



**NEW MEXICO STATE  
INVESTMENT  
COUNCIL**

**FY 2019 Appropriation Request Summary  
Legislative Finance Committee  
November 14, 2017**



State of New Mexico  
**STATE INVESTMENT COUNCIL**

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November 14, 2017

Honorable Patricia A. Lundstrom, Chair  
Honorable John Arthur Smith, Vice-Chair  
Legislative Finance Committee

Re: FY19 Appropriation Request – State of NM State Investment Council (33700)

Dear Chair Lundstrom, Vice-Chair Smith and Members:

The State Investment Council (SIC) appears before the Legislative Finance Committee today to present its FY19 Appropriation Request. A summary of the request follows:

<u>FY19 Budget Request</u>	<u>Other State Funds</u>
Base	\$61.514 million
Expansion	0.0 million
Total Request	\$61.514 million

As the attached summaries show, our request reflects an increase of \$9.282 million in comparison to FY18. \$8.94 million of the increase relates to contractual services which include investment management fees. Investment management fees are based on a percentage of assets under management. Per our Investment Holding Report (excluding clients) at June 30, 2017, the permanent funds have increased in value by \$1.98 billion during the past fiscal year, largely due to improved investment returns for the fiscal year. We have estimated potential growth for FY19 in the appropriation request. Projected investment management fees are in line with the projected assets under management. Any unused appropriation amounts for the fiscal year are reverted back to the Land Grant Permanent Fund (LGPF) and the Severance Tax Permanent Fund (STPF). Personal services show an increase of \$0.31 million, largely due to projected increases in staffing levels. Currently the SIC is recruiting for a real estate/real return analyst, and an accounting financial analyst. In the near future, the SIC will also be recruiting for two additional positions which will leave two positions (of 31) as unfilled.

The State Investment Council continues its efforts to transform the agency into a best-in-class investment institution. During the past several years, the Council has embarked on an ambitious schedule of requests for proposals for investment management. This process has resulted in the selection of several new managers and consultants and much improved performance.

Honorable Patricia A. Lundstrom, Chair  
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We are committed to protecting and growing the state's permanent endowment funds for current and future generations, through prudent, professional investment management. In FY18, the Land Grant and Severance Tax Permanent Funds will deliver \$899.6 million to the General Fund and LGPF beneficiaries. FY19 distributions from the funds are to be determined by the permanent fund values as of 12/31/17, but are currently on track to see those benefits increase to approximately \$950 million. In these efforts, we thank you and your fellow legislators for your guidance and support.

Very truly yours,

**New Mexico State Investment Council**

By: \_\_\_\_\_

  
Steven K. Moise  
State Investment Officer

**State of New Mexico State Investment Council**  
**FY19 Appropriation Request Summary**  
(Millions)

	<b>FY19</b>	<b>FY18</b>	<b>Difference</b>
<b>General Fund</b>	\$ 0.0	\$ 0.0	\$ 0.0
<b>Federal Funds</b>	\$ 0.0	\$ 0.0	\$ 0.0
<b>Other State Funds</b>	\$ 61.514	\$ 52.232	\$ 9.282
<b>Total Sources</b>	\$ 61.514	\$ 52.232	\$ 9.282
<b>Personal Services &amp; Employee Benefits</b>	\$ 4.153	\$ 3.843	\$ 0.31
<b>Contractual Services</b>	\$ 56.686	\$ 47.746	\$ 8.94
<b>Other</b>	\$ 0.675	\$ 0.642	\$ 0.033
<b>TOTAL REQUEST</b>	\$ 61.514	\$ 52.232	\$ 9.282

## State of New Mexico State Investment Council FY 19 Appropriation Request Summary

- FY19 request: \$61.514 million
- FY18 budget: \$52.232 million
- Proposed increase: \$9.282 thousand (17.74%)

### Justification for request:

- Increased investment management fees (within contractual services) are spread across all publicly-traded asset classes.
- Continued outsourcing of investment management to improve returns (i.e. sourcing best-in-class managers to replace low-cost underperforming managers).
- There will be increased investment management fees with improved performance of funds, since fees are based upon a percentage of assets under management.
- For each dollar spent on management fees, the funds in the long-term **expect to receive 2-3 times** that amount in improved returns (based on studies by our consultant RVK and staff).
- Increase in personal services of \$310,000.