



# **New Mexico State Investment Council**



## **TOBACCO SETTLEMENT REVENUE OVERSIGHT COMMITTEE**

**INVESTMENT COUNCIL OVERVIEW, TSPF  
INVESTMENT UPDATE, FUND  
CHALLENGES & ASSET ALLOCATION**

**JULY 29, 2013**



# STATE INVESTMENT COUNCIL

## NMSIC Overview

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- **Council composed of 11 members**
  - Governor Susana Martinez (Chair)
  - Peter Frank (Vice-Chair, public member, Legislative appointee)
  - Treasurer James Lewis
  - Land Commissioner Ray Powell
  - DFA Secretary Tom Clifford
  - Scott Smart (ENMU CFO, public member, GOV appointee)
  - Linda Eitzen (public member, GOV appointee)
  - John Young (public member, GOV appointee)
  - Harold Lavender (public member, Legislative appointee)
  - Lee Rawson (public member, Legislative appointee)
  - Tim Jennings (public member, Legislative appointee)



# STATE INVESTMENT COUNCIL

## NMSIC Operations

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- **Council Committees**
  - Investment Committee
  - Audit Committee
  - Governance Committee
  - Legal Committee
  - Private Equity Investment Advisory Committee
- **State Investment Officer**
  - Deputy State Investment Officer
  - Management team
  - Portfolio managers, analysts, accounting & support staff
  - 32 FTEs



# STATE INVESTMENT COUNCIL

## NMSIC Recent Reforms

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- **Powers and statute changed in 2010**
  - Much higher degree of Council oversight, engagement & improved governance
  - New policies & procedures
- **Investment portfolio restructured**
  - All but one investment advisor replaced
  - More than a dozen old managers removed
  - Shift from 40% internal to 100% external management
- **Investment strategy refocused**
  - Reduced exposure to public equity, other volatile strategies
  - Increase investment in income-producing real assets



# STATE INVESTMENT COUNCIL

## NMSIC Assets Under Management

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- **Four Permanent Funds**
  - Land Grant Permanent Fund (\$12.1 billion)
  - Severance Tax Permanent Fund (\$4.1 billion)
  - Tobacco Settlement Permanent Fund (\$170.2 million)
  - Water Trust Permanent Fund (\$46.6 million)
- **Other Funds**
  - \$588.1 million in NM client assets
  - 17 NM governmental clients
  - 30 separate pooled accounts
  - Stocks & bonds, actively managed or indexed funds
  - No alternative investments for clients



# STATE INVESTMENT COUNCIL

## TSPF: Investment Performance

### Tobacco Settlement Permanent Fund: FY13

- Fund corpus now \$170,165,575
- Grew by \$21.2 million in FY13
- Investment returns of approximately 12.5%
- Benchmarking data pending

### TSPF holdings

Tobacco Settlement Permanent Fund			
Strategy	Market Value	% Net Assets	Long term target
<u>Public Equities</u>			
Large Cap Active	421,434	0.25%	
Large Cap Index	82,219,396	48.32%	46%
Small/Mid Active	1,100,827	0.65%	
Small/Mid Index	14,854,930	8.73%	11%
	<b>98,596,587</b>	<b>57.95%</b>	
<u>Intl Equity</u>			
Non-US Developed	8,131,011	4.78%	7%
Non-US Emerging	3,113,175	1.83%	3%
	<b>11,244,186</b>	<b>6.61%</b>	
Core Bonds	<b>37,191,027</b>	<b>21.86%</b>	23%
Absolute Return	<b>16,036,751</b>	<b>9.42%</b>	10%
Cash/Equivalents	<b>7,087,024</b>	<b>4.16%</b>	0%
<b>Total Fund Assets</b>	<b>170,165,575</b>		



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## Tobacco Settlement Permanent Fund: History

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- **Current Value: \$170.2 million**
- **\$105.6 million deposited since 2000**
  - \$482.7 million distributed from fund since inception
  - All contributions “swept” to General Fund since 2008

