

New Mexico State Treasurer's Office

Presentation to Investments and Pensions Oversight Committee

October 19, 2021





STO Investment Team Members

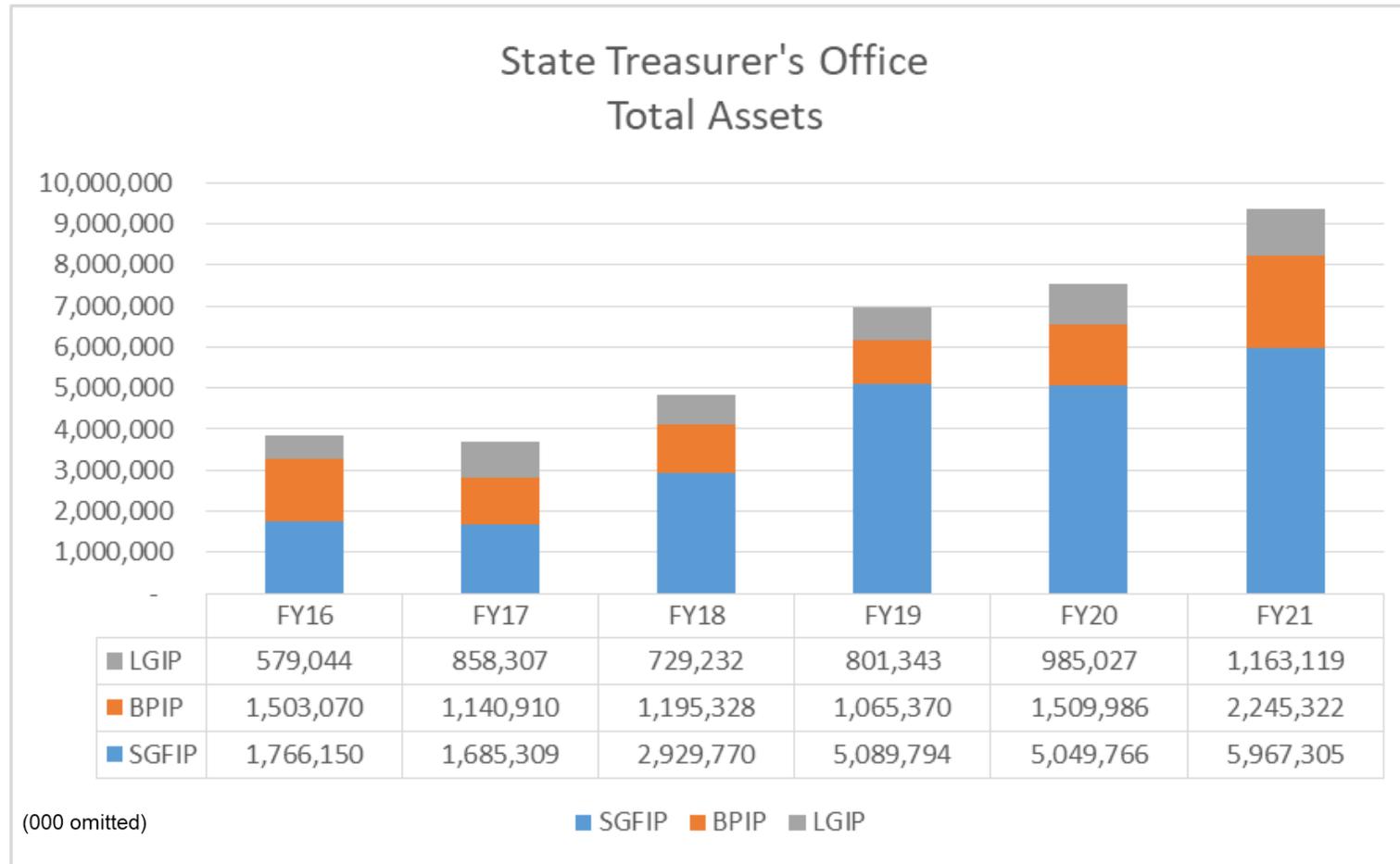
- Tim Eichenberg, State Treasurer
- Sam Collins, Deputy State Treasurer
- Vikki Hanges, Chief Investment Officer
- Anna Murphy, Senior Portfolio Manager



