

Investments & Pensions Oversight Committee

Senator George K. Munoz, Chairman

Representative Patricia Roybal Caballero, Vice-Chair

Steve Moise, NM State Investment Officer
Vince Smith, Deputy SIO & CIO
August 19, 2020



STATE INVESTMENT COUNCIL

Assets Under Management: \$28.4 billion

- Fund values in 2020

Fund Valuations (\$Millions)	<u>12/31/2019</u>	<u>3/31/2020</u>	<u>6/30/2020</u>	<u>8/14/2020 est.</u>
Land Grant Permanent Fund (LGPF)	\$ 19,724.2	\$ 17,915.7	\$ 18,982.2	\$ 19,725.0
Severance Tax Permanent Fund (STPF)	\$ 5,630.3	\$ 5,018.4	\$ 5,283.8	\$ 5,491.0
Tobacco Settlement Permanent Fund	\$ 237.0	\$ 223.1	\$ 241.3	\$ 251.0
Water Trust Fund	\$ 41.7	\$ 39.4	\$ 39.6	\$ 41.0
Tax Stabilization Reserve	\$ 538.6	\$ 1,085.5	\$ 1,210.4	\$ 1,258.0
Rural Libraries Endowment	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
Government Clients	\$ 1,272.0	\$ 1,185.3	\$ 1,282.7	\$ 1,333.0
Early Childhood Trust Fund	\$ -	\$ -	\$ -	\$ 300.0
Total Assets under management	\$ 27,444.8	\$ 25,468.5	\$ 27,041.0	\$ 28,400.0

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New Funds, New Contributions

- SIC funds receiving appropriations/new money

<u>Fund Valuations (\$Millions)</u>	<u>12/31/2019</u>	<u>3/31/2020</u>	<u>6/30/2020</u>	<u>8/14/2020 est.</u>
Tax Stabilization Reserve	538.6	1,085.5	1,210.4	1,258.0
Early Childhood Trust Fund	0.0	0.0	0.0	300.0

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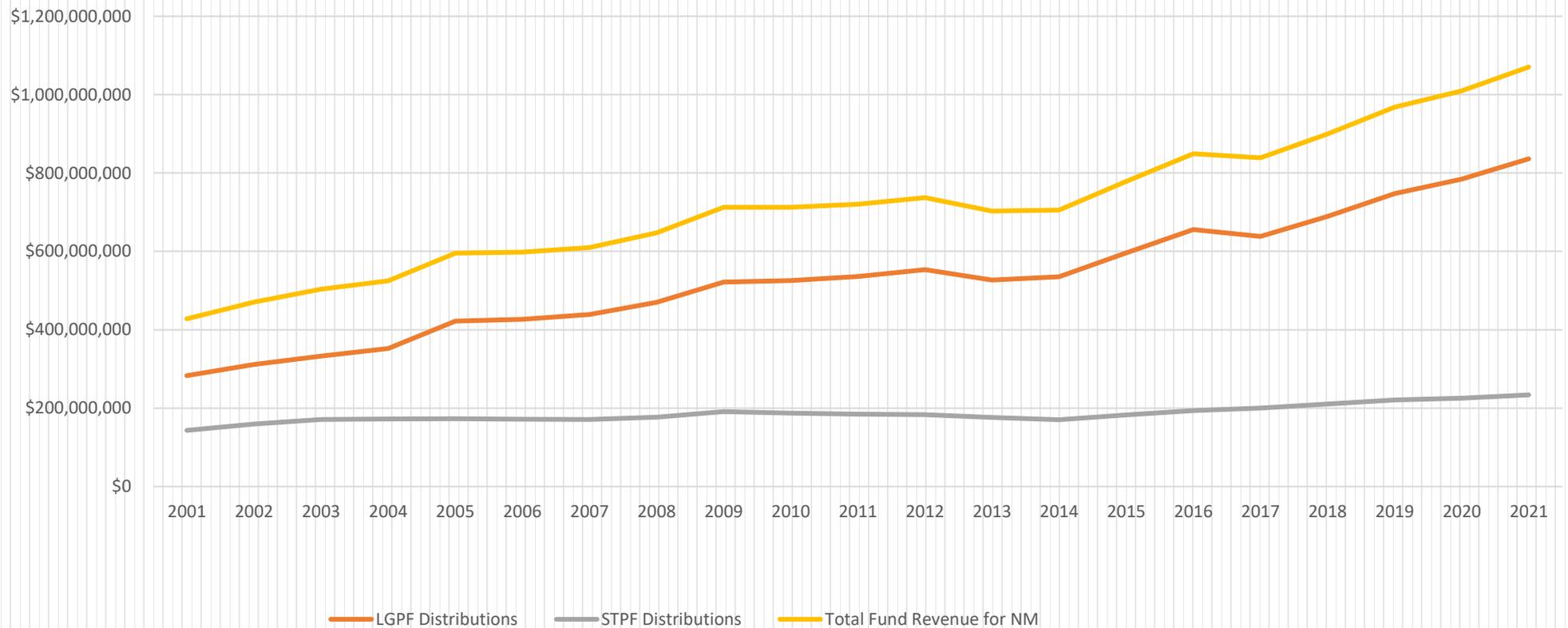
Declining Fund Inflows

