



NEW MEXICO STATE INVESTMENT COUNCIL



INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE

PERMANENT FUND UPDATE & 2016 OUTLOOK

**SENATOR GEORGE MUNOZ, CHAIR
REPRESENTATIVE MONICA YOUNGBLOOD, VICE-CHAIR**

**STATE INVESTMENT OFFICER STEVE MOISE
DEPUTY SIO ROBERT “VINCE” SMITH**



STATE INVESTMENT COUNCIL

Overview



2

- Fund assets under management
 - 12/31/15 value: \$19.95 billion
 - 3/31/16 value: \$19.93 billion
 - 4/30/16 value: \$20.17 billion
- First quarter 2016 was volatile, but flat overall
- Forward outlook is challenging:
 - Expectation of diminished investment returns over next decade
 - Expectation of diminished oil/gas royalties & revenue
 - Concerns over high valuations of traditional investments



STATE INVESTMENT COUNCIL

Assets Under Management



3

- Fund value as of April 30, 2016: \$20.17 billion

Land Grant
Permanent Fund:
\$14.55 billion

Severance Tax
Permanent Fund:
\$4.53 billion

Governmental
Client Assets:
\$789 million

Tobacco
Settlement
Permanent Fund:
\$256 million

Water Trust
Permanent Fund:
\$44 million



STATE INVESTMENT COUNCIL

Investment Allocation as of 4/30/16



4

**Fixed
Income:
23.4%**

Core bonds	13.7%
Credit & structured debt	4.2%
Unconstrained fixed income	3.5%
Cash	2.0%

**Private Market
Investments:
31.9%**

Private equity	9.3%
Real estate	8.5%
Real return strategies	8.1%
Absolute return (hedge)	6.0%

Public Equity: 44.4%

US:	27.8%
International:	16.6%



STATE INVESTMENT COUNCIL

Investment Returns



5

• Permanent Fund returns 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	100.00	0.65	-1.30	-0.72	6.12	6.24	5.13	5.65
Land Grant Total Fund Composite	14,461,516,924	72.25	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
Severance Tax Total Fund Composite	4,522,778,700	22.60	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	1.08	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
Water Trust Total Fund Composite	43,509,111	0.22	1.31	0.41	1.40	7.05	6.31	N/A	N/A
<i>Consumer Price Index</i>			0.68	-0.21	0.85	0.76	1.28	1.77	2.03
Difference			0.63	0.62	0.55	6.29	5.03	N/A	N/A
All Public Plans-Total Fund Median			0.94	-1.44	-1.51	6.16	6.46	5.57	5.98
All Public Plans-Total Fund Rank			67	49	33	54	59	67	72

Source: RVK
Returns are gross of fees



STATE INVESTMENT COUNCIL

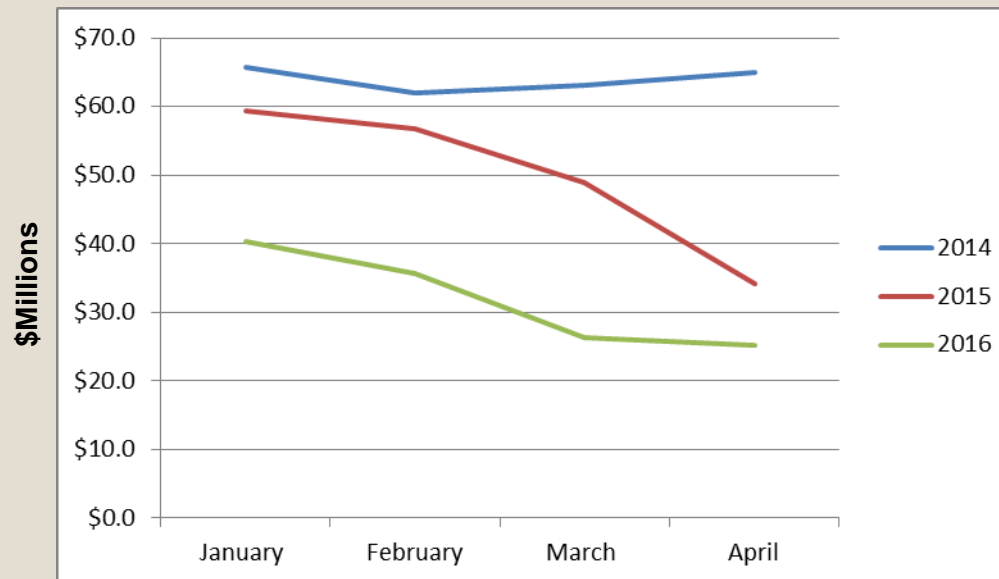
Fund Inflows vs. Distributions



6

- **Growing gap between inflows & distributions**

- Current LGPF & STPF distributions: **\$70.8 million per month**
- April 2016 LGPF & STPF inflows: **\$25.2 million**
- **Monthly imbalance:** **-\$45.6 million**



