



NEW MEXICO STATE INVESTMENT COUNCIL



PERMANENT FUND UPDATE & INVESTMENT OUTLOOK FOR THE PUBLIC SCHOOL CAPITAL OUTLAY OVERSIGHT TASK FORCE

SENATOR JOHN SAPIEN, CHAIR

REPRESENTATIVE DENNIS ROCH, VICE-CHAIR

OCTOBER 20, 2016

STEVE MOISE, STATE INVESTMENT OFFICER

CHARLES WOLLMANN, DIR. COMMUNICATIONS & LEGISLATIVE AFFAIRS



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Assets Under Management



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- Fund values as of August 30, 2016: \$20.61 billion

Land Grant
Permanent Fund:
\$14.89 billion

Severance Tax
Permanent Fund:
\$4.61 billion

Governmental
Client Assets:
\$838 million

Tobacco
Settlement
Permanent Fund:
\$227 million

Water Trust
Permanent Fund:
\$41 million



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Investment Allocation as of 8/31/16



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**Fixed
Income:
22.4%**

Core bonds/Core-plus	13.4%
Credit & structured debt	3.9%
Unconstrained fixed income	3.3%
Short-term duration	1.8%
Cash	1.1%

**Private Market
Investments:
31.7%**

Private equity	9.1%
Real estate	8.8%
Real return strategies	8.8%
Absolute return (hedge)	5.0%

Public Equity: 44.8%

US:	28.7%
International:	16.1%



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Investment Performance



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- Performance through 8/31/16:

New Mexico State Investment Council
Asset Allocation & Performance - Composites (Net of Fees)

As of August 31, 2016

	Allocation		Performance (%)											
	Market Value (\$)	%	MTD	QTD	FYTD	CYTD	1 Year	3 Years	5 Years	10 Years	2015	2014	2013	2012
NMSIC Total Fund Composite	20,639,544,047	100.00	0.40	2.50	2.50	4.87	5.88	6.63	8.06	5.27	0.14	6.63	16.08	14.09
Land Grant Total Fund Composite	14,906,480,404	72.22	0.37	2.45	2.45	4.80	5.72	6.55	8.08	5.37	0.07	6.61	16.10	14.28
<i>Land Grant Interim Policy Index</i>			<i>0.18</i>	<i>2.27</i>	<i>2.27</i>	<i>5.07</i>	<i>6.44</i>	<i>7.31</i>	<i>8.27</i>	<i>5.00</i>	<i>0.83</i>	<i>7.72</i>	<i>15.37</i>	<i>12.18</i>
Difference			0.19	0.18	0.18	-0.27	-0.72	-0.76	-0.19	0.37	-0.76	-1.11	0.73	2.10
Severance Tax Total Fund Composite	4,626,643,623	22.42	0.45	2.46	2.46	4.49	5.87	6.56	7.69	4.73	0.56	6.38	15.43	13.36
<i>Severance Tax Interim Policy Index</i>			<i>0.18</i>	<i>2.25</i>	<i>2.25</i>	<i>5.03</i>	<i>6.42</i>	<i>7.30</i>	<i>8.27</i>	<i>5.00</i>	<i>0.84</i>	<i>7.72</i>	<i>15.37</i>	<i>12.18</i>
Difference			0.27	0.21	0.21	-0.54	-0.55	-0.74	-0.58	-0.27	-0.28	-1.34	0.06	1.18

- Strong stock performance in July & August
- Performance still below LGPF investment target of 7% for some periods
- Expectation of low-return environment ahead