What STO Does

- Active Investment Management
 - **Over \$9.0 billion in total assets managed**
 - General Fund Investment Pool
 - NM Local Government Investment Pool (LGIP)
 - Bond Proceeds Investment Pools (BPIPs)
 - Severance Tax Bonding Fund (STBF)
 - Repurchase Pool
- Paying Agent for Outstanding Bond Issues
- Collateral Manager

STO's Investment Pools Total Over \$9 Billion





STO's Investment Objectives

- Safety, Safety, Safety
- Liquidity
- Yield

**Investments are primarily high-quality, short-duration,
U.S. Government and Agency bonds
that minimize credit and interest rate risk**

Allowable Investments



Conservative vs. NM Statutes

- Maximum maturity of five years
 - US Treasuries
 - US Government Agencies
 - Corporate bonds rated AA or better
- Maximum maturity of three years
 - Corporate bonds rated A or better
 - Municipal bonds rated A or better
- Cash Equivalents
 - Repurchase agreements with approved counterparties
 - NM collateralized bank deposits
 - Commercial paper rated at least A1/P1 or F1
 - Municipal variable rate demand notes rated A or better



Investment Management Oversight

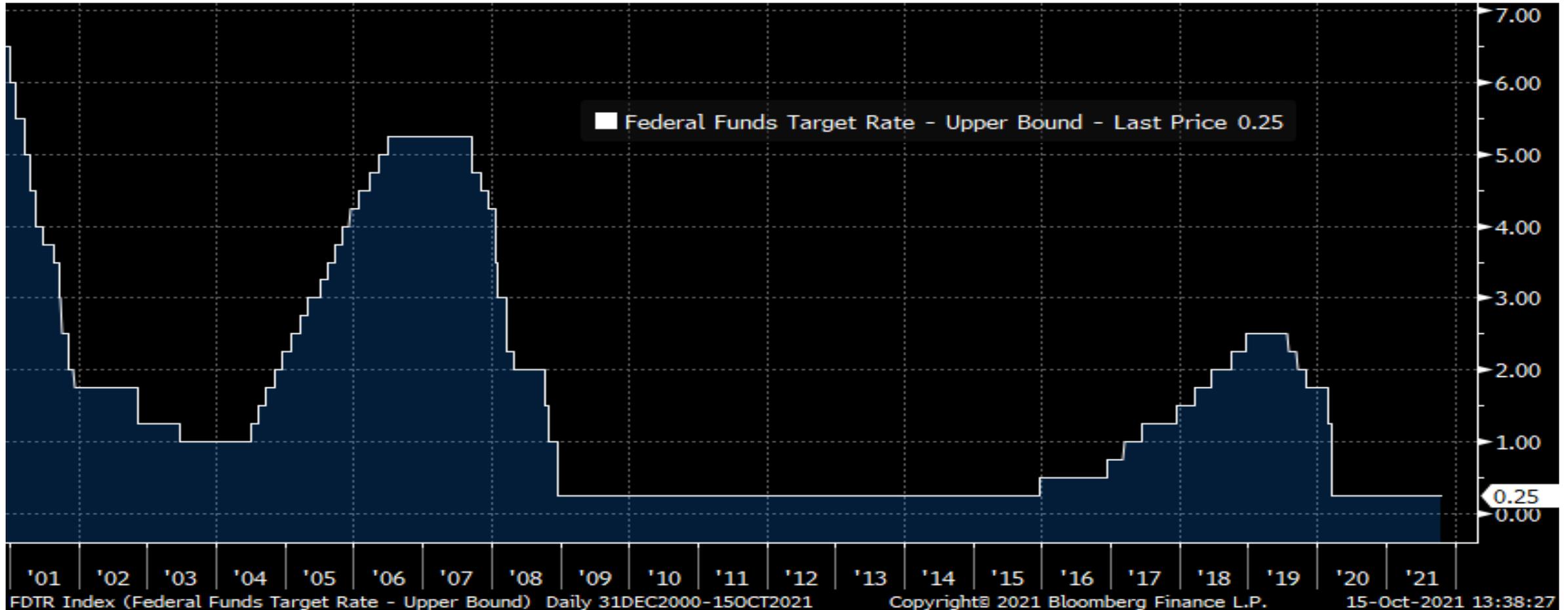
- State Treasurer's Investment Committee (STIC)
- NM Board of Finance Monthly Reporting
- Retain RIA—Government Portfolio Advisors (GPA)
- LGIP rated by S&P
- Credit Committee
 - Approved List of Issuers and Counterparties
- Broker/Dealer approval process



