

Investments & 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 7, 2018



STATE INVESTMENT COUNCIL

Assets Under Management: \$23.85 Billion

- Fund values, April 30, 2018:

Land Grant
Permanent Fund:

\$17.44 billion

Severance Tax
Permanent Fund:

\$5.12 billion

Governmental
Clients:

\$1.06 billion

Tobacco Settlement
Permanent Fund:

\$191.54 million

Water Trust
Permanent Fund:

\$44.66 million

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Fund Growth

- One-year ending April 30, 2018:

LGPF:

April 2017: **\$15.94B**
April 2018: **\$17.44B**
+\$1.5B

STPF:

April 2017: **\$4.84B**
April 2018: **\$5.12B**
+\$280M

Clients:

April 2017: **\$942M**
April 2018: **\$1.06B**
+\$118M

Tobacco:

April 2017: **\$183M**
April 2018: **\$191M**
+8M

Water:

April 2017: **\$44.7M**
April 2018: **\$44.1M**
\$-0.55M

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Permanent Fund Facts

- Total distributions FY 1998: \$299.8 Million
- Total distributions FY 2018: \$899.6 Million
- Total distributions FY 2019: **\$968.1 Million**

- Actual Distributions 2009-2018: \$7.66 Billion
- Projected distributions 2019-2028: **\$12 Billion**

- Distributions provide 12-15% of state budget

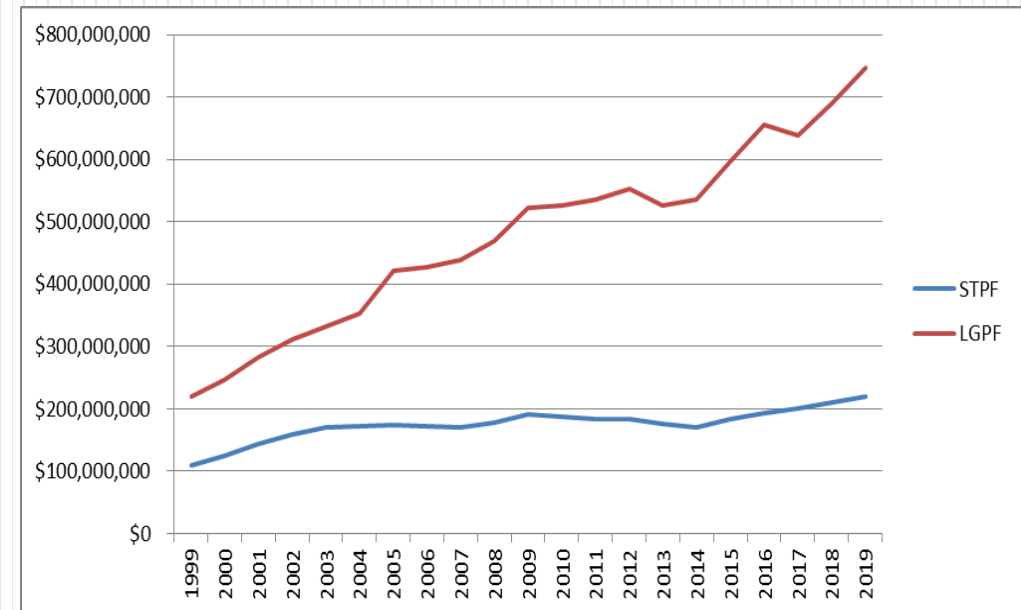
- Average annual tax savings:
 - **\$465** per person
 - **\$1200** per NM household