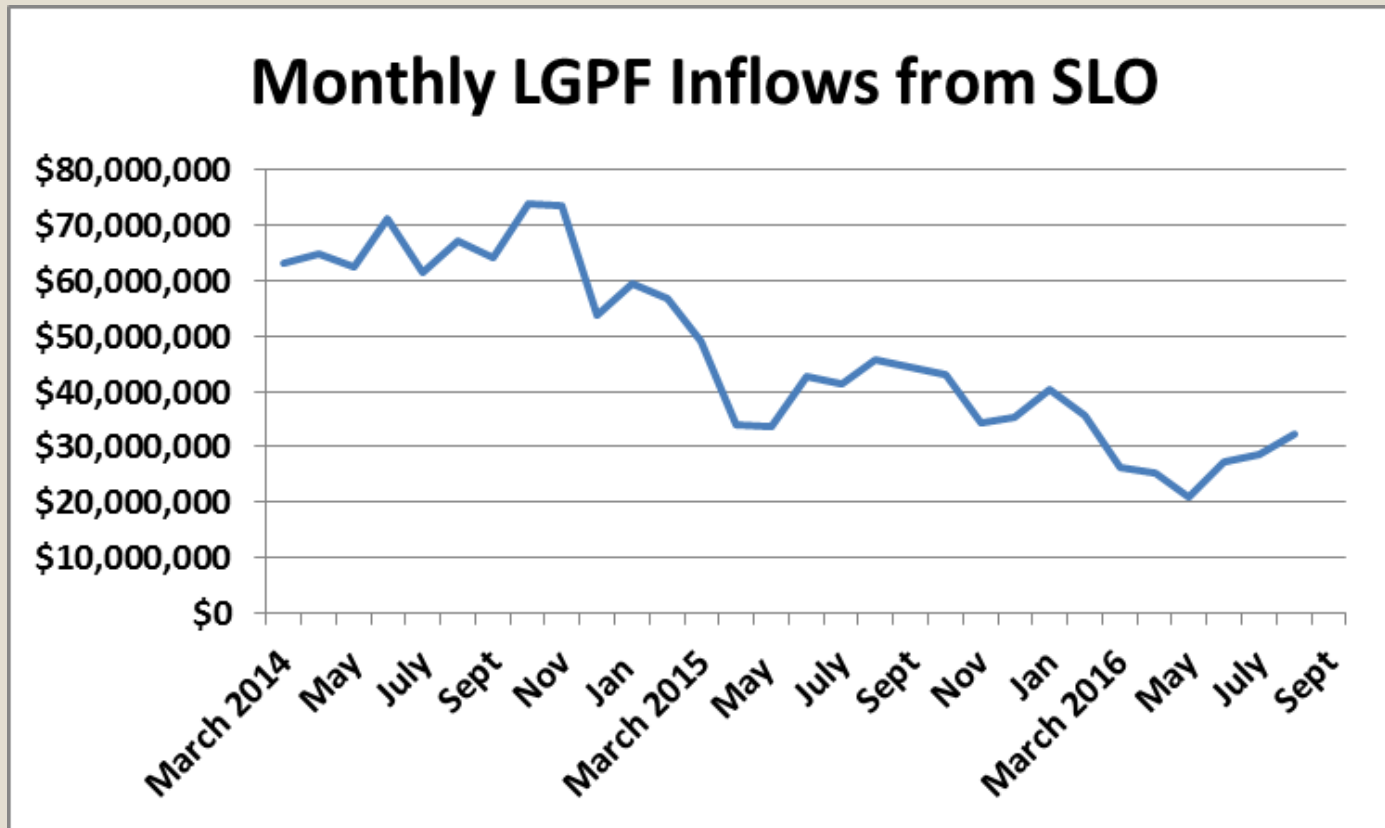
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Diminished Inflows



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- From peak to trough:





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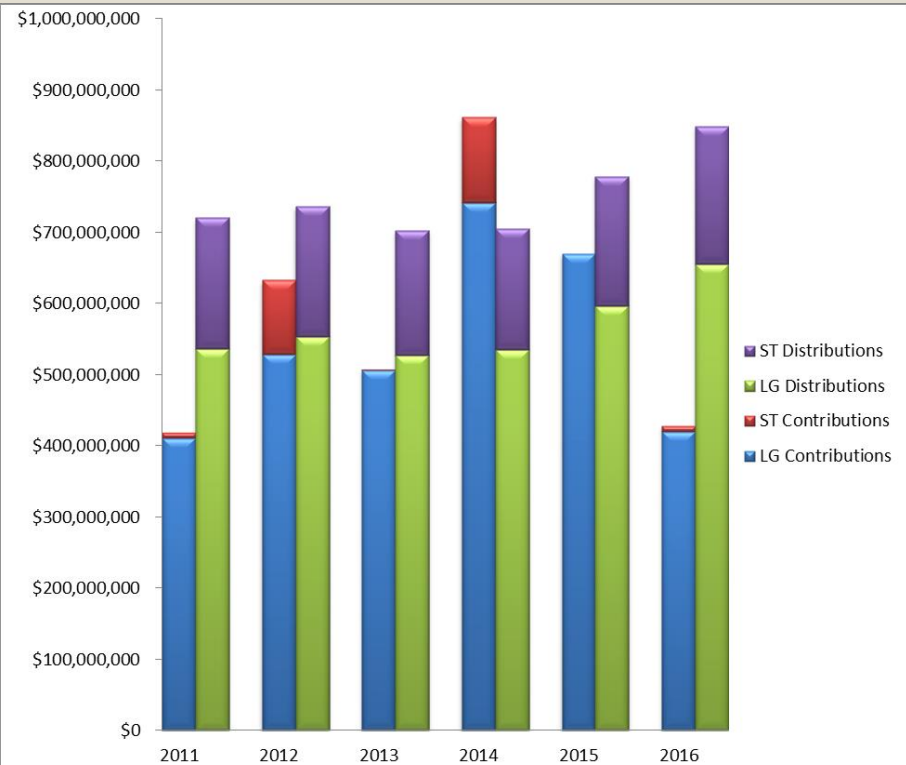
Contributions, Distributions & Earnings



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Inflows & Outflows FY 11-16

Investment Returns



Fiscal Year	Return
2011	22.2%
2012	0.6%
2013	13.1%
2014	15.5%
2015	3.4%
2016	0.2%



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Projected Permanent Fund Impact



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- Permanent Fund contributions to NM:

Fiscal Year	LGPF&STPF Distributions	Distribution as % of state budget
2011	\$720,473,734	13.5%
2012	\$736,841,814	13.7%
2013	\$703,019,232	12.1%
2014	\$705,629,255	12.0%
2015	\$778,716,882	12.7%
2016	\$849,295,109	13.5%
2017	\$838,516,785	13.5%
2018*	\$896,183,434	TBD. ~14.9% on estimated \$6.0B budget
2019*	\$944,145,659	TBD. ~15.7% on estimated \$6.0B budget
2020*	\$976,846,089	TBD. ~16.3% on estimated \$6.0B budget
2021*	\$1,004,465,002	TBD. ~16.8% on estimated \$6.0B budget

*Estimate assumes returns of 7.0% for LGPF and 6.75% for STPF; Assumes below-average \$360M/yr. inflows from SLO, & STPF inflows as projected by Board of Finance. Assumption also requires 5.0% LGPF distribution rate.



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Endowment Growth = Benefit Growth



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Distributions for **FY16:**

STPF: \$193.5 million (4.7% rate)

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 (4.7% rate)

LGPF: \$638.1 million (5.0% rate)

Total: **\$838.5 million**

Year over previous year change:
-\$10.8 million

Projected distributions for **FY18*:**

STPF: \$209.8 million (4.7% rate)

LGPF: \$686.3 million (5.0% rate)

Total: **\$896.2 million**

Year over previous year change:
+\$57.7 million





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Severance Tax Permanent Fund



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- STPF value today: \$4.6 billion, \$100 million below highs set in 2007 and matched in 2015
- HB 236 (2015) to increase expected inflows to the permanent fund from 5% of total severance taxes target
 - Target 6.2% in FY 17
 - Target grows to 13.8% in FY 2022
- Actual inflow can be impacted by less total severance taxes collected & supplemental bonding
- Expectation: below average inflows for immediate future, despite legislative fix



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STPF Inflows



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- Recent STPF inflows:

	2010	2011	2012	2013	2014	2015	2016
STPF inflows (\$Millions)	\$ 3.48	\$ 7.61	\$ 103.89	\$ 0.00	\$ 129.97	\$ 0.00	\$ 8.47

- Trend: More taxes collected, less saved

Fiscal Years	Severance Tax Collected (\$B)	Average dollars to STPF/year	Average % to STPF
1990-1999	\$1.64 billion	\$80.8 million	51.1%
2000-2009	\$3.95 billion	\$54.1 million	16.8%
2010-2016	\$2.88 billion	\$41.6 million	10.1%

- FY17 distributions from STPF: \$200.4 million



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New Mexico Private Equity & Venture Capital



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- SIC authorized to invest up to 9% of the \$4.6B 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...”
- Focus on technology commercialization