Year over year LGPF inflows, CYTD



STATE INVESTMENT COUNCIL

Short-term Distribution Impact



7

Distributions for **FY16:**

STPF: \$193.5 million

LGPF: \$655.8 million (5.5% rate)

Total: **\$849.3 million**

Year over previous year change:
+\$70.6 million



Distributions for **FY17:**

STPF: \$200.4 million

LGPF: \$638.1 million (5.0% rate)

Total: **\$838.5 million**

Year over previous year change:
-\$10.8 million

Projected distributions for FY18*:

STPF: \$208.9 million

LGPF: \$681.4 million (5.0% rate)

Total: **\$890.3 million**

Year over previous year change:
+\$51.8 million





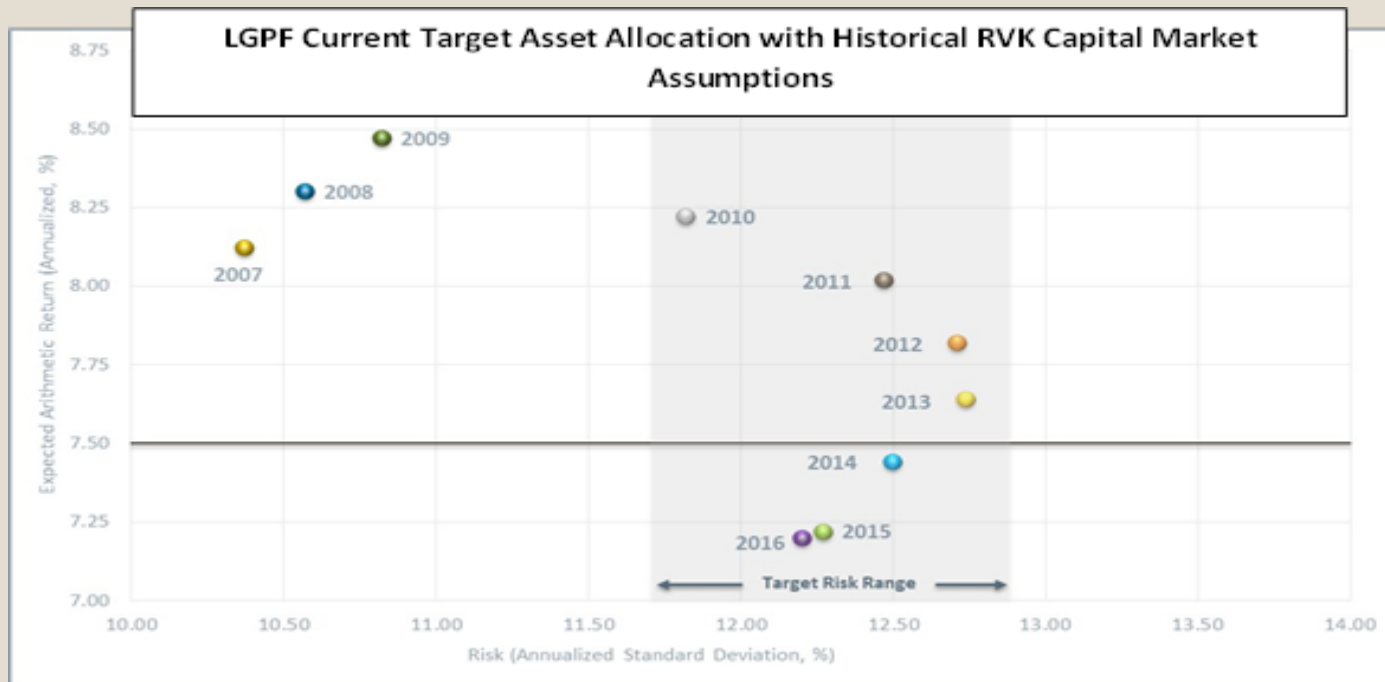
STATE INVESTMENT COUNCIL

Investment Outlook



8

- The forward-looking investment environment is dominated by one over-arching theme: low expected rates of return.
- There are many reasons for this, but the conclusions are clear: we expect to make significantly less in returns over the next 7-10 years than we've enjoyed on average in the past.





