



NEW MEXICO STATE INVESTMENT COUNCIL



TOBACCO SETTLEMENT REVENUE OVERSIGHT COMMITTEE

INVESTMENT PERFORMANCE & ASSET ALLOCATION

NOVEMBER 2, 2015

SENATOR CISCO MCSORLEY &
REPRESENTATIVE JOHN ZIMMERMAN, CO-CHAIRS

STATE INVESTMENT OFFICER STEVE MOISE
DEPUTY SIO ROBERT "VINCE" SMITH



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Fund Overview (9/30/15)



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- **Tobacco Settlement Permanent Fund:**
 - Assets: **\$205.1 million** as of 9/30/15
 - Investment returns, year ending 9/30: -0.91%
 - Fund asset value growth: +**\$13.0 million** over last 12 months
- **Distributed \$19.3 million from fund in June**
 - \$35.0 million received in 2015 payment
 - ✦ First time TSPF corpus did not have 100% or more appropriated from annual legal settlement payments since FY08



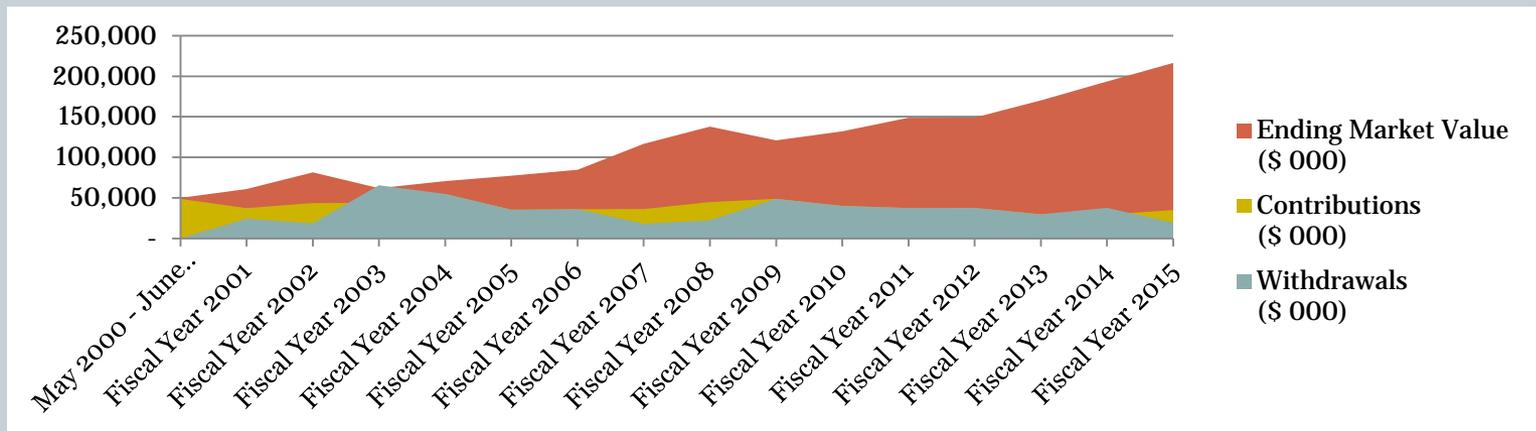
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Tobacco Settlement Permanent Fund



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- **TSPF: part of the state's reserve funds**
 - Does not make annual distributions, does help state bond ratings
 - 82% of contributions appropriated by legislature since fund inception: \$527 million out of \$640 million received from legal settlement
 - TSPF has grown to more than \$200 million





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FY15 Investment Performance (6/30/15)



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- **FY14 investment returns:** **3.80%**
 - All public plans median: 3.40%
 - TSPF Policy Index: 4.33%
 - Performance relative to policy: -0.53%
 - TSPF composite 1-year rank: 43rd percentile
- **TSPF 3-year return:** **11.89% (19th)**
- **TSPF 5-year return:** **9.56% (86th)**
- **TSPF 10-year return:** **6.54% (60th)**



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FY15 Investment Performance (6/30/15)



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- TSPF 5-year return: 10.83% (86th)
- Median 5-year return: 12.84% (50th)
- TSPF 3-year return: 11.89% (19th)
- Median 3-year return: 10.74 (50th)
 - Prior to fund restructuring, TSPF held 25%-30% cash
 - Asset allocation study led to restructured portfolio
- Result: improved performance, more equity market upside capture



