

NEW MEXICO STATE INVESTMENT COUNCIL

STATE INVESTMENT OFFICER STEVE MOISE
DEPUTY SIO VINCE SMITH
DIR. OF COMMUNICATIONS CHARLES WOLLMANN

Revenue Stabilization & Tax Policy Committee

July 2011

New Mexico State Investment Council Performance Update

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- Significant improvement in investment performance
 - ▣ Preliminary – up 22% for year ending June 30
 - ▣ Top quartile vs. peer universe last three quarters
 - ▣ Had been bottom quartile in 2010
 - ▣ Funds have grown from \$12.9B to \$15.5B last 12 mos.
 - ▣ Performance drivers:
 - Asset allocation
 - Active management
 - ▣ RV Kuhns & Council – comprehensive asset allocation study underway

New Mexico State Investment Council
As of May 31, 2011

Summary

- Land Grant and Severance Tax Permanent Funds were within policy ranges with regards to asset allocation.
- The Total Fund returned -0.89% in May, driven lower as equity markets declined.
- The US Equity Composite returned -1.53% in May, 39 basis points below the Russell 3000 Index.
- External large-cap managers have struggled recently. Over the last year ClearBridge returned 17.81%, 814 basis points below the S&P 500 Index.
- Thornburg and Lombardia also underperformed over the last year. With returns of 22.66% and 22.24%, these managers underperformed their benchmarks by 329 and 199 basis points, respectively.
- The Non-US Equity composite trailed the benchmark in May, but outperformed over the one-, three-, and five-year periods.
- Emerging markets manager Alliance Bernstein has been the biggest detractor to non-US equity performance, underperforming the MSCI Emerging Markets Index for all trailing periods excluding 10-years.
- In May, Loomis Sayles was the only core bond manager to outperform the benchmark. The Core Bonds Pool has underperformed for the three- and five-year periods.
- Absolute Return trailed the HFRI Fund of Funds Composite in May, but outperformed the BofA ML 3-Mo US T-Bill +2%. Over the three- and five-year periods the Absolute Return Composite underperformed both benchmarks.

Land Grant Asset Allocation vs. Target

	Market Value (\$)	Allocation (%)	Target (%)
US Equity	4,537,779,400	42.08	45.00
Non-US Equity	1,566,012,820	14.52	15.00
Fixed Income	2,346,433,979	21.76	20.00
Absolute Return	648,135,881	6.01	5.00
Private Equity	961,358,642	8.92	10.00
Real Estate	334,317,918	3.10	5.00
Cash Equivalent	177,742,879	1.65	-
US Treasuries	210,990,060	1.96	-
Total Fund	10,782,771,581	100.00	100.00

Severance Tax Asset Allocation vs. Target

	Market Value (\$)	Allocation (%)	Target (%)
US Equity	1,469,069,038	39.97	45.00
Non-US Equity	529,894,119	14.42	15.00
Fixed Income	891,470,165	24.25	20.00
Absolute Return	124,908,031	3.40	5.00
Private Equity	471,204,175	12.82	10.00
Real Estate	164,700,746	4.48	5.00
Cash Equivalent	24,357,384	0.66	-
Total Fund	3,675,603,658	100.00	100.00

Total Fund - Comparative Performance

	MTD	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2010	2009	2008
NMSIC Total Fund Composite	-0.89	1.02	5.96	23.27	20.04	1.97	4.34	4.83	14.55	18.69	-27.61
NMSIC US Equity Composite	-1.53	0.50	6.91	34.69	26.45	3.63	5.37	4.26	19.00	38.89	-38.84
R 3000 Index	-1.14	1.80	8.30	34.79	27.04	1.67	3.76	3.43	16.93	28.34	-37.31
Difference	-0.39	-1.30	-1.39	-0.10	-0.59	1.96	1.61	0.83	2.07	10.55	-1.53
NMSIC Non-US Equity Composite	-3.38	1.51	4.58	33.06	31.50	-2.12	5.96	8.68	12.13	56.12	-48.58
MSCI ACW Ex US Index (Net)	-2.88	1.86	5.33	31.63	29.95	-2.68	3.95	7.21	11.15	41.46	-45.52
Difference	-0.50	-0.35	-0.75	1.43	1.55	0.56	2.01	1.47	0.98	14.66	-3.06
NMSIC US Core Bonds Pool	0.97	2.30	2.88	5.92	8.18	6.11	5.89	5.83	11.07	-0.33	5.05
BC US Unv Bond Index	1.24	2.55	3.24	5.13	6.76	6.75	6.71	6.06	7.16	8.60	2.38
Difference	-0.27	-0.25	-0.36	0.79	1.42	-0.64	-0.82	-0.23	3.91	-8.93	2.67

Performance shown is gross of fees. Performance is annualized for periods greater than one year.

