



NEW MEXICO STATE INVESTMENT COUNCIL



INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE
JULY 7, 2016

-PERFORMANCE UPDATE

-SIC EFFORTS TO IMPROVE TRANSPARENCY & GOVERNANCE

-NM PRIVATE EQUITY & VENTURE INVESTMENTS

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

STATE INVESTMENT OFFICER STEVE MOISE
DEPUTY SIO ROBERT "VINCE" SMITH



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Asset Update



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- **Fund assets under management**

- 12/31/15 value: \$19.95 billion
- 5/31/16 value: \$20.19 billion
- 6/30/16 estimate: \$20.18 billion

- **June volatility**

- Brexit impact short-lived for US holdings, though longer-term effects unclear

- **Forward outlook:**

- Diminished in-flows from oil/gas revenue into permanent funds
- Expectation of below-average investment returns over next 7-10 years



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Assets Under Management



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- Fund value as of May 31: \$20.19 billion

Land Grant
Permanent Fund:
\$14.56 billion

Severance Tax
Permanent Fund:
\$4.53 billion

Governmental
Client Assets:
\$795 million

Tobacco
Settlement
Permanent Fund:
\$258 million*

Water Trust
Permanent Fund:
\$44 million**

* Tobacco Settlement Permanent Fund distributed \$40.1 million in June

** Water Trust Fund distributed \$4 million in June



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Investment Allocation as of 5/31/16



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**Fixed
Income: 23.7%**

Core Bonds	9.0%
Core Plus	4.7%
Credit & structured debt	4.2%
Unconstrained fixed income	3.3%
Short-term duration/Cash	2.5%

**Private Market
Investments: 31.8%**

Private equity	9.3%
Real estate	8.5%
Real return strategies	8.6%
Absolute return (hedge)	5.4%

Public Equity: 44.6%

US:	28.2%
International:	16.4%



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Investment Performance



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- Through May 31, 2016
 - Overall returns negative for prior 12 months
 - Net cash flows nearing **-\$150 million** so far in 2016

NMSIC Total Fund - Schedule of Investable Assets

Periods Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	% Return
CYTD	19,987,913,908	-148,127,903	399,338,288	20,239,124,293	2.02

	Allocation		Performance (%)											
	Market Value (\$)	%	MTD	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2015	2014	2013	2012
NMSIC Total Fund Composite	20,239,124,293	100.00	0.37	1.36	2.02	0.04	-0.81	5.90	6.31	5.32	0.30	6.84	16.26	14.26
Land Grant Total Fund Composite	14,596,208,212	72.12	0.38	1.40	2.06	0.02	-0.80	5.83	6.31	5.40	0.15	6.81	16.28	14.45
Land Grant Interim Policy Index			0.31	1.09	2.20	0.34	-0.16	6.59	7.19	5.67	0.96	7.99	16.03	14.11
Difference			0.07	0.31	-0.14	-0.32	-0.64	-0.76	-0.88	-0.27	-0.81	-1.18	0.25	0.34
Severance Tax Total Fund Composite	4,545,884,514	22.46	0.35	1.29	1.77	0.12	-0.85	5.82	6.03	4.78	0.66	6.58	15.61	13.52
Severance Tax Interim Policy Index			0.33	1.09	2.19	0.35	-0.15	6.59	7.19	5.68	0.97	7.99	16.03	14.11
Difference			0.02	0.20	-0.42	-0.23	-0.70	-0.77	-1.16	-0.90	-0.31	-1.41	-0.42	-0.59