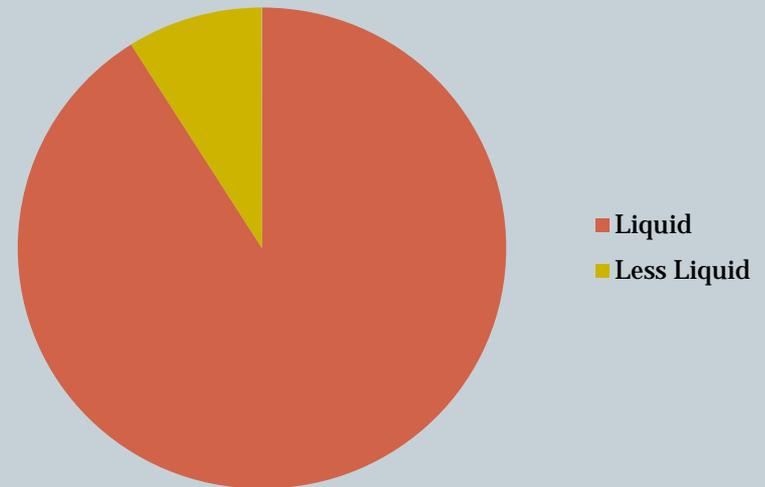
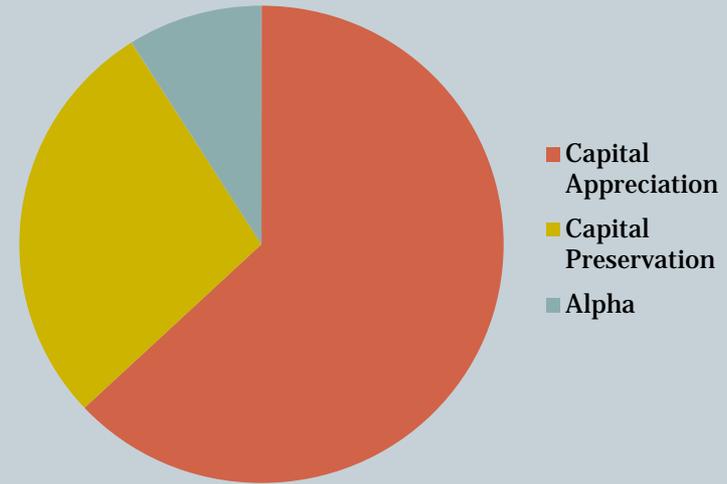
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TSPF Asset Allocation



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- US Equities: 55%
- Intl. Equities: 8%
- **Total equity: 63%**
- **Fixed income: 19%**
- **Hedge funds: 9%**
- **Cash equivalent: 9%**
- Projected annual rate of return: **6.5%**





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Forecasts & Assumptions



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	Last 10 Years (12/31/2014)	Long Run Historical	Strategy Group Expectations (7-10 Years Fwd)	RVK 2015 Long Run Assumptions
U.S. GDP (Real)	1.57%	2-5%	1.50-3.00%	N/A
U.S. Inflation (CPI)	2.11%	2-6%	2.00-3.50%	2.50%
U.S. GDP (Nominal)	3.49%	5-9%	3.50-6.00%	N/A
U.S. Stocks	~6.00%	9-10%	~6.50%	7.80%
U.S. Bonds	~4.70%	5-6%	~4.00%	3.50%
70/30 Stocks/Bonds	~5.60%	~8%	~5.75%	~6.50%
10 Yr U.S. Treasury (Yield)	~3.40%	~5%	~4.00%	N/A



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TSPF Conclusions



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- **Diversifying portfolio could deliver additional returns to the TSPF in low-return environment**
 - Private Equity & Real Estate are illiquid
 - Multi-year investment horizons
- **Council reluctant to put TSPF into private market investments**
 - Reserve Fund Status
 - Uncertainty regarding future arbitration rulings & reversions
- **Zero/low contributions=slow growth**



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TSPF Suggestions



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- **Legislative action to remove “reserve” status of the TSPF**
 - Additional protection, restrictions would allow longer-term, less-liquid investment strategies & reduce fund volatility/risk
- **Return to 50/50 division of annual settlement revenue payments**
 - Total TSPF Contributions since inception: \$640 million
 - Total TSPF Distributions since inception: \$527 million
- **Create revenue stream to increase the size of the TSPF**