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Growth of Impact

- LGPF & STPF distribution growth

Fiscal Year	STPF	LGPF	Total distributions
1999	\$110,003,425	\$219,175,053	\$329,178,478
2000	\$124,153,566	\$245,834,227	\$369,987,793
2001	\$143,172,666	\$283,052,700	\$426,225,366
2002	\$159,182,592	\$311,465,448	\$470,648,040
2003	\$170,954,868	\$332,784,132	\$503,739,000
2004	\$172,434,107	\$352,525,968	\$524,960,075
2005	\$173,249,126	\$422,198,985	\$595,448,111
2006	\$171,797,507	\$426,443,668	\$598,241,175
2007	\$170,972,506	\$438,945,139	\$609,917,645
2008	\$177,171,816	\$469,998,264	\$647,170,080
2009	\$191,292,480	\$521,520,996	\$712,813,476
2010	\$187,072,285	\$525,512,604	\$712,584,889
2011	\$184,570,731	\$535,903,003	\$720,473,734
2012	\$183,423,501	\$553,418,314	\$736,841,815
2013	\$176,172,687	\$526,846,546	\$703,019,233
2014	\$170,472,647	\$535,156,608	\$705,629,255
2015	\$182,722,980	\$595,993,902	\$778,716,882
2016	\$193,509,941	\$655,785,169	\$849,295,110
2017	\$200,442,327	\$638,074,458	\$838,516,785
2018	\$210,377,644	\$689,190,724	\$899,568,368
2019	\$220,621,474	\$747,542,992	\$968,164,466

