



NEW MEXICO STATE INVESTMENT COUNCIL



INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE

CURRENT SIC INVESTMENT STRATEGIES

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

JUNE 16, 2015

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Investment Outlook



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	Last 10 Years (12/31/2014)	Long Run Historical	Strategy Group Expectations (7-10Years Fwd)	RVK 2015 Long Run Assumptions
U.S. GDP (Real)	1.57%	2-5%	1.50-3.00%	N/A
U.S. Inflation (CPI)	2.11%	2-6%	2.00-5.00%	2.50%
U.S. GDP (Nominal)	3.49%	5-9%	3.50-6.00%	N/A
Global Stocks	~6.00%	8-10%	~6.50%	7.80%
U.S. Bonds	~4.70%	5-6%	~4.00%	3.50%
60/40 Stocks/Bonds	~5.50%	7-9%	~5.50%	~6.10%
10 Yr U.S. Treasury (Yield)	~3.40%	5-6%	~4.00%	N/A



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Current Themes



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7-10 Year Time Horizon

Financial Market Performance

- High equity market valuations forecast lower than average returns for the period.
- Low interest rates make this portion of the investable universe poor-returning.
- Portfolio-wide, low risk-free rates hold back return potential.

Economic and Political Influences

- Economic influences that exist are those that predominately work to slow GDP growth.
- Inflation is a wild card; while there is significant downward pressure on rates from a yield-starved world, central bank activity amounts to monetization of debt that could upset the balance of the relationship between goods, services & debt and the money that is available to pay for them.
- The interest rate cycle looks to have bottomed. The markets have not faced a rising rate environment in over 30 years.

“Big” Trends:

- Demographics
- LT Debt Cycle
- Emerging Economies
- Technology Trends
- Regulation
- Central Bank

- Demographics are beginning to weigh more heavily on global economic growth. The world's population is getting older on average, and this applies downward pressure on economic growth. 25-65 year old people are the engine of economic growth. Younger people are a small drag on growth; older people are a big drag on GDP potential.
- The debt cycle is also a hindrance to growth. Non-financial debt in the global economy relative to global GDP is at very high levels relative to history.
- Globally, we are in a re-regulation cycle, particularly in the financial sector. This drags on GDP growth.
- Global central banks are in full liquidity mode, which is supportive of economic expansion.



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Forward Expectations



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- Summary for the next 7-10 year period:
 - Weaker than average economic growth
 - Low and rising interest rates
 - More uncertainty than in recent times regarding inflation
 - Lower than average investment returns



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What's the Problem?

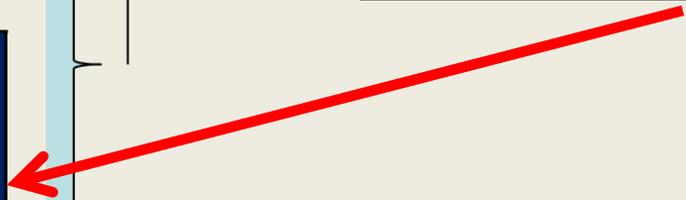


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“Lower Than Average” Returns Going Forward!!?
Unfortunately, Yes. Here's Why.



This isn't 5.00% anymore...it's 2.00%!





