



State of New Mexico
STATE INVESTMENT COUNCIL

41 Plaza La Prensa
Santa Fe, New Mexico 87507
Phone: (505) 476-9500
Fax: (505) 424-2510

SUSANA MARTINEZ
GOVERNOR

STEVEN K. MOISE
STATE INVESTMENT OFFICER

MEMORANDUM

TO: The Investments & Pensions Oversight Committee
FROM: Steven K. Moise, State Investment Officer
SUBJECT: 2012 SIC Legislative Needs
DATE: October 27, 2011

During the 2011 Legislative session, the Governor, the legislature and in particular the Investments & Pensions Oversight Committee (IPOC) were extremely helpful in their support of legislation allowing continued reforms and positive changes at the State Investment Council. Four of the five bills the SIC pursued in 2011 were ultimately passed, while the fifth simply ran out of time.

The Investment Council will be bringing that bill back to IPOC for a renewed endorsement prior to the 2012 Legislative session, in addition to some other reform/restructuring legislation the Council may seek, to help improve the long-term investment performance of the state's Permanent Funds. Here is a short overview of potential SIC legislation:

- We will seek support from IPOC once again regarding a constitutional amendment for the Land Grant Permanent Fund (LGPF) & Water Trust Permanent Funds (WTPF). Senator Burt carried SJR17 in February, and it does two things: the bill increases the standard of care under which these permanent funds must be managed from "ordinary prudence" to "prudent investor" standard; and secondly, it increases the allowance of international equity investments from 15% to 25% of the portfolio. This change removes an artificial and outdated impediment to SIC investment returns, and better reflects the institutional investment strategies of our peers (neither PERA nor ERB has this limitation – and we know of no large funds elsewhere that face this restriction).
- We will seek to clean up language that currently requires the WTPF to be "invested as" the LGPF. At less than \$45MM, the WTPF should not be invested as a mirror image to the LGPF. Some long-term strategies like real estate and private equity have 10+ year commitments, which are fine for the LGPF, but may outlive the WTPF. Rep. Larranaga carried HB31 through both houses last session, but it needs the Constitutional amendment to take effect and must be reintroduced.
- The SIC will seek clean-up language regarding its statute, which may include removing the Private Equity Investment Advisory Committee (PEIAC) as statutory body. This is another case of an older statute not fully applying to modern investment practices. The SIC will still review these private equity investments, but will do so through its existing investment committee that focuses on all alternative investments, not just private equity & film.
- The Council will ask to remove specific budget restrictions in HB2 relative to how SIC best deploys its resources. SIC will again seek a flat budget, but the Council feels that not being able to properly allocate our budget among budget categories as needed, continues to prove detrimental to the SIC's mission to protect and grow the Permanent Funds.
- The Council is considering potential options regarding the current relationship it has with Small Business Investment Corporation (SBIC).

SIC staff will continue to work with Doris Faust and the Legislative Council Service to develop appropriate language for this legislation, as well as any other which IPOC would like to suggest to the Council for 2012.

Thank you all for your previous and continued support.