

NEW MEXICO STATE INVESTMENT COUNCIL



TOBACCO SETTLEMENT REVENUE OVERSIGHT COMMITTEE

INVESTMENT PERFORMANCE &
ASSET ALLOCATION

SENATOR CISCO MCSORLEY &
REPRESENTATIVE ELIZABETH THOMSON, CO-CHAIRS

NOVEMBER 6, 2014

STATE INVESTMENT OFFICER STEVE MOISE
DEPUTY SIO VINCE SMITH



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Fund Overview (9/30/14)



2

- Tobacco Settlement Permanent Fund:
 - Assets: \$192.1 million as of 9/30/14
 - Investment returns, year ending 9/30: 11.88%
 - Growth of \$13.5 million in last 12 months
- Distributed \$29.4 million from fund in June
 - \$8.2 million above reduced annual settlement
 - ✦ First time corpus used to satisfy appropriations



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FY14 Investment Performance (6/30/14)



3

- FY 14 investment returns: 18.24%
- All public plans median: 16.92%
- TSPF Policy Index: 17.50%
- Outperformance: +0.74%
- TSPF composite rank: 22nd percentile

- TSPF 3-year return: 10.56% (31st)
- TSPF 5-year return: 10.83% (94th)
- TSPF 10-year return: 7.06% (60th)



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FY14 Investment Performance (6/30/14)



4

- TSPF 5-year return: 10.83% (94th)
- Median fund return: 12.84% (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
- Liquidity needs of the TSPF still a concern



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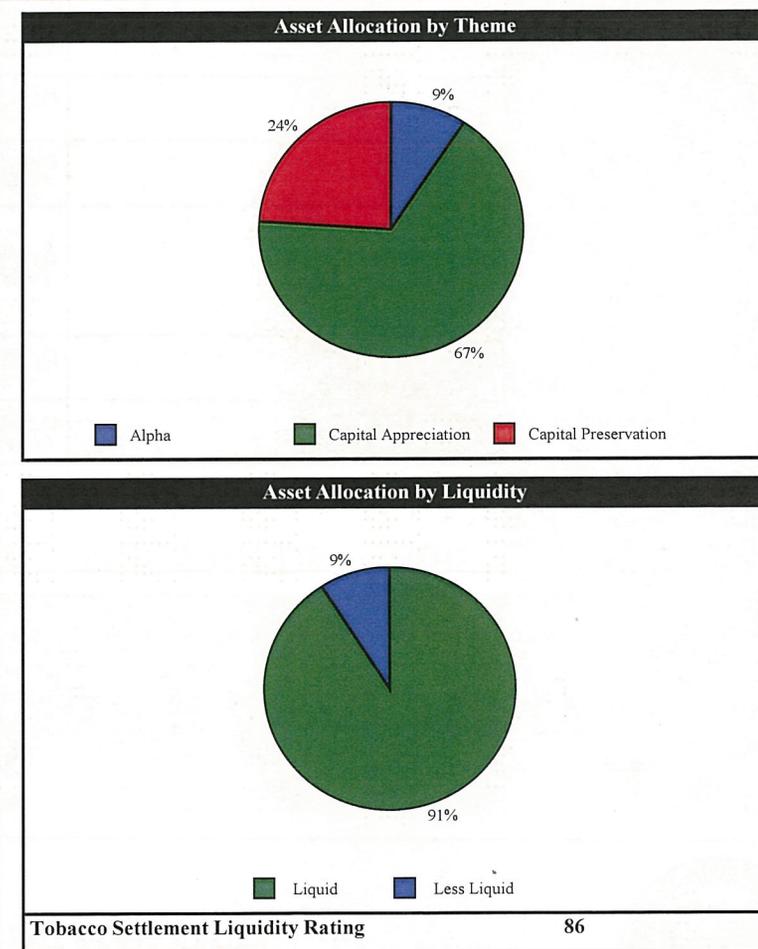
TSPF Asset Allocation



5

- US Equities: 57%
- Intl. Equities: 10%
- **Total Equity: 67%**
- **Core Bonds: 24%**
- **Hedge funds: 9%**

- Estimated annual rate of return: 6.61%





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Allocation Risk & Return



6

- Projected annual rates of return & volatility

Asset Class	Arithmetic Return Assumption	Standard Deviation Assumption
Broad US Equity	7.30%	17.80%
Broad Intl. Equity	8.55%	20.55%
Intermediate Duration Fixed Income	4.00%	6.00%
Diversified Hedge Funds	6.75%	9.75%
NMSIC Real Return	7.99%	11.76%
NMSIC Real Estate	7.75%	14.64%
Private Equity	11.00%	29.00%
Cash Equivalents	2.25%	3.00%

Included in TSPF Allocation



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TSPF Conclusions



7

- 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 contributions=slow growth



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TSPF Suggestions



8

- 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: \$605 million
 - Total TSPF Distributions since inception: \$507 million
- Create revenue stream to invest in the TSPF