● <u>LGPF</u>	<u>Contributions</u>	<u>Distributions</u>
● February 2020:	\$109.9M	(\$65.4M)
● June 2020:	\$50.7M	(\$65.4M)
● July 2020:	\$37.2M	(\$69.7M)
● <u>STPF</u>	<u>Contributions</u>	<u>Distributions</u>
● December 2019:	\$31.9M	(\$18.8M)
● June 2020:	\$0	(\$18.8M)
● July 2020:	\$0	(\$19.5M)

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Permanent Fund Distributions

LGPF & STPF Distribution Growth



Pandemic Stimulus

Severance Tax Permanent Fund Loan Programs

- NM Recovery Fund (up to \$100 million)
- SBIC Loans/PPP loans (\$28.8 million)
- NM Recovery Act Business Loans – SB3 (\$400 million)
- NM Recovery Act Govt. Loans (\$50 million)
- Total STPF-sourced stimulus: ~\$575 million in 2020/2021
- Other notable federal programs/grants
 - Paycheck Protection Program (PPP forgivable loans)
 - CARES Act, SBA loans

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SIC's NM Recovery Fund (NMRF)

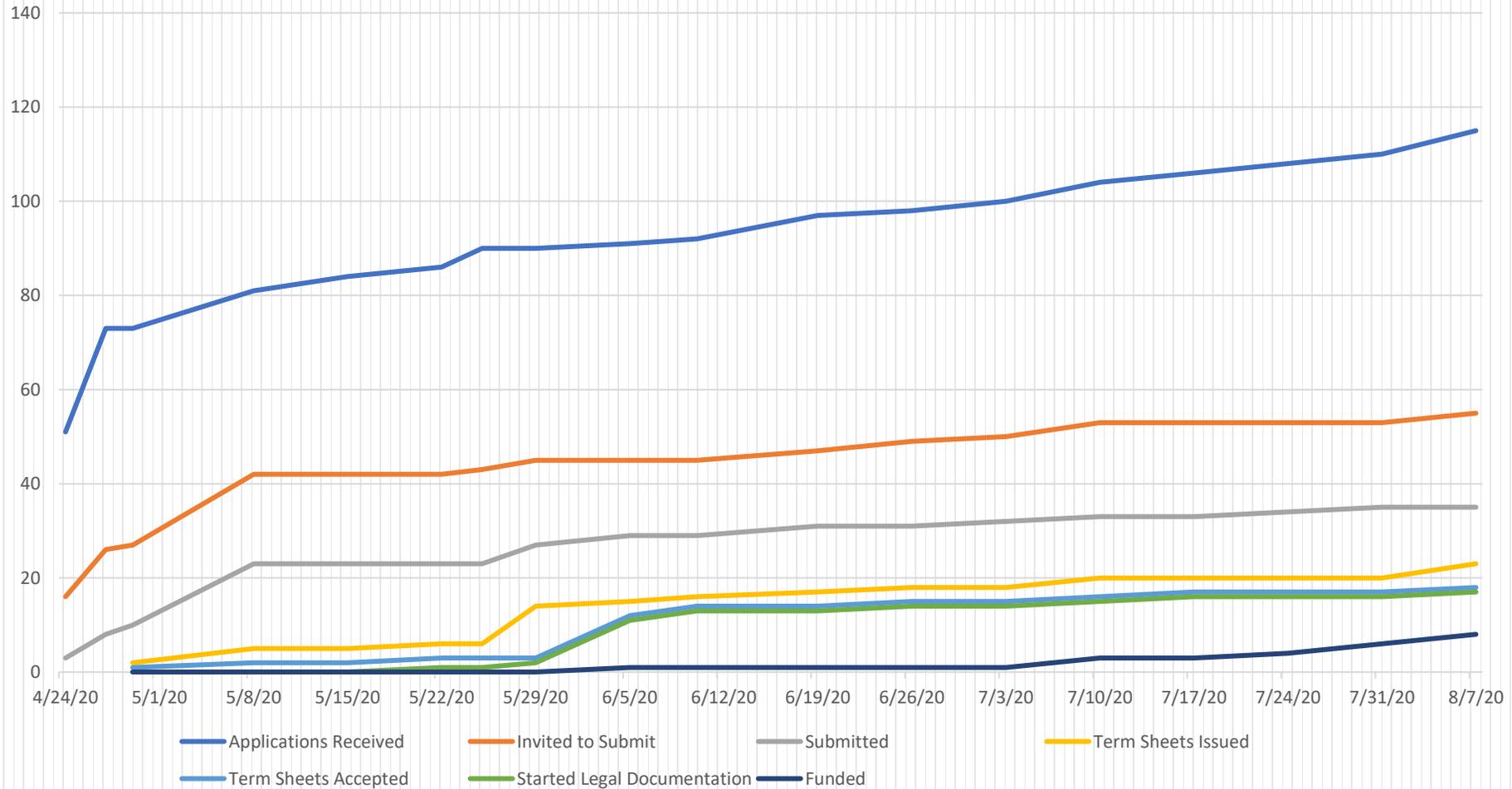
Up to \$100 million allocation under NMSA 7-27-5.15