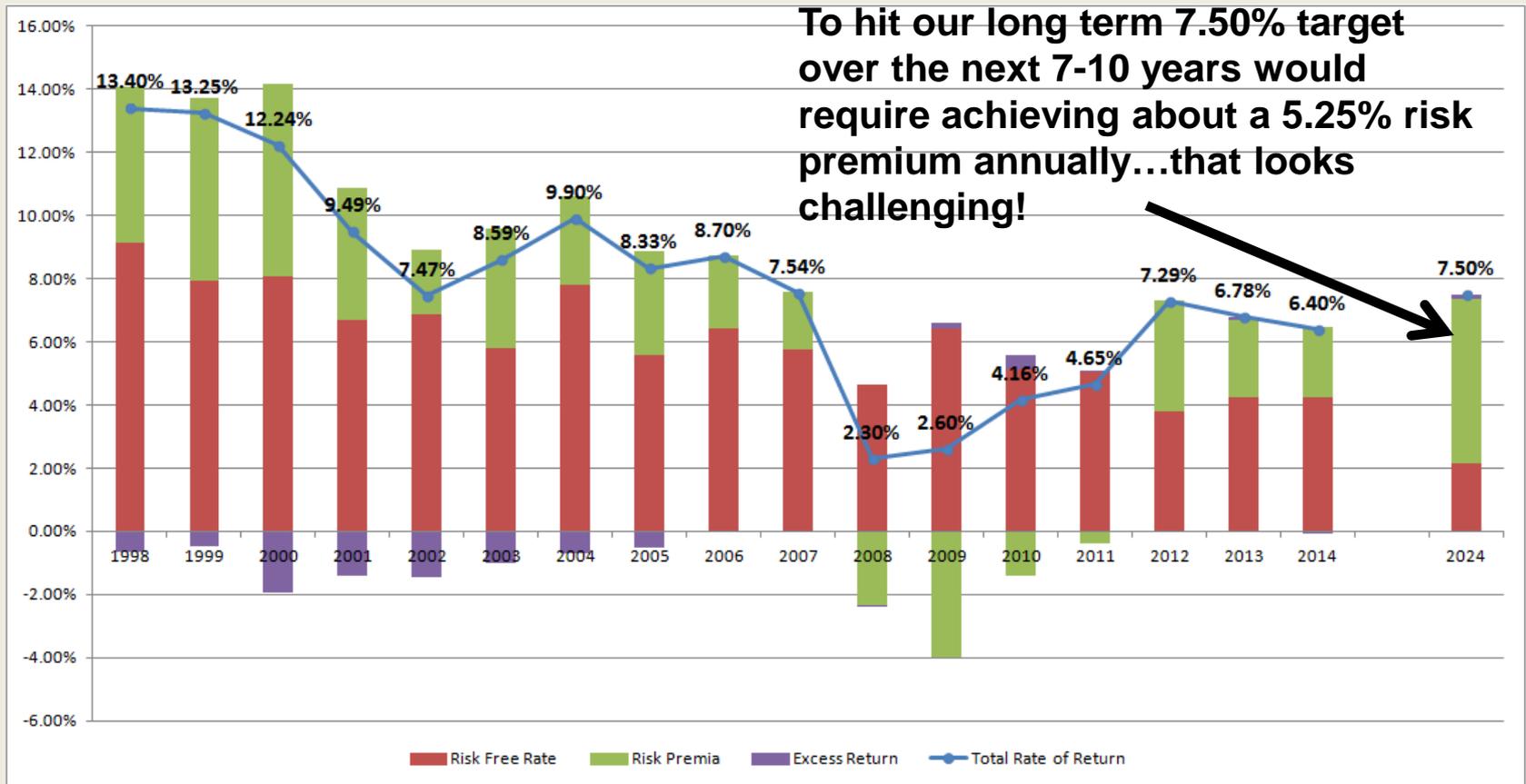
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Weighing Risk



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Historical Risk Free Rates and Risk Premia





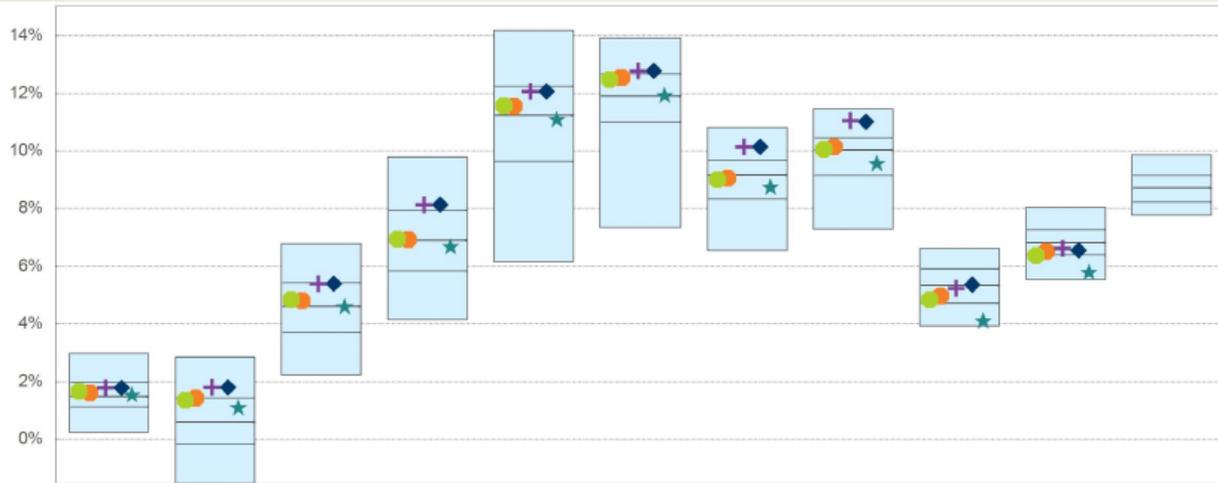
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Market Valuations



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“But over the last 20 years, the median public fund earned almost 8.75% annually, and over the last 30 years it was 9.10% annually. Can’t it be that way over the next 20 or 30 years?”