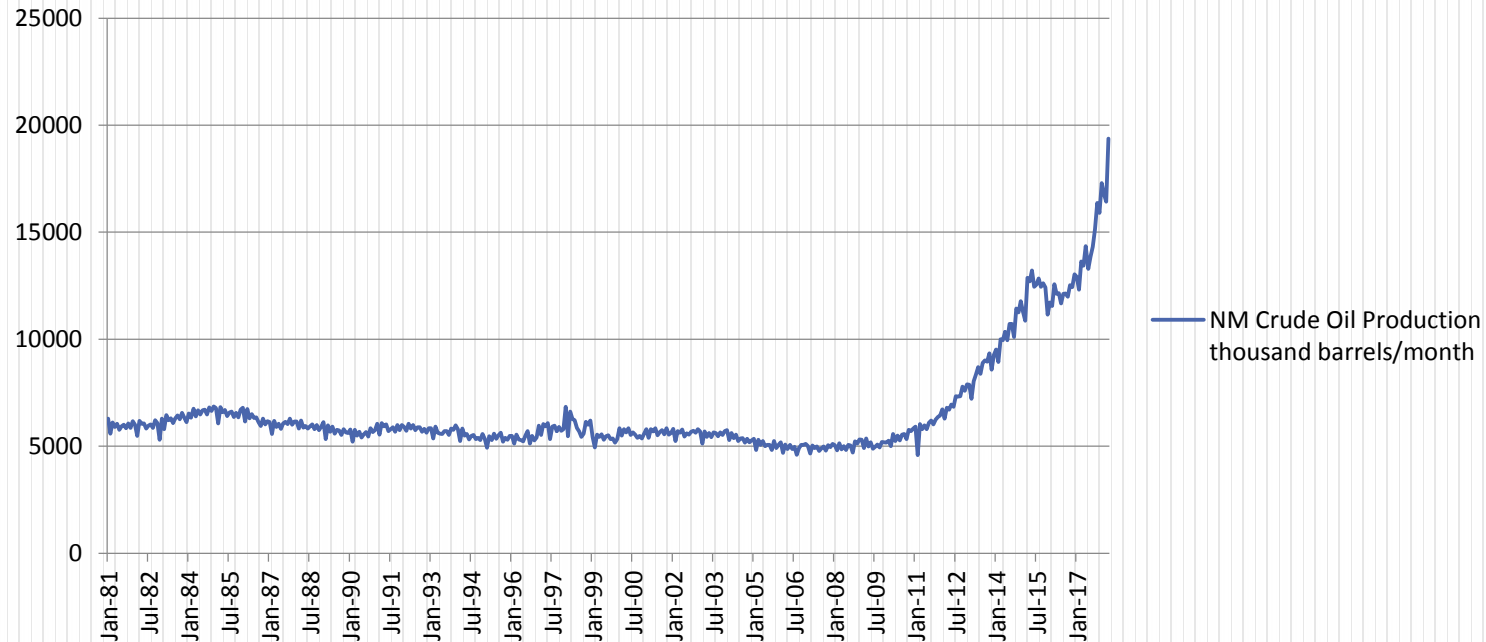


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Permian boom

- A decade of growth

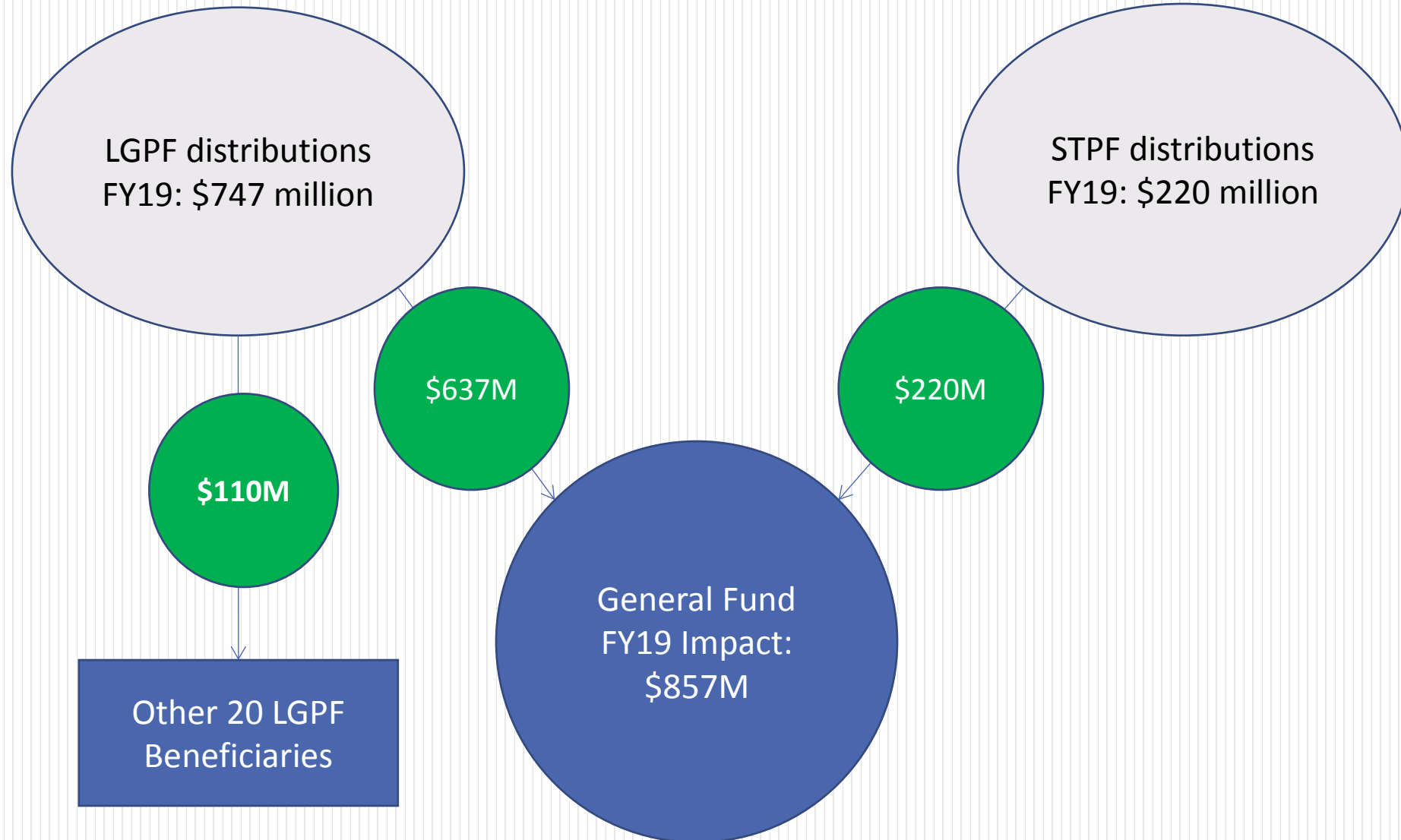
NM Crude Oil Production 1981-present



Source: US Energy Information Administration

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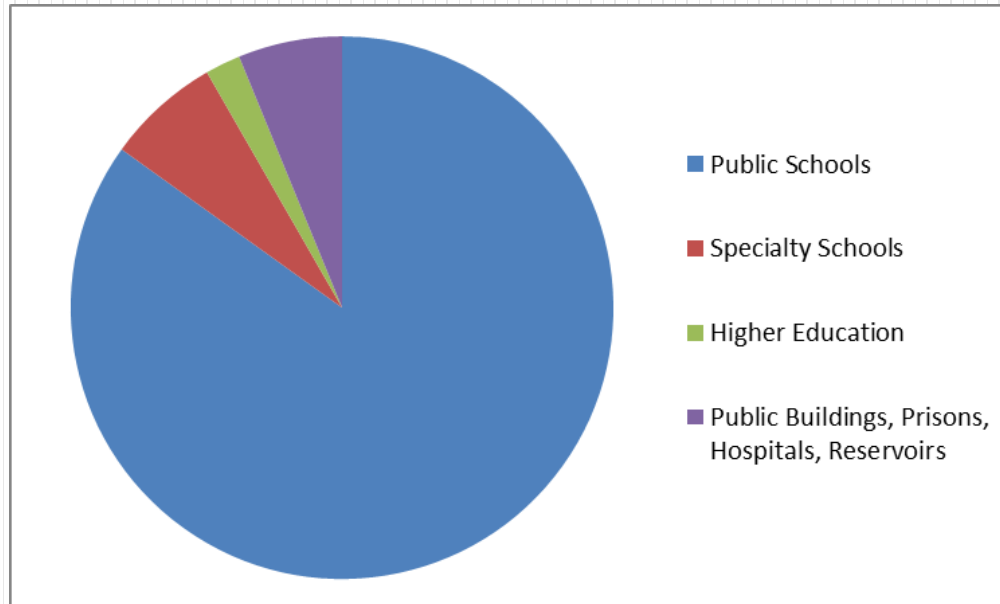
Permanent Fund Distributions



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LGPF Distributions in Detail

<u>LGPF Beneficiaries</u>	<u>Fund Share</u>	<u>Est. Distribution FY2018</u>
Public Schools	85.2%	\$636.9 million
Specialty Schools	6.7%	\$50.1 million
Public Buildings, Prisons, Hospitals, Reservoirs	6.1%	\$45.6 million
Higher Education	2.0%	\$15.0 million