Market Overview

- **Current Fed Funds rate 0.00% - 0.25%**
 - Possible rate increase in mid- to late-2022?
 - Fed will taper asset purchases prior to raising rates—Nov/Dec 2021
- **Fed inflation target is 2% average over time**
 - Core PCE Deflator, Fed's preferred measurement, is 3.6%
 - Fed views recent higher inflation as “transitory”
- **Unemployment rate is currently 4.8%, lower than the April 2020 high of 14.8%**
- **GDP growing at a 6.7% annualized rate**

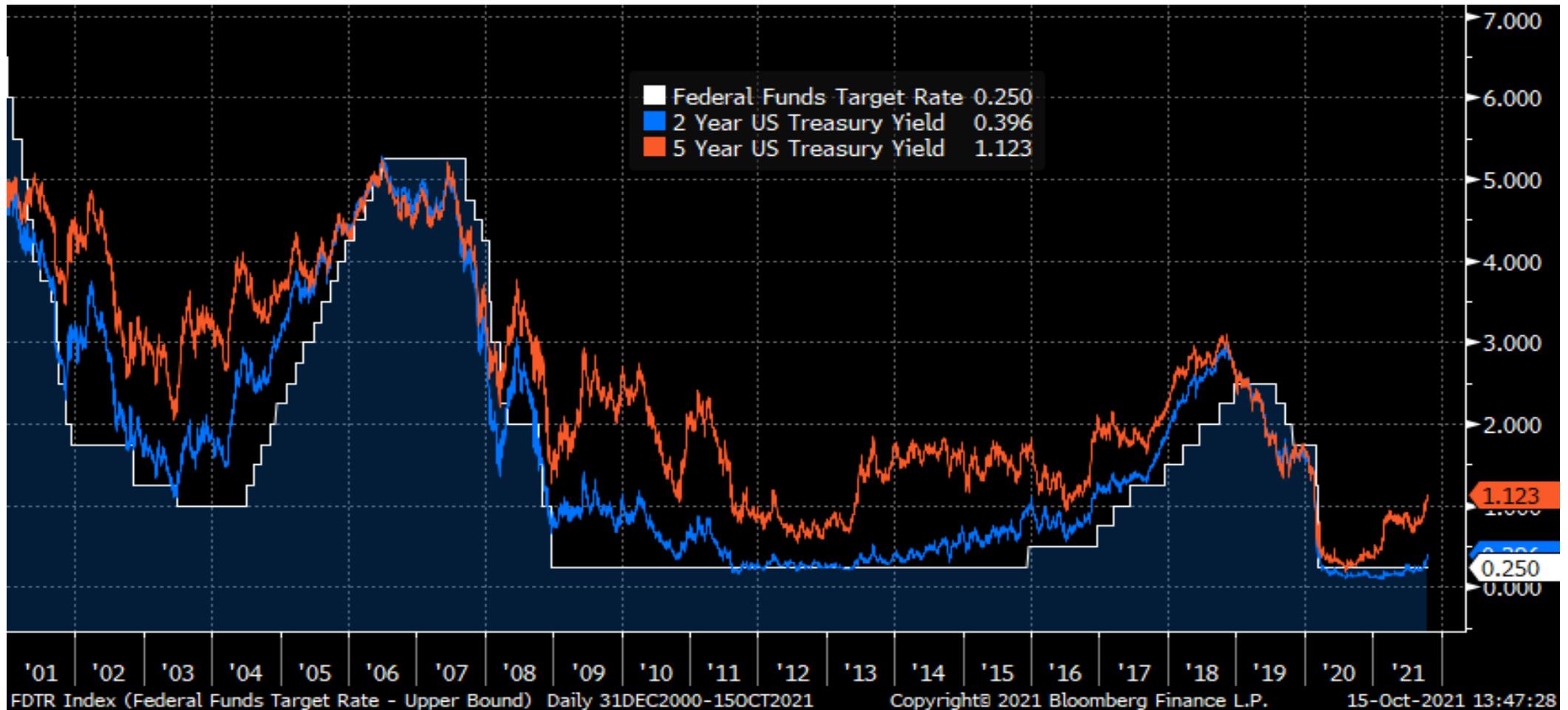
Federal Funds Target Rate Where Do We Go From Here?





