFCC)

Michael Messina

John Bingaman

- Public Members: 5-year term requiring professional investment, audit, or governance experience & confirmation by NM State Senate
- Legislative appointees: no more than two from one party
- Governor Lujan Grisham is chair by statute; Council appointed Commissioner of Public Lands Stephanie Garcia Richard as Vice Chair

SIC FUND GOVERNANCE: COMMITTEES & DELEGATION

SIC uses committee structures, which include members of the Council and area-specific experts as advisory members appointed by the Council

- Investment Committee: Harold Lavender (Chair), Catherine Allen, Michael Messina, Nick Telles, John Ulrich and Mary Rohman.
- Audit Committee: Nick Telles (Chair) and Mike Everett (1 vacancy)
- Governance Committee: Catherine Allen (Chair), Michael Messina & Kurt Sommer

SEARCH FOR NEW STATE INVESTMENT OFFICER

- Pursuant to SIC's Governance Committee Charter, the Committee will lead a search and bring recommended finalist(s) to the Council for a vote.
- Search will include active recruitment and applicants from New Mexico and nationwide
- Search to be performed by leading search firm Hudepohl & Associates
- Final selection & terms to be determined by Council

SIC ANNUAL INVESTMENT PLAN - DETAILS

- Broader market/macro themes:
 - Slow GDP growth over next 7-10 years
 - Potential nearer-term recession in the U.S.
 - Recession could be tougher on financial economy vs. “real” economy relative to history
 - Slow start to the next economic/expansion cycle
 - Structurally higher inflation expected (over the full period)
 - Modest interest rates
 - Shrinking market valuation multiples

SIC ANNUAL INVESTMENT PLAN - HIGHLIGHTS

- Produced by SIC Investment Office & endorsed by State Investment Council
- Latest (12th) version approved by Council in June; can be read on SIC website: <https://www.sic.state.nm.us/investments>
- Investment themes:
 - Real assets cash flow investments versus similar risk-level
 - U.S. relative strength, attractiveness over next 7-10 years
 - “Game changing” level of inflows to funds vs. history
 - Critical importance of compounding returns to grow funds

SIC PLANNING & NEEDS LONG-TERM

- Substantial challenges around recruitment and retention of high-quality investment directors, strategists, analysts and accounting professionals
- Fiduciary duty of Council and individual SIC staff to ensure proper oversight of portfolios with hundreds of millions/billions
- Outsourcing is expensive; having under-qualified investors is a big risk
- New Mexico investors paid below peer-fund/public-fund comparisons around U.S.