- Investments, not grants, not forgivable by law
- Same statute allows investment in NM start-up businesses
- Medium/large NM businesses with 40+ employees
- Loan size \$500,000 - \$10 million, 3%-10% interest rates
- Term: up to 4-years; back-loaded repayment, flexibility
- Significant COVID-19 impairment, ability to repay

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SIC's NM Recovery Fund (NMRF)

Pipeline Activity



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SIC's NM Recovery Fund (NMRF)

Late Stage Pipeline	Count	Aggregate Loan Amount	Probability Adjusted	FYE19 NM Employees	Current NM Employees	2019 NM Payroll	Current NM Payroll	2019 Sales
Funded Loans	8	\$25,100,000	\$25,100,000	1,275	482	\$38,636,648	\$23,647,726	\$122,318,091
Legal	9	\$13,100,000	\$13,100,000	3,048	899	\$82,655,607	\$40,777,983	\$249,664,435
Total	17	\$38,200,000	\$38,200,000	4,323	1,381	\$121,292,255	\$64,425,710	\$371,982,526

Active Pipeline	Count	Aggregate Loan Amount	Probability Adjusted	FYE19 NM Employees	Current NM Employees	2019 NM Payroll	Current NM Payroll	2019 Sales
Funded Loans	8	\$25,100,000	\$25,100,000	1,275	482	\$38,636,648	\$23,647,726	\$122,318,091
Legal	9	\$13,100,000	\$13,100,000	3,048	899	\$82,655,607	\$40,777,983	\$249,664,435
Term Sheets Outstanding	5	\$11,400,000	\$6,857,500	428	290	\$13,791,097	\$7,062,703	\$37,941,230
Phase II	5	\$11,272,727	\$5,636,364	320	305	\$13,795,546	\$13,978,938	\$46,787,555
Phase II Invited	13	\$29,309,091	\$9,769,599	1,633	1,039	\$41,063,025	\$29,075,767	\$132,644,143
Total	40	\$90,181,818	\$60,463,463	6,704	3,015	\$189,941,923	\$114,543,118	\$589,355,454

SIC's NM Recovery Fund (NMRF)

Program details

- Term sheets so far issued to companies in Albuquerque, Santa Fe, Las Cruces, Taos, Farmington, Clovis
- Concentration of applicants from hospitality, food & beverage industries
- Digital advertising with engagement from 75 towns/cities
- Direct outreach to 40 Chambers of Commerce, 17 CPA firms, 23 other organizations
- FAQ: <https://sunmountaincapital.com/wp-content/uploads/2020/04/New-Mexico-Recovery-Fund-Overview-for-Potential-Applicants-April-7-2020.pdf>