Higher Interest Rates = Lower Bond Prices

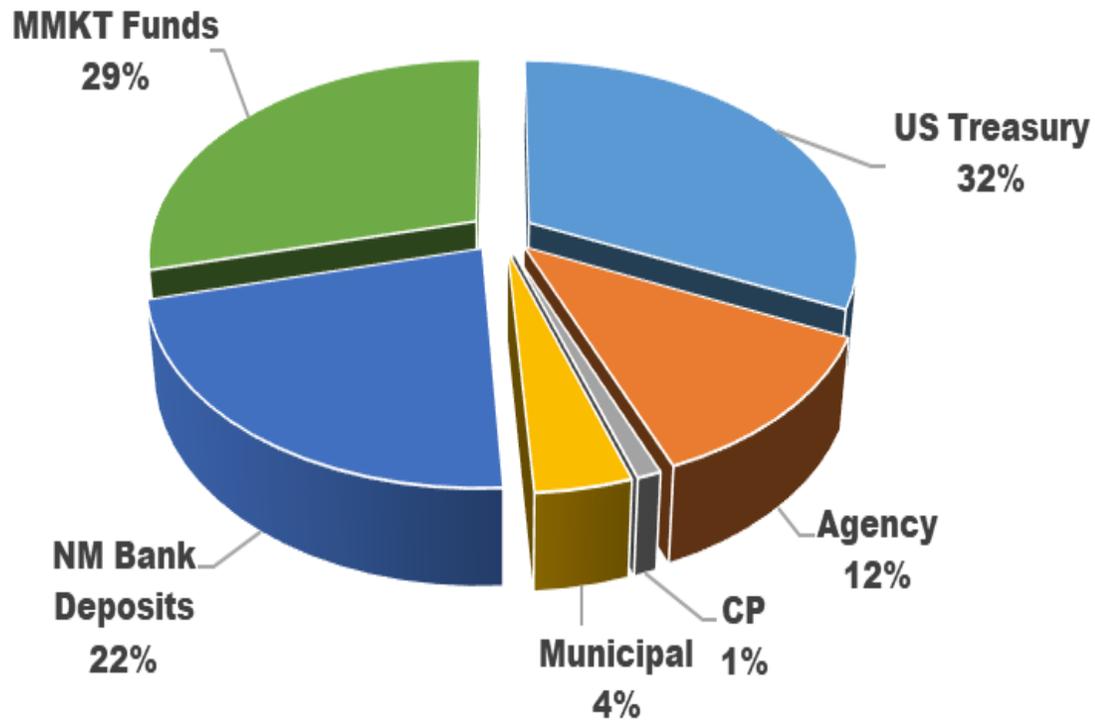
Federal Funds Target Rate vs. US Treasury Two- and Five-Year Yields