Source: RVK
Returns are gross of fees



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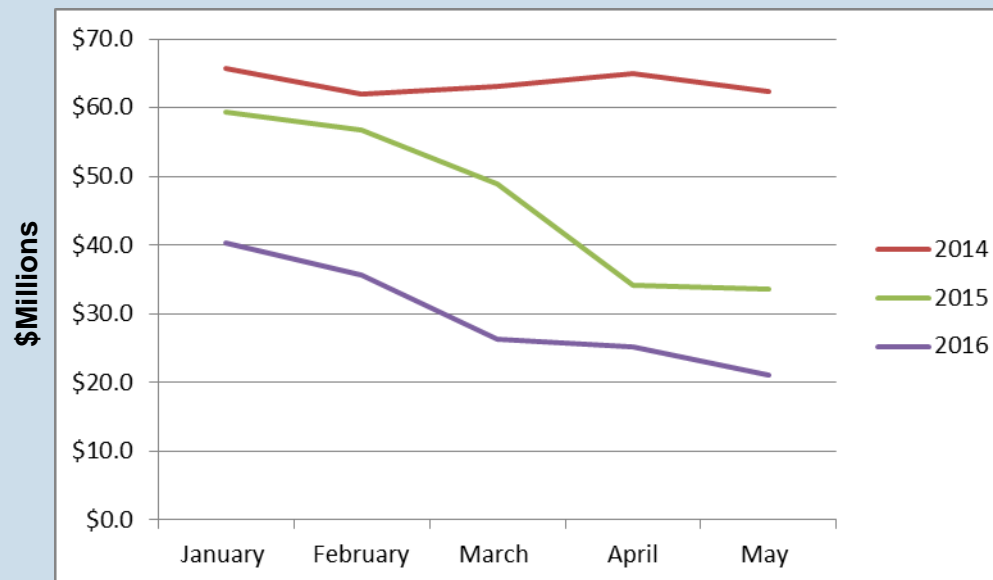
Fund Inflows vs. Distributions



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- Growing gap between inflows & distributions

- Current LGPF & STPF distributions: **\$70.8 million per month**
- May 2016 LGPF & STPF inflows: **\$21.0 million**
- **May 2016 imbalance: -\$49.8 million**



Year over year LGPF inflows, CYTD



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Portfolio Reconstruction

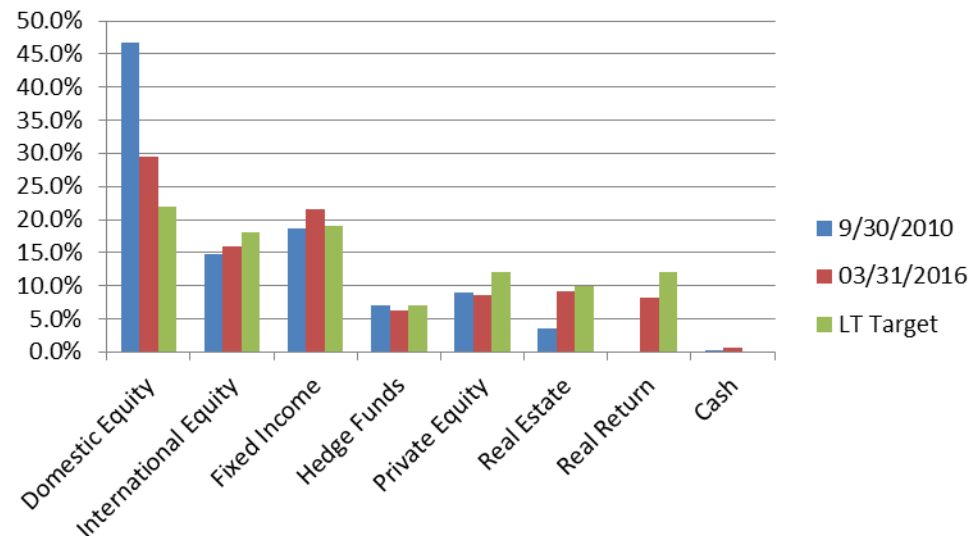


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- Council portfolio restructuring since 2010
 - Evolution from previous portfolio over-reliance on public markets & capital gains to strategy focus on income generating assets
 - Reduction of volatility and risk-mitigation are key

Land Grant Permanent Fund Asset Allocation

	9/30/2010	03/31/2016	LT Target
Domestic Equity	46.8%	29.6%	22%
International Equity	14.7%	16.0%	18%
Fixed Income	18.6%	21.5%	19%
Hedge Funds	7.1%	6.3%	7%
Private Equity	9.0%	8.6%	12%
Real Estate	3.5%	9.1%	10%
Real Return	0.0%	8.2%	12%
Cash	0.3%	0.7%	0%
	100.0%	100.0%	100.0%