FY Ending	Beginning Mkt Value (\$M)	New Contributions (\$M)	Tot Return (\$M)	Distributions (\$M)	Ending Mkt Value (\$M)	Investment Return
2000	\$ -	\$ 48.8	\$ 1.2	\$ -	\$ 50.0	1.5%
2001	\$ 50.0	\$ 37.4	\$ (2.1)	\$ 24.4	\$ 60.9	-7.3%
2002	\$ 60.9	\$ 43.7	\$ (4.4)	\$ 18.7	\$ 81.5	-6.2%
2003	\$ 81.5	\$ 43.8	\$ 2.3	\$ 65.6	\$ 62.0	0.2%
2004	\$ 62.0	\$ 54.8	\$ 8.7	\$ 54.8	\$ 70.7	14.1%
2005	\$ 70.7	\$ 35.4	\$ 6.7	\$ 35.4	\$ 77.4	9.0%
2006	\$ 77.4	\$ 36.1	\$ 7.3	\$ 36.1	\$ 84.7	11.1%
2007	\$ 84.7	\$ 36.2	\$ 13.9	\$ 18.1	\$ 116.7	14.9%
2008	\$ 116.7	\$ 44.9	\$ (1.2)	\$ 22.4	\$ 137.8	-1.6%
2009	\$ 137.8	\$ 49.0	\$ (16.9)	\$ 49.0	\$ 120.9	-13.6%
2010	\$ 120.9	\$ 41.0	\$ 11.1	\$ 41.0	\$ 132.0	9.9%
2011	\$ 132.0	\$ 38.6	\$ 16.8	\$ 38.6	\$ 148.8	12.6%
2012	\$ 148.8	\$ 39.3	\$ 0.2	\$ 39.3	\$ 149.0	0.1%
2013	\$ 149.0	\$ 39.3	\$ 21.2	\$ 39.3	\$ 170.2	12.5%
		\$ 588.3		\$ 482.7		



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## TSPF: Asset Allocation Study

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- **Two primary options in restructuring TSPF**
  - Option 1:
    - ✦ Improved, but similar allocation (stocks/bonds/hedge funds)
  - Expectation: similar returns (6.5%), similar liquidity and reduced volatility/risk
  - Option 2:
    - ✦ Much increased diversification in alternative asset classes (stocks/bonds/hedge funds/private equity/real estate)
  - Expectation: similar returns (6.6%), reduced liquidity, and significantly reduced volatility/risk
- **SIC needs legislative direction**



# STATE INVESTMENT COUNCIL

## NMSIC: Tobacco exposure

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### Tobacco-related investments (total fund)

- Less than 0.5% of \$17.5 billion portfolio
  - \$76.25 million in stocks
  - \$8.52 million in bonds
  - External managers
- Limited alternative asset/private holdings
- TSPF pro-rata: \$1.04 million exposure

### Investment summary

NAME	MARKET VALUE	
EQUITY	9,101,308,365	100.00
TOBACCO	76,252,282	0.84
ALLIANCE ONE INTERNATIONAL	5,616	0.00
ALTRIA GROUP INC	11,607,447	0.13
BRITISH AMERICAN TOBACCO BHD	618,901	0.01
BRITISH AMERICAN TOBACCO PLC	13,204,461	0.15
GUDANG GARAM TBK PT	547,759	0.01
IMPERIAL TOBACCO GROUP PLC	4,303,411	0.05
JAPAN TOBACCO INC	5,264,374	0.06
KT&G CORP	1,887,283	0.02
LORILLARD INC	2,673,708	0.03
PHILIP MORRIS INTERNATIONAL	31,323,904	0.34
REYNOLDS AMERICAN INC	2,572,052	0.03
SOUZA CRUZ SA	1,226,342	0.01
SWEDISH MATCH AB	974,587	0.01
UNIVERSAL CORP/VA	24,732	0.00
VECTOR GROUP LTD	17,705	0.00
FIXED INCOME	2,762,870,075	100.00
TOBACCO	8,518,187	0.31
MO 9.95 11/10/38	3,175,601	0.11
RAI 7 ¼ 06/15/37	5,342,586	0.19

\* AS OF JULY 23, 2013



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## Socially –Responsible Investing

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- **Setting investment guidelines based on societal, political, ethical & environmental factors**
  - Human rights (Apartheid in South Africa, genocide in Darfur)
  - “Sin” stocks (alcohol, gambling, tobacco)
  - Social issues (gun control, pollution/global warming)
  - Ethical matters (animal testing, worker rights/child labor)
- **Only limited proof that this practice produces policy changes in most cases**
  - Not currently contemplated in SIC investment guidelines
  - Former investment officer, ERB joined widespread boycott of companies in Sudan in 2007; investment impact not measured



# STATE INVESTMENT COUNCIL

## Closing Thoughts

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- Council close to finishing portfolio overhaul begun in 2010
- Council will launch new asset allocation study in 2014
- Lots has been accomplished, still some ground to cover
  - LGPF amendment to remove statutory/constitutional conflict & dated cap on international investments
  - Study benefits of consolidating NM investments
  - Protect & grow fund in-flows, fund corpus to increase distributions & benefits every year