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years	20 Years
5th	2.98	2.84	6.78	9.78	14.19	13.91	10.82	11.46	6.62	8.04	8.75
25th	1.97	1.42	5.43	7.94	12.24	12.07	9.68	10.47	5.90	7.26	9.10
50th	1.47	0.58	4.60	6.91	11.24	11.90	9.16	10.04	5.34	6.82	8.72
75th	1.13	-0.18	3.71	5.84	9.65	11.00	8.33	9.14	4.72	6.38	8.22
95th	0.23	-1.53	2.22	4.15	6.16	7.35	6.54	7.29	3.94	5.54	7.78
No. Of Obs	96	96	96	96	96	94	93	91	88	83	52
● LAND GRANT	1.49 (47)	1.31 (30)	4.70 (48)	6.81 (56)	11.45 (45)	12.44 (30)	8.95 (54)	10.03 (51)	4.86 (68)	6.40 (73)	
◆ Land Grant Policy Inde	1.68 (38)	1.69 (17)	5.28 (29)	8.02 (21)	11.96 (31)	12.67 (26)	10.03 (13)	10.91 (14)	5.25 (55)	6.45 (70)	
● NEW MEXICO SIC	1.54 (45)	1.24 (35)	4.73 (48)	6.84 (54)	11.48 (45)	12.37 (33)	8.90 (55)	9.95 (53)	4.73 (72)	6.26 (77)	
★ SEVERANCE TAX	1.44 (51)	0.99 (42)	4.51 (53)	6.58 (64)	11.00 (51)	11.83 (51)	8.84 (67)	9.46 (70)	4.00 (94)	5.70 (93)	
+ Severance Tax Policy I	1.68 (38)	1.69 (17)	5.28 (29)	8.02 (21)	11.96 (31)	12.67 (26)	10.03 (13)	10.94 (14)	5.13 (60)	6.52 (65)	



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Market Valuations



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The markets are in a very different position than they were 20 or 30 years ago.
Take a look at the stock market...



30 years ago - cheap valuation...

...today - high valuation!

20 years ago - average valuation...

- Shiller PE-10 Ratio (A Measure of Stock Market Valuation)
- Average
- Average (excl Bubble Period 1998-2002)



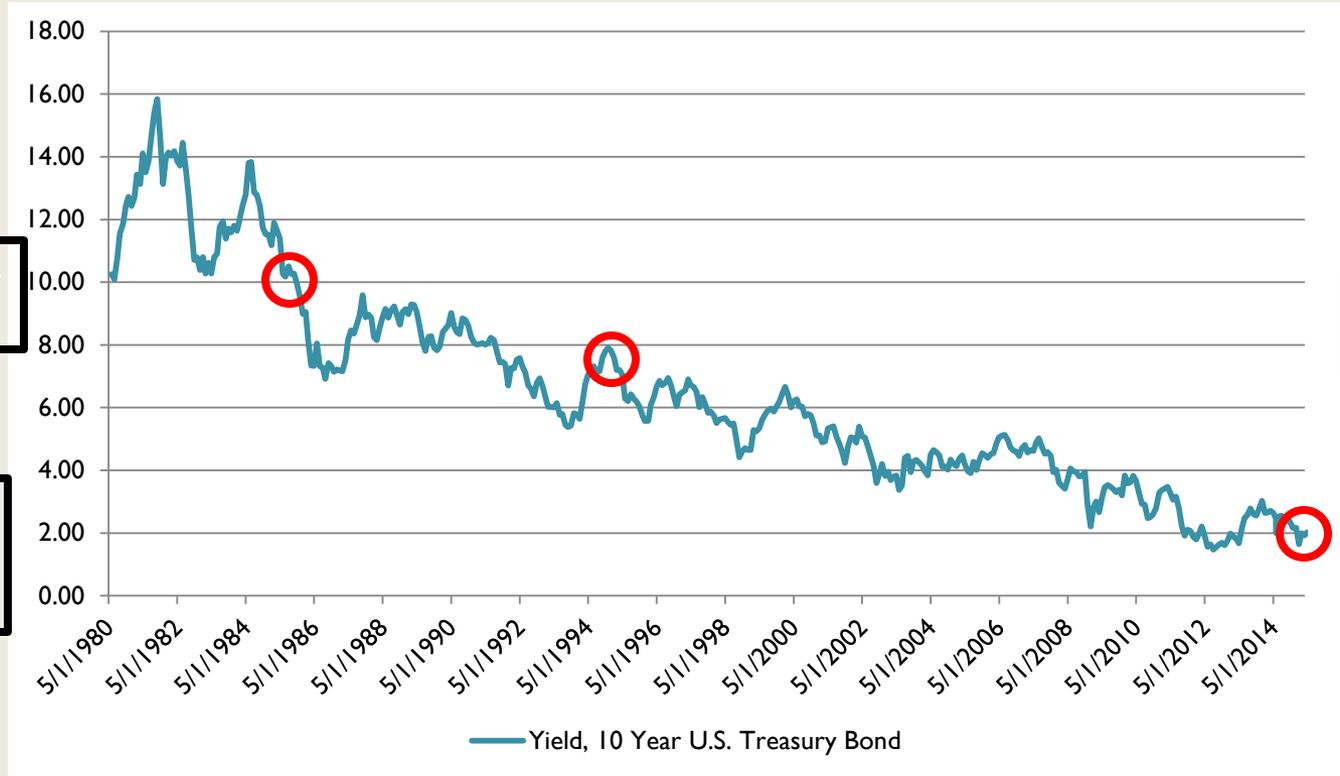
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Market Valuations



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...and bond yields are very low.



30 years ago—
10% yield...

...20 years
ago—8%
yield...

...today—2%
yields!



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Council Plans



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- **What to do? Our basic strategy:**
 - Cut equity risk/dependence on equity risk premium
 - Incorporate more real return assets
 - Increase income-producing assets relative to capital gain assets
 - Increase international exposure relative to U.S. exposure
 - Reduce publicly-traded assets & increase private assets