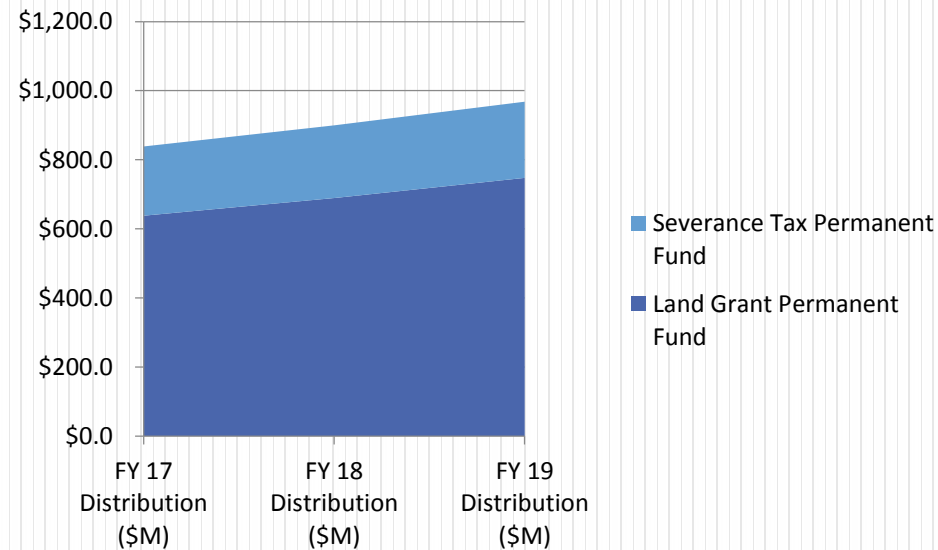
<u>LGPF Beneficiaries</u>	<u>Fund Share as of 4/30/18</u>
The Common (public) Schools	85.17%
NM Military Institute	3.02%
Penitentiary of NM	1.85%
NM School for the Blind	1.83%
School for the Deaf	1.83%
University of NM	1.30%
Capital Buildings	1.06%
Water Reservoirs	0.96%
Miners Colfax Medical Center	0.86%
Penal & Reform Institutions	0.76%
NM State University	0.41%
NM Behavioral Health Institute	0.33%
Rio Grande Improvements	0.21%
NM Institute of Mining & Tech	0.19%
Eastern NM University	0.08%
UNM Saline Lands	0.05%
NM Highlands University	0.02%
Western NM University	0.02%
Northern NM College	0.02%
NM Boys School (CYFD)	0.01%
Carrie Tingley Hospital	0.001%