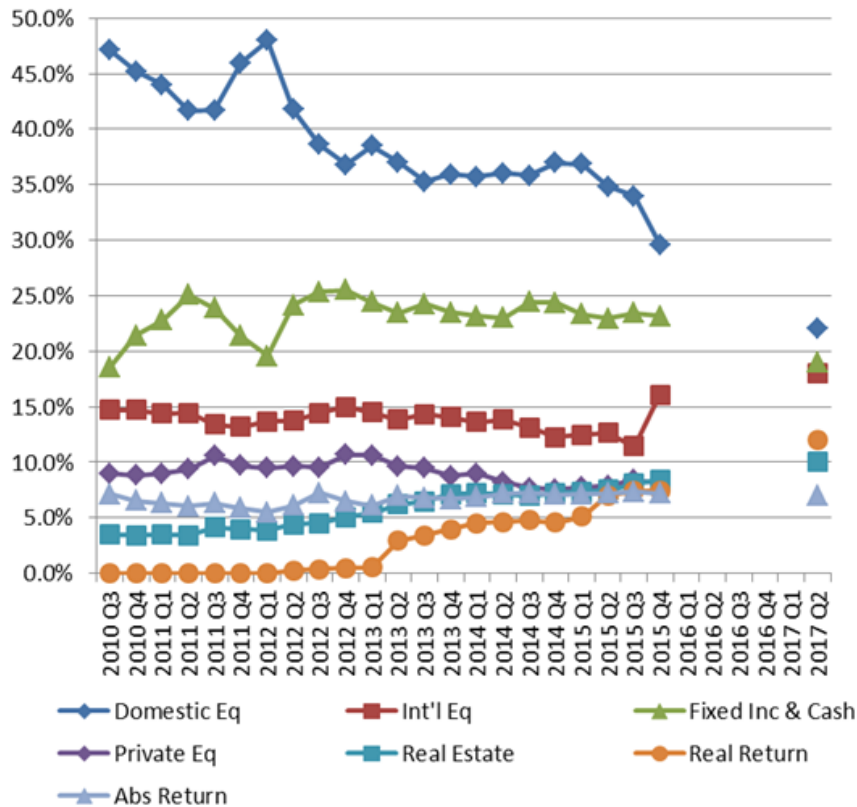
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Strategy Shift

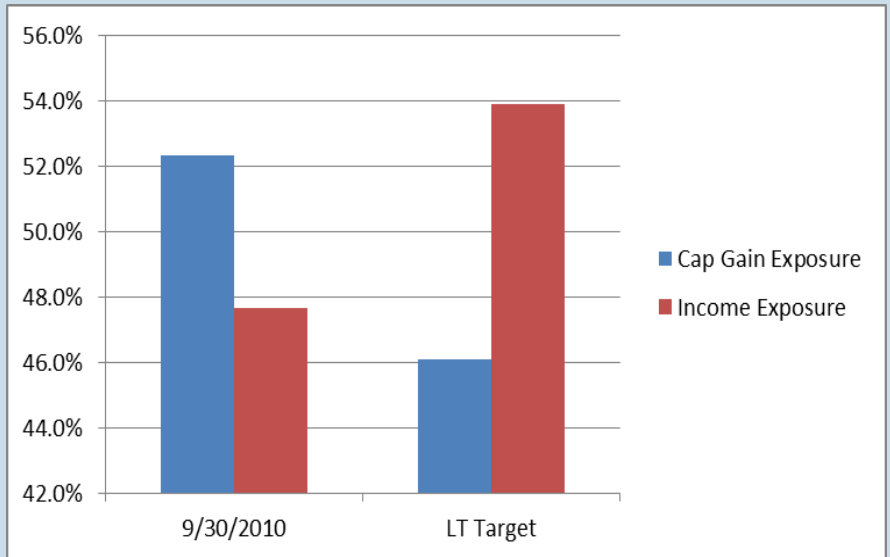


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Asset Allocation Progress, Calendar Years 2011 - 2015



	9/30/2010	Long Term Target
Capital Gain Exposure	52.3%	46.1%
Income Exposure	47.7%	53.9%





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Investment Outlook



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● 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”



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Governance Efforts



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Pre-2010 Council Structure

- Governor
 - Land Commissioner
 - State Treasurer
 - 6 Governor's Appointees, including Investment Officer
- 7 of 9 votes controlled by Executive

Post Legislative Changes

- Governor
 - Land Commissioner
 - State Treasurer
 - 4 Governor's Appointees
 - 4 Legislative Appointees
- Balanced board with focus on fiduciary duty



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Governance Improvements



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- Following statutory revamp, the Council added new layers of governance via committees
 - Investment Committee
 - Audit Committee
 - Governance Committee
 - Working group for legislative matters
- Committee membership directed by Council
- Committees add depth to vetting process
- Committees are advisory in nature & limited in power
- Only quorum of the full Council can approve investments, policies & other action items