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NMSBIC loans – smaller businesses

NMSBIC

Lending Activity

Quarter Ended June 30, 2020

	3/31/2020		New		Loans		6/30/2020	
	Balance	#	Loans	#	Repaid	#	Balance	#
Paycheck Protection Program (PPP)								
DreamSpring	\$0	-	\$28,043,820	752	\$6,182	1	\$28,037,638	751
COVID-19 Loans								
The Loan Fund	\$0	-	\$649,255	19	\$0	-	\$649,255	19
LiftFund	\$0	-	\$147,621	7	\$0	-	\$147,621	7
Regular Loans								
DreamSpring	\$7,551,307	538	\$459,492	3	\$64,192	49	\$7,946,607	492
The Loan Fund	\$16,130,166	203	\$2,394,188	6	\$1,274,167	9	\$17,250,187	200
WESST	\$109,350	8	\$0	-	\$5,491	-	\$103,859	8
Ventana Fund	\$2,194,231	7	\$2,957,500	9	\$0	-	\$5,151,731	16
Totals	\$25,985,054	756	\$34,651,876	796	\$1,350,032	59	\$59,286,898	1,493

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Investment Performance

- Annualized returns, net of fees, as of June 30, 2020:

	1-year	3-year	5-year	7-year	10-year
Total Fund	0.35	4.75	5.40	6.51	8.00
Land Grant Permanent Fund	0.24	4.72	5.38	6.48	7.99
<i>Benchmark</i>	1.08	4.93	5.34	6.69	8.20
InvestorForce Ranking	70	61	51	48	38
Severance Tax Permanent Fund	-0.60	4.34	5.14	6.28	7.70
<i>Benchmark</i>	1.15	4.93	5.43	6.75	8.24
InvestorForce Ranking	77	76	61	58	58

- Long-term return targets:
 - LGPF: 7.0%
 - STPF: 6.75%

*Investor Force metrics are only calculated on a quarterly basis. This lfx summary is through 6/30/20

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Economic Situation

- The global economy and the economy here in the U.S. are in difficult shape due to the coronavirus pandemic response.
- In the U.S., economic conditions in the second quarter were worse than even the Great Depression of the 1930s -- crashing GDP, massive unemployment, failing businesses.
- Social 'safety nets' already in place as well as massive fiscal and monetary response have been an effective stop-gap and are contributing to some stabilization and rebound in the third quarter, but these measures are, by definition, mostly short-term in nature.
- Governments, businesses and individuals were already significantly in debt before the coronavirus shutdowns--as typical in an economy that was as well-advanced in the cycle as we were prior to the pandemic--and are quickly becoming more indebted. This debt load will weigh heavily on the economic rebound, which most economists predict will be underway by the second quarter of 2021.

Financial Markets

- Despite the economic woes, financial markets have boomed as a result of interest rate cuts and monetary stimulus. Stocks have made fresh highs, interest rates new lows, and credit spreads have tightened back nearly to pre-pandemic lows.
- Valuations, already high pre-pandemic, have become daunting. In terms of the stock market--whether one uses current PE, forward PE, stock-market-value-to-GDP, the Shiller PE-10 ratio, pick-your-indicator--stocks are near, at or above record valuation levels. Current valuations portend very, very low rates of return from stocks and bonds over the next ten years.
- Private market investments have been more stable and predicable over the past few months.

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LGPF & STPF Investment Strategy

- The LGPF and the STPF entered this period in a somewhat defensive mode-- loads of liquidity, cycle-low weighting to publicly-traded equity (40%), a heavy emphasis on income-producing assets (real estate, "real assets", credit-related bonds). This served very well in the first quarter, but generally lagged in the massive, liquidity-led rebound of stocks and long-duration bonds in the second quarter.
- Many think that the returns in stocks and bonds have been earned and that the longer-term return-generating future for these two asset types looks dim. This means the permanent funds are well positioned to produce competitive returns going forward.
- A more detailed assessment of the economy, permanent fund positioning and future investment strategy is detailed in the SIC's Annual Investment Plan, due to be updated next month (September 2020) and available on the State Investment Office website.