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Distributions Year-Over-Year

- FY19 distribution of \$968.1 million, a new record

	FY 17 Distribution (\$M)	FY 18 Distribution (\$M)	FY 19 Distribution (\$M)
Land Grant Permanent Fund	\$638.1	\$689.2	\$747.5
Severance Tax Permanent Fund	\$200.4	\$210.4	\$220.6
Year-over-year growth		\$61.1	\$68.5



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Investment Performance

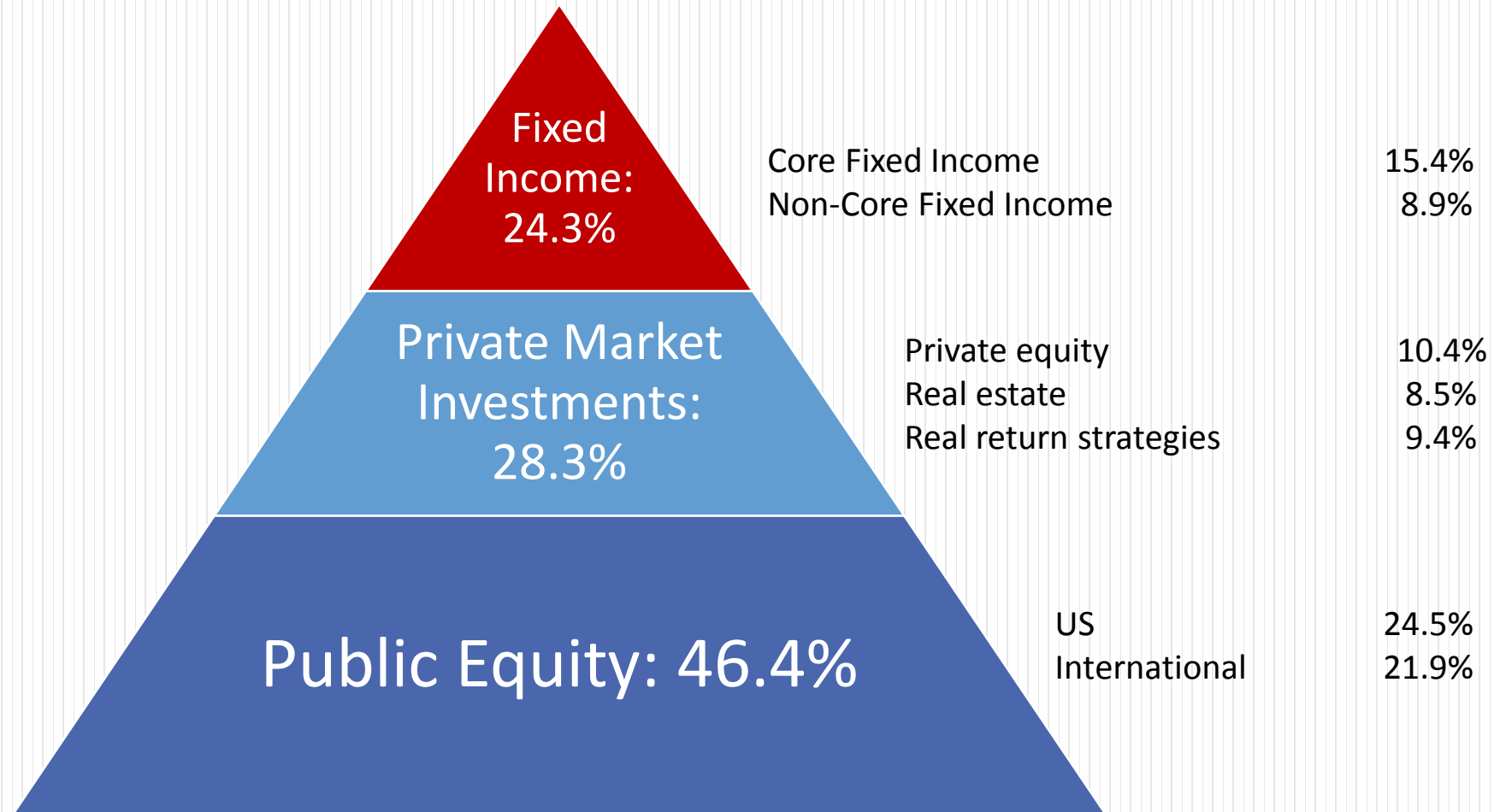
- Annualized returns, net of fees, as of March 31, 2018:

	Quarter	1-year	3-year	5-year	10-year
Land Grant Permanent Fund	0.46	10.83	6.94	7.94	6.12
<i>Benchmark</i>	<i>0.17</i>	<i>9.84</i>	<i>6.50</i>	<i>7.88</i>	<i>5.94</i>
Difference	0.29	0.99	0.44	0.06	0.18
InvestorForce ranking	33	37	33	28	37
Severance Tax Permanent Fund	0.27	9.92	6.64	7.71	5.45
<i>Benchmark</i>	<i>0.23</i>	<i>10.00</i>	<i>6.59</i>	<i>7.93</i>	<i>5.88</i>
Difference	0.04	-0.08	0.05	-0.22	-0.39
InvestorForce ranking	39	65	50	39	68

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

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Investment Allocation as of April 30, 2018



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High Market Valuations

Forward 10 Year Annualized Real Return by Shiller PE-10 Quintile				
<u>Quintile</u>	Shiller PE-10		Median Return	
	<u>Low</u>	<u>High</u>	<u>Real</u>	<u>Nominal</u>
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%
(Current) 32.7x			-2.70%	-0.15%

Note: From 1929 forward

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Return Expectations

	Last 10 Years (3.31.2018)		Long Run Historical	Strategy Group Expectations (7-10 Years Fwd)	
	Compound	Range*		Compound	Range*
U.S. GDP (Real)	1.56%	-0.50%-2.45%	2.50-4.50%	1.25%-2.00%	0.00%-3.00%
U.S. Inflation (CPI)	1.57%	1.00%-3.50%	2.00-6.00%	2.00%-2.50%	1.00%-4.00%
U.S. GDP (Nominal)	3.13%	1.00%-4.25%	5.00-9.00%	3.50%-4.50%	2.00%-6.00%
U.S. Stocks	~9.50%		9-11%	~5.50%	
U.S. Bonds	~4.00%		4-7%	~3.00%	
65/35 Stocks/Bonds Return	~7.60%		~8.50%	~4.65%	
Median Public Fund (\$1 Billion+)	6.60%		20 Yrs=6.62% 30 Yrs=8.90%	~5.25%	

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

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Late Cycle Markets

Where are we?

- The economy and the investment markets appear to be transitioning to Late Cycle phase from a quite extended Mid-Cycle phase in the economic cycle that began in the second quarter of 2009.
- The economy and markets gave investors a “head fake” in late 2015 and early 2016 regarding moving into Late Cycle; GDP growth hit its cycle high and began rolling over, the Fed began to raise rates, CPI hit zero and bounced higher, financial conditions were tightening from cycle lows and volatility was picking up. These things all reversed in 2016 back toward more Mid-Cycle characteristics and the stock market surprised most investors with a 20%+ return. As we move toward mid-2018, we are seeing fundamental indicators move back toward Late Cycle characteristics.

	<u>Recession</u>	<u>Early Cycle</u>	<u>Mid Cycle</u>	<u>Late Cycle</u>
Economic Growth	Weak, Deteriorating	Stabilizing	Moderate, Improving	Strong, Plateauing
Credit Growth	Falling	Weak	Accelerating	High
Central Bank Policy	Easing	Easy	Starting to Tighten	Tightening
Inflation Pressure	Moderate, Falling	Low, Stabilizing	Moderate, Rising	High, Rising
Volatility	Above Average, Rising	Above Average, Falling	Below Average, Stable	Average, Rising
Risk Appetite	Low	Low, Improving	High	High
Liquidity	Low	Low, Improving	High	Declining
Yield Curve	Steepening	Steep	Flat	Flat, Inverting
Asset Valuations	Falling, Below Avg	Below Avg, Rising	Avg/Near Avg, Rising	Above Avg, Rising

Possible IPOC Subjects

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