



NEW MEXICO STATE INVESTMENT COUNCIL



TOBACCO SETTLEMENT REVENUE OVERSIGHT COMMITTEE

TOBACCO SETTLEMENT PERMANENT FUND:
INVESTMENT PERFORMANCE UPDATE

MAY 24, 2016

SENATOR CISCO MCSORLEY &
REPRESENTATIVE JOHN L. ZIMMERMAN, CO-CHAIRS

STATE INVESTMENT OFFICER STEVE MOISE
DEPUTY SIO ROBERT "VINCE" SMITH



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Fund Overview (4/30/15)



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- Tobacco Settlement Permanent Fund:
 - Assets: \$256.4 million
 - FY16 contribution: \$39.6 million (Apr. 2016)
 - FY17 distribution: \$40.1 million (**pending**)
 - Fund assets year over year: +\$19.5 million
 - ✦ Asset growth in FY16 primarily due to last year's appropriation of less than 100% of the annual contribution



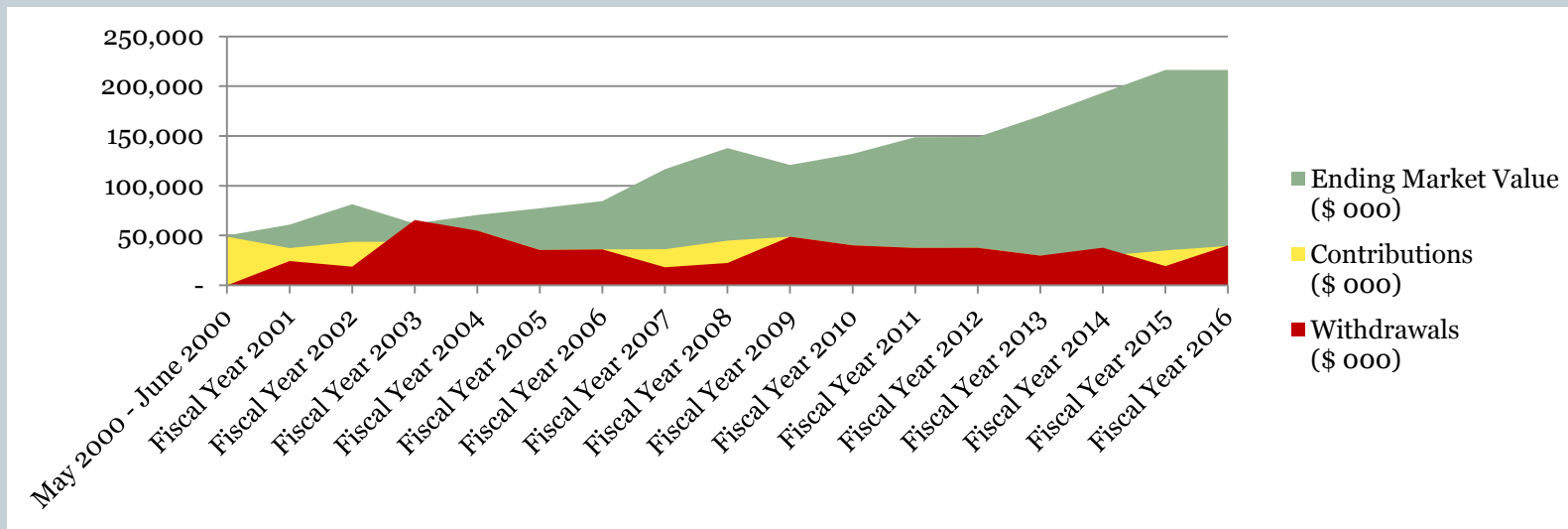
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TSPF Cash Flows



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- TSPF does not make annual distributions like other permanent funds; part of the state's budget reserve
- 83% of contributions appropriated by legislature since fund inception: \$567 million out of \$680 million received from legal settlement