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Transparency Efforts



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- Council and Committee meetings are open to the public and are Open Meetings Act (OMA) compliant
- Council meetings are Webcast
 - Governor's website also archives meeting video/audio
 - <http://www.governor.state.nm.us/governor-s-webcasting-channel-1>
- SIC website hosts Council & Committee meeting agendas, minutes & materials
 - Annual audit, performance reports, and other agency documents available online: www.sic.state.nm.us
 - Transparency & Disclosure policy and manager statements online
 - IPRA request link on SIC website



State Investment Council Calendar Year 15 Management Fees

Calendar Year Ended Dec. 31, 2015



Asset Class	Management Fees CY 15	NAV at 12/31/15	Unfunded as of 12/31/2015	NAV + Unfunded as of 12/31/2015	Annual Cost (in bps)	Carried Interest (Profit Sharing)
Domestic Equity	\$12,683,265	\$5,976,391,505	\$0	\$5,976,391,505	21	\$0
International Equity	11,405,335	3,294,811,027	0	3,294,811,027	35	0
Fixed Income	6,296,625	3,546,615,029	0	3,546,615,029	18	0
Private Equity	28,947,649	1,705,090,727	1,506,591,527	3,211,682,254	90	3,231,811
Real Estate	17,079,514	1,612,577,365	552,139,319	2,164,716,684	79	17,823,330
Real Return	15,058,552	1,211,986,500	855,953,438	2,067,939,938	73	-3,242,812
Hedge	26,783,235	1,328,949,556	0	1,328,949,556	202	9,829,660
Credit and Structured Finance	10,138,555	755,420,386	0	755,420,386	134	3,958,640
Total	\$128,392,730	\$19,431,842,095	\$2,914,684,284	\$22,346,526,379	57	\$31,600,629

bps=basis point=1/100th of 1 percent.

Administrative costs are less than additional 4 basis points.



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New Mexico Private Equity & Venture Capital



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- SIC authorized to invest up to 9% of the \$4.5B Severance Tax Permanent Fund in NM private equity
 - NMSA 7-27-5.15: “...to provide a mechanism whereby the establishment of locally managed private equity funds whose investment policies are supportive of the economic welfare of New Mexico, will be stimulated.”
 - “...enhance the economic development objectives of the state.”
 - “...create new job opportunities and to support new emerging or expanding businesses...”
 - “...technology transfer...developed in whole or in part by a state institution...a national laboratory...or affiliated entity...”
- Focus on technology, science, & venture capital



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NM Private Equity Investment Program (NMPEIP)



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- **NMPEIP financial returns showing improvement**
 - Early years of program focused on economic development
 - Current strategy prioritizes financial return, with job-creation impact secondary

Metric	1993-2003	2004-Present	Difference
Internal Rate of Return	-18.2%	4.2%	+22.0%
Since Inception Returns	\$-56.5M	\$69.6M	\$126.1M
Distributions to the SIC	\$5.0M	\$140.9M	\$135.9M
Non-Program Investment Into NM-based Companies	\$0.5B	\$1.4B	+180%



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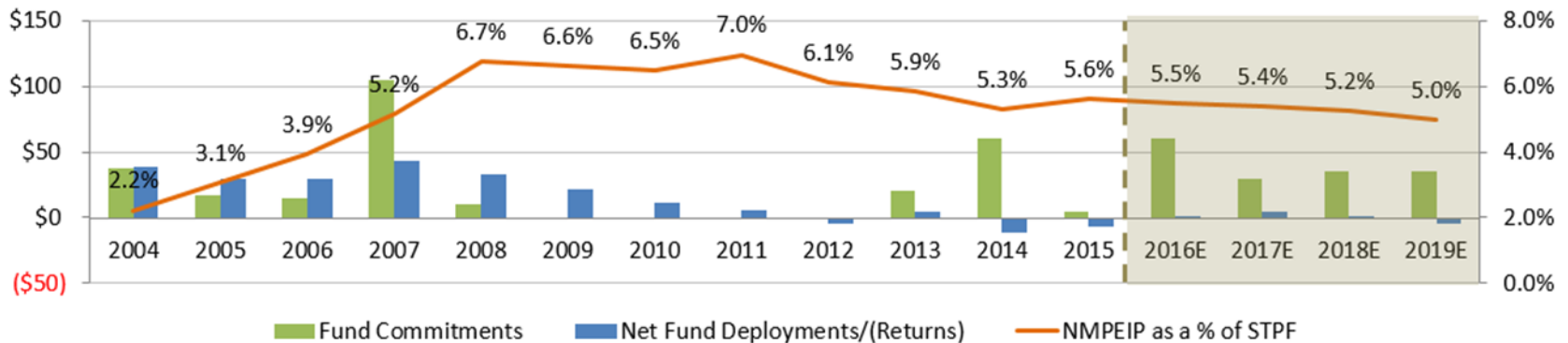
NM Private Equity Investment Program (NMPEIP)