Severance Tax target allocation excludes ETI's, state PE program, and university equities. Market values are preliminary and subject to change.

New Mexico State Investment Council
Asset Allocation & Performance
As of May 31, 2011

	Allocation		Performance %										
	Market Values (\$)	%	MTD	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2010	2009	2008
NMSIC Total Fund Composite	15,528,963,139	100.00	-0.89	1.02	5.96	23.27	20.04	1.97	4.34	4.83	14.55	18.69	-27.61
Land Grant Total Fund Composite	10,782,771,581	69.44	-0.95	1.01	6.06	23.21	19.96	2.19	4.50	4.96	14.44	19.30	-27.53
Land Grant Policy Index			-0.63	1.45	7.05	25.33	21.56	2.35	4.28	4.70	14.87	20.65	-29.36
Difference			-0.32	-0.44	-0.99	-2.12	-1.60	-0.16	0.22	0.26	-0.43	-1.35	1.83
Severance Tax Total Fund Composite	3,976,657,426	25.61	-0.78	0.97	6.53	23.16	19.63	0.79	3.54	4.30	12.82	18.59	-29.41
Severance Tax Policy Index			-0.63	1.45	7.05	25.33	21.74	2.14	4.30	4.78	15.07	18.56	-28.78
Difference			-0.15	-0.48	-0.52	-2.17	-2.11	-1.35	-0.76	-0.48	-2.25	0.03	-0.63
Global Equity													
NMSIC Global Equity Composite	8,513,087,106	54.82	-2.02	0.76	6.30	34.17	27.34	2.63	5.55	5.00	18.26	41.50	-40.59
MSCI ACW Index (Net)			-2.15	1.85	6.36	32.22	28.15	-1.40	3.47	4.62	12.67	34.63	-42.19
Difference			0.13	-1.09	-0.06	1.95	-0.81	4.03	2.08	0.38	5.59	6.87	1.60
Domestic Equity													
NMSIC US Equity Composite	6,310,951,030	40.64	-1.53	0.50	6.91	34.69	26.45	3.63	5.37	4.26	19.00	38.89	-38.84
R 3000 Index			-1.14	1.80	8.30	34.79	27.04	1.67	3.76	3.43	16.93	28.34	-37.31
Difference			-0.39	-1.30	-1.39	-0.10	-0.59	1.96	1.61	0.83	2.07	10.55	-1.53
NMSIC US Large Cap Equity Composite	5,431,570,998	34.98	-1.47	0.40	6.56	33.64	25.50	4.77	5.88	3.65	17.00	41.95	-37.16
S&P 500 Index (Cap Wtd)			-1.13	1.80	7.82	32.91	25.95	0.91	3.32	2.64	15.06	26.46	-37.00
Difference			-0.34	-1.40	-1.26	0.73	-0.45	3.86	2.56	1.01	1.94	15.49	-0.16
NMSIC US Large Cap Active Pool	4,231,541,827	27.25	-1.57	-0.02	6.16	32.83	24.24	4.57	5.83	3.27	16.12	42.92	-37.08
S&P 500 Index (Cap Wtd)			-1.13	1.80	7.82	32.91	25.95	0.91	3.32	2.64	15.06	26.46	-37.00
Difference			-0.44	-1.82	-1.66	-0.08	-1.71	3.66	2.51	0.63	1.06	16.46	-0.08
SIC Managed Large Cap Active	2,107,159,104	13.57	-1.19	1.06	8.07	36.29	28.98	2.88	5.55	3.30	16.15	33.60	-34.64
S&P 500 Index (Cap Wtd)			-1.13	1.80	7.82	32.91	25.95	0.91	3.32	2.64	15.06	26.46	-37.00
Difference			-0.06	-0.74	0.25	3.38	3.03	1.97	2.23	0.66	1.09	7.14	2.36

Performance shown is gross of fees, except for Absolute Return, Real Estate, and Private Equity investments, which are shown net of fees. Performance is annualized for periods greater than one year. RVK endorses GIPS and calculates performance for composites and investment managers using different methodologies.

New Mexico State Investment Council Composition

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- Reconstituted by the legislature in 2010
 - ▣ 11 Members
 - Governor Susana Martinez (Chair)
 - Department of Finance & Administration Secretary Richard May
 - State Treasurer James Lewis
 - State Land Commissioner Ray Powell
 - Scott Smart (ENMU Chief Financial Officer)
 - Doug Brown (Vice Chair, Public Member)
 - Leonard Lee Rawson (Public Member)
 - Peter Frank (Public Member)
 - Michael Martin (Public Member)
 - Vacant (Public Member, appointed by Legislative Council)
 - Vacant (Public Member, appointed by Governor)

New Mexico State Investment Council

Members

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- Public Member Requirements
 - All public members must be confirmed by State Senate
 - All must have minimum 10 years experience in investment and finance; pref. complimentary skill sets
 - Members precluded from having contracts with any state investment agency 2 years before/after term
 - Terms are 5 years, staggered
 - Members can be reappointed
 - Political affiliation of legislative appointees must be evenly divided