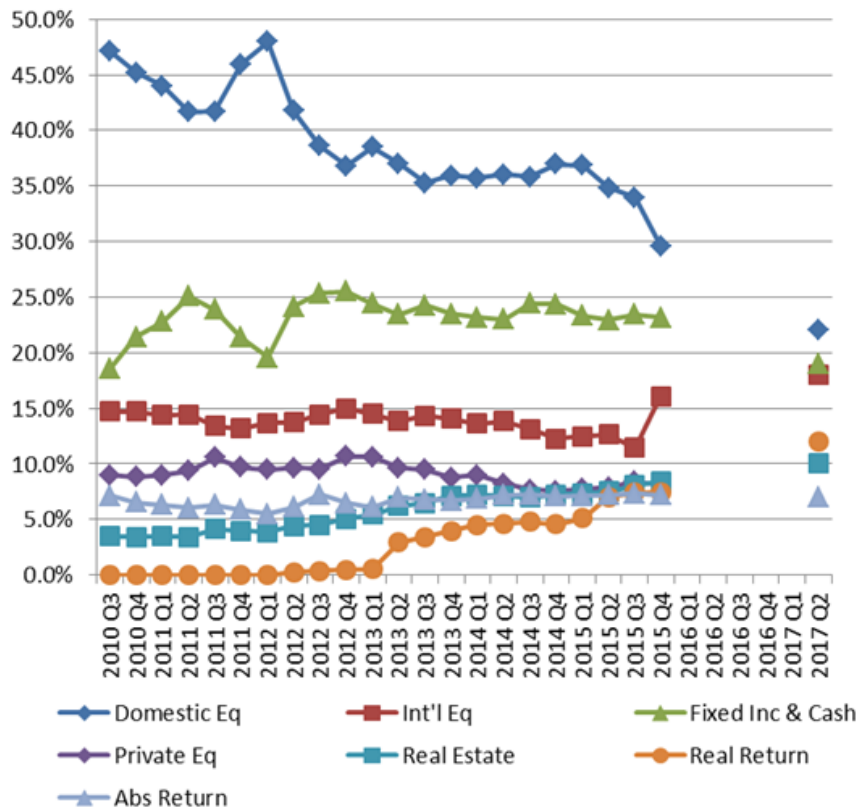
STATE INVESTMENT COUNCIL

Investment Outlook



9

Asset Allocation Progress, Calendar Years 2011 - 2015



- The Council has understood this for quite some time now, and is several years into a portfolio re-positioning that is expected to produce the best returns practical in this new environment, within our risk limits.
- The shift has taken time to implement, but we believe we have accessed the highest-quality managers to manage the most effective strategies to give us the best chance possible of succeeding in what we believe will continue to be a difficult environment.



STATE INVESTMENT COUNCIL

Investment Outlook



10

- **Summary**

- 7-10 year macroeconomic and financial market outlook
 - ✦ Difficult environment: slow growth, rising interest rates, rising inflation
 - ✦ Traditional assets (stocks and bonds) are at very expensive levels
- Broad investment strategy
 - ✦ Expect lower rates of return (6.50%-7.00%, rather than 8-9%)
 - ✦ Reduce equity risk, generate income, build downside protection
- Asset allocation
 - ✦ Reduce stocks & bonds (expensive, low-returning for the next 7-10 year period)
 - ✦ Increase investments in areas that can produce income (real estate, “real return”)
- Peer group analysis
 - ✦ Peers are lowering return targets
 - ✦ Peers are lowering exposures to stock markets
 - ✦ Peers are diversifying into “just about anything else”



STATE INVESTMENT COUNCIL

Closing Thoughts



11

- Council strategy:
 - Continue reducing exposure to equity market risk
 - Increase income-producing power of portfolio
 - Seek investments with down-side protection
 - Position for rising rates & increased inflation
 - Additional focus on prudent New Mexico investments
- Q&A