



# **New Mexico State Investment Council**



## **TOBACCO SETTLEMENT REVENUE OVERSIGHT COMMITTEE**

**TOBACCO PERMANENT FUND  
ASSET ALLOCATION**

**OCTOBER 30, 2013**



# STATE INVESTMENT COUNCIL

## Fund Overview

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- **Tobacco Settlement Permanent Fund:**
  - **Assets: \$178.6 million as of 9/30/13**
  - **Distributed \$39.3 million in June**
  - **100% of 2013 tobacco settlement distributed (SB 113)**
    - ✦ 50% to tobacco education & health programs
    - ✦ 25% to NM Lottery Scholarship
    - ✦ 25% to early childhood education programs



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## Investment Performance

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- **FY2013 investment returns:** **14.19%**
  - All public plans median: 12.34%
  - TSPF policy index: 12.69%
  - Outperformance : 1.50%
  - TSPF composite rank: 13<sup>th</sup> percentile
- **TSPF 3-year return:** **8.77%** (annualized)
- **TSPF 5-year return:** **4.08%**
- **TSPF 10-year return:** **6.56%**
- **3, 5 & 10-year rankings:** **3rd & 4<sup>th</sup> quartile**



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## TSPF Asset Allocation: Current Targets

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- **Broad US Equities:** 57%
- **Broad International:** 10%
- **Equities Total:** **67%**
- **Core Bonds:** **23%**
- **Absolute Return:** **10%**
  
- **Expected Return:** 6.85%/yr



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## Asset Allocation: New Plan Comparison

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	<u>OLD</u>	<u>NEW</u>	<u>CHANGE</u>
• Broad US Equities:	57%	40%	-17%
• Broad International:	10%	15%	+5%
○ <b>Equities Total:</b>	<b>67%</b>	<b>55%</b>	<b>-12%</b>
○ <b>Core Bonds:</b>	<b>23%</b>	<b>15%</b>	<b>-8%</b>
○ <b>Absolute Return:</b>	<b>10%</b>	<b>10%</b>	<b>0%</b>
○ <b>Private Equity:</b>	<b>0%</b>	<b>10%</b>	<b>+10%</b>
○ <b>Real Estate:</b>	<b>0%</b>	<b>10%</b>	<b>+10%</b>
○ Expected return:	6.85%	7.53%	+0.68%
○ Liquidity metric:	86/100	71/100	-15
○ Prob/1yr neg return:	28.4	26.4	-2



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## Fund Projections

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- 20-year outlook comparisons
  - Assumes zero net contributions
  - 50<sup>th</sup> percentile = median returns

Year 20 Projected Real Market Value	Current Target	Proposed Allocation
1st Percentile	\$51,089,277	\$84,166,905
5th Percentile	\$104,080,778	\$145,047,658
25th Percentile	\$220,719,178	\$269,720,244
<b>50th Percentile</b>	<b>\$340,645,029</b>	<b>\$394,505,166</b>
75th Percentile	\$503,586,557	\$559,083,262
95th Percentile	\$866,470,487	\$904,856,057
99th Percentile	\$1,259,927,359	\$1,236,128,372



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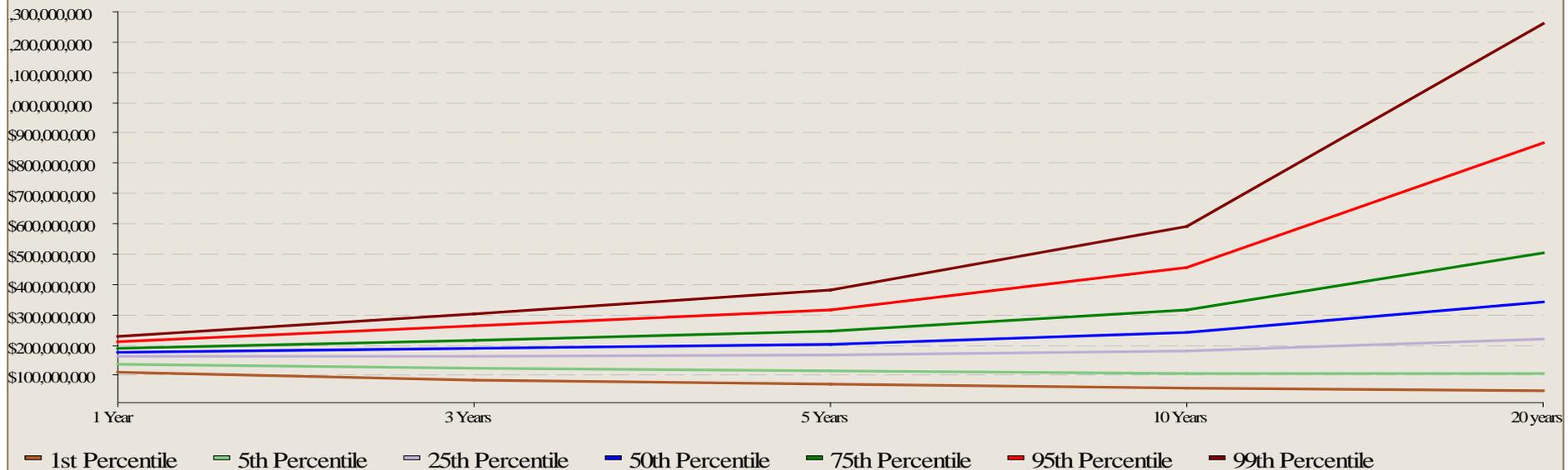
## Fund Growth Outlook

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- 20-year expectations:
  - Taking into account impact of inflation, fund to roughly double in real value

### Simulated Real Wealth - Current Target

Mar 2013 - Mar 2033





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## TSPF Concerns

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- **New allocation gives up some liquidity in exchange for improved diversification & performance**
- **Heightened financial impact should the TSPF be called on as a reserve fund by the legislature**
- **Council reluctant to implement new allocation without reassurance TSPF corpus will not be utilized to address shortfall to be caused by recent court rulings**