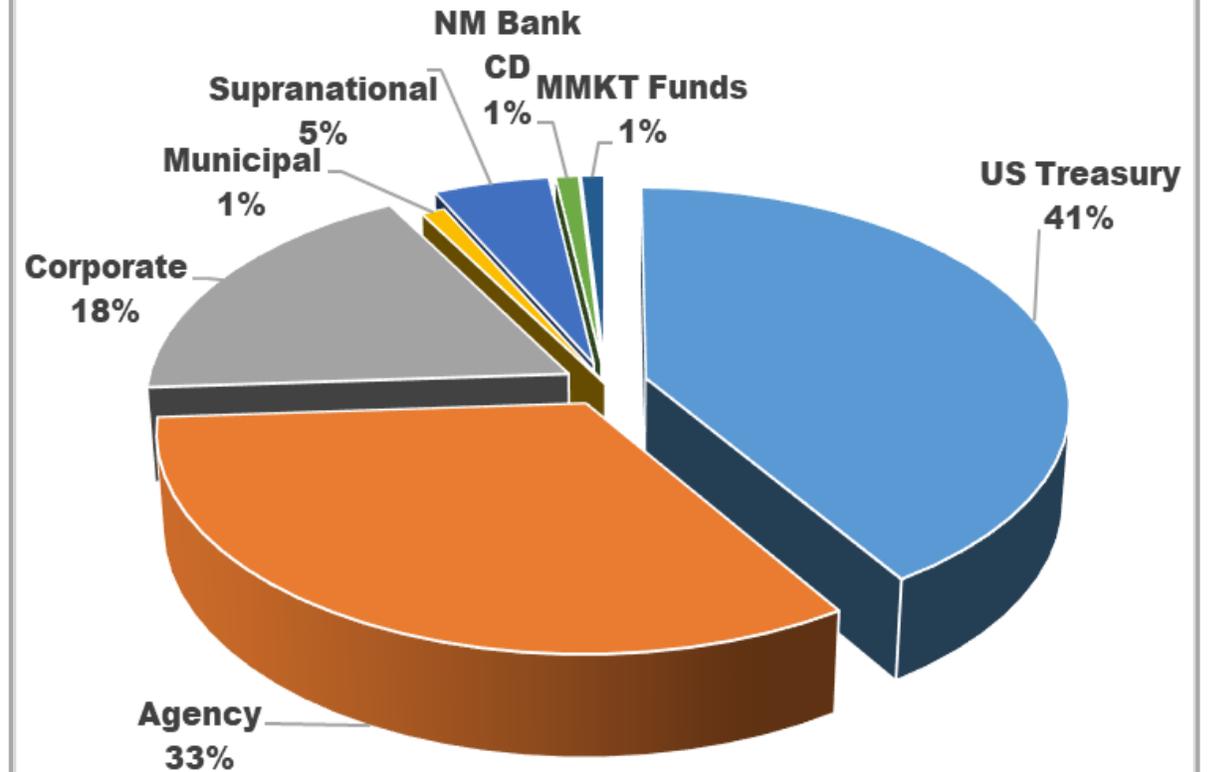
General Fund Portfolio Sectors



General Fund Liquidity



General Fund Core



STO Portfolio Characteristics

For Period Ended June 30, 2021



Fund	Purchase Yield	Effective Duration		Percentage
		Portfolio	Benchmark	
General Fund Liquidity	0.09%	0.04 Years		
General Fund CORE	1.42%	1.98 Years	2.13 Years	93%
Bond Proceeds—Tax-Exempt	0.21%	0.74 Years	0.97 Years	76%
Bond Proceeds—Taxable	0.57%	1.14 Years	1.40 Years	81%
Local Government Investment Pool	0.12%	0.13 Years		
Severance Tax Bonding Fund	0.14%	0.10 Years		

¹ Effective Duration. Portfolio durations are calculated as of a moment in time, specifically at month end. Source: JP Morgan.

² Portfolio Purchase Yields are calculated at a moment in time, specifically at month end, reflecting the weighted average yield of all portfolio holdings at purchase.

STO Fund Performance

Period Ended 6/30/21



	1 Mo	3 Mo	YTD	1Y	2Y	3Y	5Y
General Fund							
Liquidity	0.01%	0.03%	0.07%	0.19%	0.87%	1.34%	1.15%
ICE 1-Month US Treasury Bill Index	0.00%	0.00%	0.02%	0.07%	0.77%	1.23%	1.06%
Core	-0.14%	0.10%	-0.20%	0.13%	2.30%	2.92%	1.77%
ICE 0 to 5 Year US Treasury Index	-0.17%	0.09%	-0.31%	-0.18%	2.18%	2.91%	1.67%
Bond Proceeds Pools							
Tax Exempt	-0.05%	0.01%	0.02%	0.19%	1.30%	1.90%	1.36%
ICE 0 to 2 Year US Treasury Index	-0.04%	0.01%	0.05%	0.17%	1.51%	2.18%	1.42%
Taxable	-0.07%	0.05%	-0.04%	0.21%	1.71%	2.20%	1.59%
ICE 0 to 3 Year US Treasury Index	-0.11%	-0.02%	-0.03%	0.10%	1.78%	2.36%	1.52%
Local Gov't Investment Pool							
LGIP	0.01%	0.02%	0.06%	0.16%	0.86%	1.34%	1.18%
S&P LGIP Gross of Fees	0.01%	0.02%	0.05%	0.15%	0.88%	1.36%	1.20%
Severance Tax Bonding Fund							
STBF	0.01%	0.02%	0.06%	0.16%	0.90%	1.43%	1.26%
S&P LGIP Gross of Fees	0.01%	0.02%	0.05%	0.15%	0.88%	1.36%	1.20%

Contact Information



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