Assumes 4/30/16 values for end of FY16;
Assumes completion of FY17 distributions



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Fund Performance



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Investment performance as of 3/31/16:

	Market Value (\$)	QTD	FYTD	1 Year	3 Years	5 Years	10 Years	15 Years
NMSIC Total Fund Composite	20,015,442,236	0.65	-1.30	-0.72	6.12	6.24	5.13	5.65
Land Grant Total Fund Composite	14,461,516,924	0.66	-1.36	-0.80	6.05	6.23	5.22	5.65
<i>Land Grant Interim Policy Index</i>		1.12	-0.71	0.07	6.75	7.26	5.47	5.77
Difference		-0.46	-0.65	-0.87	-0.70	-1.03	-0.25	-0.12
All Public Plans-Total Fund Median		0.94	-1.44	-1.51	6.16	6.46	5.57	5.98
Severance Tax Total Fund Composite	4,522,778,700	0.48	-1.16	-0.62	6.03	5.96	4.60	5.07
<i>Severance Tax Interim Policy Index</i>		1.11	-0.71	0.07	6.75	7.26	5.48	5.81
Difference		-0.63	-0.45	-0.69	-0.72	-1.30	-0.88	-0.74
Tobacco Settlement Total Fund Composite	215,240,762	1.11	-0.48	-0.38	7.37	6.89	5.31	5.46
<i>Tobacco Settlement Policy Index</i>		1.44	-0.34	-0.50	7.06	7.45	6.07	6.28
Difference		-0.33	-0.14	0.12	0.31	-0.56	-0.76	-0.82
All Public Plans-Total Fund Median		0.94	-1.44	-1.51	6.16	6.46	5.57	5.98

Source: RVK

Returns are gross of fees, excl. Absolute Return, Private Equity, Real Estate & Real Return



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Investment Performance Notes (3/31/16)



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- FYTD16 investment returns: -0.48%
- Wilshire TUCS public plan median: -1.02%
- TSPF Policy Index: -0.34%
- Performance relative to policy: -0.14%

- TSPF 1-year return: -0.38%
- TSPF 3-year return: 7.37%
- TSPF 5-year return: 6.89%
- TSPF 10-year return: 5.31%
- TSPF 15-year return: 5.46%



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TSPF Asset Allocation



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- US Equities: 48%
- Intl. Equities: 9%
- **Total equity: 57%**
- **Fixed income: 19%**
- **Hedge funds: 8%**
- **Cash equivalent: 16%**
- Projected annual rate of return: **6.5%**





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Forecasts & Assumptions



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	Last 10 years return	Long Run Historical	SIC Expectation (7-10 years forward)	Trend
US GDP (Real)	1.35%	2.50-4.50%	1.50%-3.00%	↑
US Inflation (CPI)	1.85%	2.00-6.00%	2.00%-3.00%	↑
US GDP (Nominal)	3.08%	5.00-9.00%	3.50%-5.00%	↔
Global Stocks	~5.30%	8-10%	~6.50%	↑
US Bonds	~4.50%	5-6%	~3.5%	↓↓
65/35 Stocks/Bonds Return	~5.00%	~7.75%	~5.45%	↓
TUCS Median Public Fund (\$1B+)	~6.03%	20 years=7.43% 30 years =9.00%	~6.50%	↓



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TSPF Conclusions



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- Diversifying portfolio could deliver additional returns to the TSPF in low-return environment
 - Private Equity & Real Estate are illiquid
 - Multi-year investment horizons
- Council reluctant to put TSPF into private market investments
 - Reserve Fund Status
 - Uncertainty regarding future arbitration rulings & reversions
- Zero/low contributions=slow growth



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TSPF Suggestions



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- Legislative action to remove “reserve” status of the TSPF
 - Additional protection, restrictions would allow longer-term, less-liquid investment strategies & reduce fund volatility/risk
- Return to 50/50 division of annual settlement revenue payments
- Create revenue stream to increase the size of the TSPF