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- NMPEIP pacing plan calls for 5% STPF allocation, average of \$35 million in annual commitments
- Statutory change SB15 passed in 2016
 - Removed in-state office/person requirement
 - Improved number & quality of funds looking to commit to New Mexico

NMPEIP Commitments, Deployment and Allocation Forecast





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NMPEIP Economic Impact



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- Purchase & payroll data through Q4 2015

NMPEIP Impact Summary as of 12/31/15

Total Investment in New Mexico Portfolio Companies

A) Investment by Funds with NMPEIP Participation	\$311,971,577
B) External Investment Caused by Funds with NMPEIP Participation	\$1,976,649,279

Total VC Investment in NM Companies	\$2,288,620,855
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<i>Investment Multiplier (B / A)</i>	6.3x
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Categorization of NM Portfolio Companies

Active Companies	36	50.0%
Companies Exited at a Gain	12	16.7%
Companies Exited at a Loss	24	33.3%

Number of Companies funded	72	100.0%
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NM Economic Impact Q4 2015

NM Purchases	\$24,427,936
NM Payroll	\$24,837,363

NM Economic Impact	\$49,265,299
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Total Current Full-Time Jobs	1,402
Average Salary of Jobs Created	\$70,863
Average Salary in New Mexico ¹	\$41,799



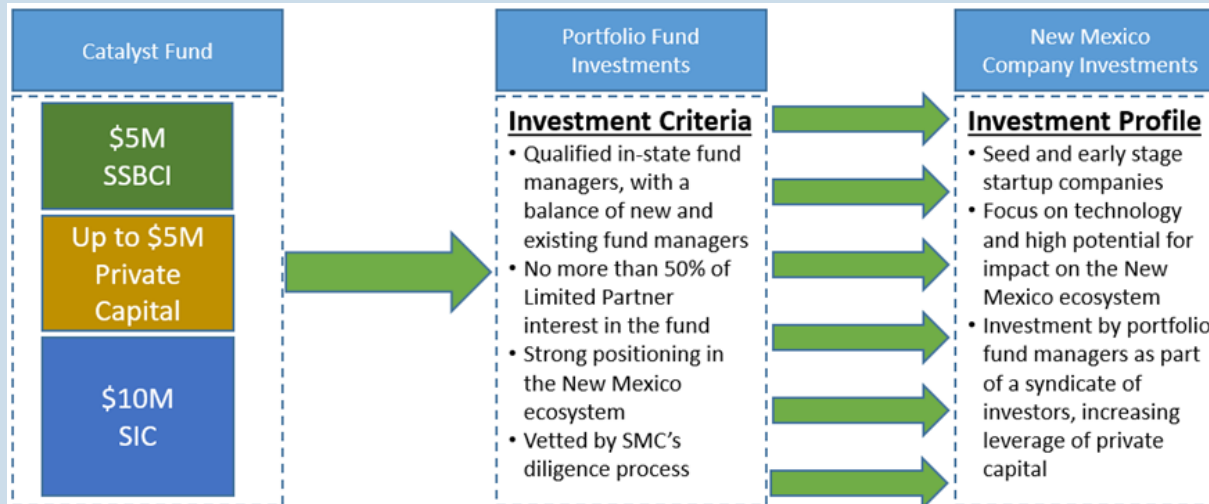
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New Focus on Early/Seed Venture



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- SIC launches New Mexico Catalyst Fund
 - \$20M in state, federal & private funding, matched with \$20M private investment by fund managers
 - Catalyst will co-invest with multiple fund managers around New Mexico, which will then invest in promising early-stage businesses





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Closing



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- Final Comments
- Handouts available
 - RVK quarterly performance report
 - NMPEIP quarterly performance summary by Sun Mountain Capital
 - Catalyst Fund Overview
 - SIC Committee Charters
- Questions & Answers