New Mexico State Investment Council Fund Management

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□ Council duties:

- Council appoints State Investment Officer
- Council appoints Investment, Private Equity, Audit & Governance Committees
- Council sets investment policy, sets asset allocation
- Council hires consultants, investment managers & makes fund investments
- More governance, oversight; no longer one lone decision-maker

□ State Investment Officer

- Council appointed Steve Moise April 2010
- Oversees investments, operations, staffing, external relations

□ 25 Full-Time Investment Office Employees

- Down from 32 authorized FTEs
- 11 portfolio/investment managers; 6 accounting professionals & 7 other support staff
- 20% of SIC assets managed internally (33% in last report to committee)
- Approximately 125 external managers/investment partnerships

New Mexico State Investment Council

Assets

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- **\$15.5 Billion Assets Under Management (5/31/11)**
 - ▣ Land Grant Permanent Fund
 - ▣ Severance Tax Permanent Fund
 - ▣ Tobacco Settlement Permanent Fund
 - ▣ Water Trust Permanent Fund
 - ▣ Investment assets of 17 other clients
 - Cities & counties (Las Cruces, Los Alamos)
 - Universities/school endowments (ENMU, NM Highlands, NM Tech, NMMI)
 - State agencies (Land Office, PRC, Retiree Health Care Authority, CYFD, HED)
 - Clients' assets: \$530.6MM (5/31/11)

New Mexico State Investment Council

Types of Investments (5/31/11)

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- Public equities (stocks) – **57.4%**
 - US large cap active/index – 35.2%
 - Small/mid cap active – 7.2%
 - International developed & emerging – 14.9%
- Fixed income/core bonds/cash – **22.9%**
- Alternatives – **19.7%**
 - Private equity – 10.5%
 - Fund of hedge funds – 5.6%
 - Real estate – 3.6%
 - ETIs (NM private equity, SBIC & film loans) – 1.9%

New Mexico State Investment Council

Permanent Funds

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- Land Grant Permanent Fund (\$10.78B)
 - 13.4 million acres federal land transferred to state prior to statehood in 1912 (Fergusson Act)
 - Lands held in trust for beneficiaries (primarily public schools & universities)
 - Royalties & income from trust land sales, mineral & grazing leases, mineral exploration
 - \$2.3 Billion transferred from Land Office to SIC over last 5-years
 - Annual distributions: currently 5.8% of 5-year fund average
 - Distribution rate drops to 5.5% in FY13, 5.0% in FY17
 - \$2.6 Billion distributed to beneficiaries over last 5-years

New Mexico State Investment Council

Permanent Funds

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- Severance Tax Permanent Fund (\$3.95B)
 - ▣ Taxes collected on natural resources extracted from NM (natural gas, oil, coal, etc.)
 - ▣ Primarily for bond maintenance/debt service, any remainder deposited into STPF
 - Annual distributions to General Fund: 4.7% of 5-year average
 - Average distributions from STPF per year since 2006: \$182MM/yr
 - Contributions: Less than \$7MM last year; \$79MM over last 4 fiscal years

Fiscal Year	Tot Severance Tax Receipts (\$1000s)	STPF Contributions (\$1000s)	Pct to STPF
2006	534,676	123,217	23.0%
2007	510,140	147,290	28.9%
2008	573,595	41,127	7.2%
2009	550,222	27,472	5.0%
2010	367,782	3,488	1.1%
2011*	299,458	6,500	2.2%
*Projected			

- ▣ Fund has not recovered to 2007 highs (\$4.80B)

New Mexico State Investment Council

Permanent Funds

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- Tobacco Settlement Permanent Fund
 - ▣ Created in FY2000, \$49MM settlement with tobacco companies
 - ▣ Current Value: \$150.1MM
 - No new contributions since FY 2008
 - 100% of contributions routed to legislative appropriations through FY13

- Water Trust Permanent Fund
 - ▣ Created in FY2006, \$40MM legislative appropriation
 - \$4MM annual distributions NM Water Infrastructure Projects
 - \$50.2MM in assets (5/31/11)

New Mexico State Investment Council

Permanent Funds

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□ Legislative needs

- Constitutional amendment to Land Grant Fund statute
 - Increase standard of care to “Prudent Investor” standard
 - Increase cap on allowable international equity investments
 - Currently 15%, change would allow up to 25%
 - SJR17 passed Senate, ran out of time in 2011
- Other restructuring proposals regarding SIC

New Mexico State Investment Council Reports and Information

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- The SIC website: <http://www.sic.state.nm.us>
 - Performance reports
 - Meeting minutes & information
 - Investment policies
 - SIC member biographical information
 - Audit & disclosures
 - Contact information