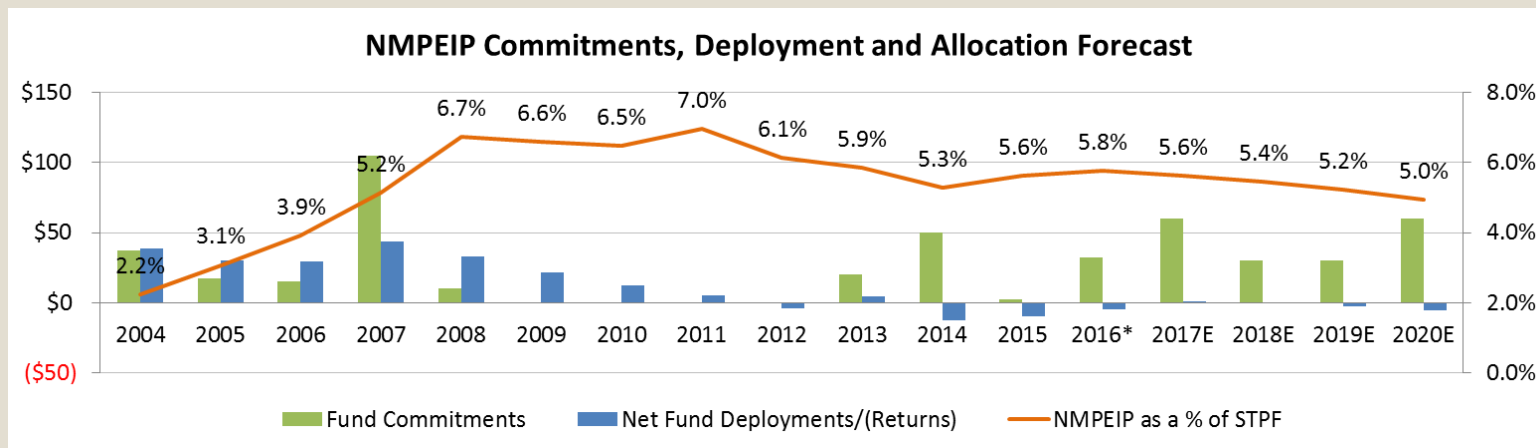
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NM Private Equity Investment Program (NMPEIP)



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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 invest in New Mexico



Source: Sun Mountain 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%

Source: Sun Mountain Capital



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NMPEIP Economic Impact



- Through Q2 2016:

NMPEIP Impact Summary as of 6/30/16		
Total Investment in New Mexico Portfolio Companies		
A) Investment by Funds with NMPEIP Participation		\$324,139,372
B) External Investment Caused by Funds with NMPEIP Participation		\$1,995,622,691
Total VC Investment in NM Companies		\$2,319,762,063
<i>Investment Multiplier (B / A)</i>		6.2x
Categorization of NM Portfolio Companies		
Active Companies	35	47.9%
Companies Exited at a Gain	14	19.2%
Companies Exited at a Loss	24	32.9%
Number of Companies funded	73	100.0%
NM Economic Impact		Q2 2016
NM Purchases		\$26,095,051
NM Payroll		\$27,667,520
NM Economic Impact		\$53,762,571
Total Current Full-Time Jobs		1,494
Average Salary of Jobs Created		\$74,076
Average Salary in New Mexico ¹		\$43,170

Source: Survey of participating NMPEIP fund managers and NM companies for active companies and most recent verified data for exited companies

¹ Source: New Mexico wage and salary disbursements and total wage and salary employees from the U.S. Dept. of Commerce, Bureau of Economic Analysis

Source: Survey of participating NMPEIP managers & companies; NM wage & salary data from US Dept. of Commerce, Bureau of Economic Analysis



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Closing Thoughts



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- **Summary**

- 7-10 year macroeconomic and financial market outlooks challenging
 - ✦ Difficult environment: slow growth, rising interest rates, rising inflation
 - ✦ Traditional assets (stocks and bonds) are at very expensive levels
 - ✦ Expected rate of return 6.5%-7.0%, rather than 8%+
 - ✦ Lower severance tax collections, lower oil & gas royalties to LGPF
- Broad investment strategy
 - ✦ 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”)
- Key to success: prudence & stability