



NEW MEXICO STATE INVESTMENT COUNCIL



LEGISLATIVE FINANCE COMMITTEE

PERMANENT FUND UPDATE

FUND VALUES, INVESTMENT PERFORMANCE & 2016 OUTLOOK

APRIL 13, 2016



STATE INVESTMENT COUNCIL

Update Overview



2

- **Fund assets under management**
 - 12/31/15 value: \$19.95 billion
 - 2/29/15 value: \$19.25 billion
 - 3/31/16 value: \$19.93 billion (preliminary)
- **First quarter 2016 was volatile, but basically flat**
- **Oil & gas prices continue to weigh**
 - Diminished inflows to LGPF
 - Royalties below historic averages & about 50% off peak levels
 - STPF inflows remain minimal



STATE INVESTMENT COUNCIL

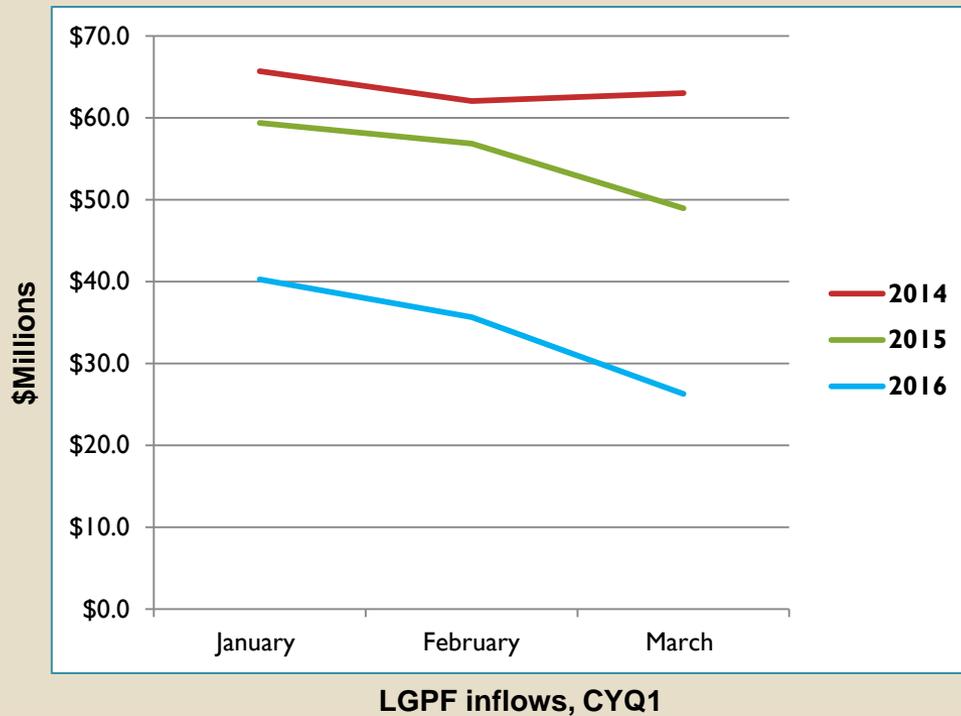
Fund Inflows vs. Distributions



3

- Gap between inflows & distributions growing

- Current LGPF & STPF distributions: **\$70.8 million/month**
- March 2016 LGPF & STPF inflows: **\$26.3 million**
-\$44.5 million





STATE INVESTMENT COUNCIL

Short-term Impact on Distributions



4

Distributions for **FY16:**

STPF: \$193.5 million

LGPF: \$655.8 million

Total: **\$849.3 million**

Year over previous year change:
+\$70.6 million

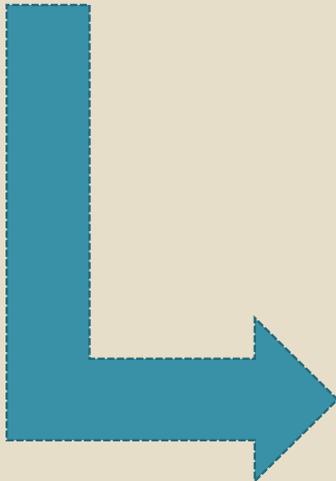
Projected distributions for **FY18***

STPF: \$208.9 million

LGPF: \$681.4 million

Total: **\$890.3 million**

Year over previous year change:
+\$51.8 million



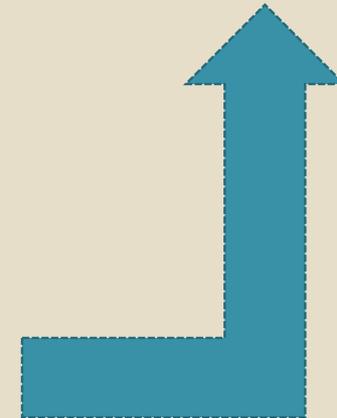
Distributions for **FY17:**

STPF: \$200.4 million

LGPF: \$638.1 million

Total: **\$838.5 million**

Year over previous year change:
-\$10.8 million



*Assumes LGPF values as of 3/31/16



STATE INVESTMENT COUNCIL

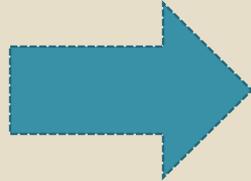
Fund Values as of 3/31/16



5

Land Grant Permanent Fund: \$14.4 billion

Severance Tax Permanent Fund: \$4.5 billion



Tobacco Settlement Permanent Fund: \$210 million

Water Trust Fund: \$42 million

Governmental Clients: \$750 million

SIC Investment Pools

Total assets: \$19.93 billion

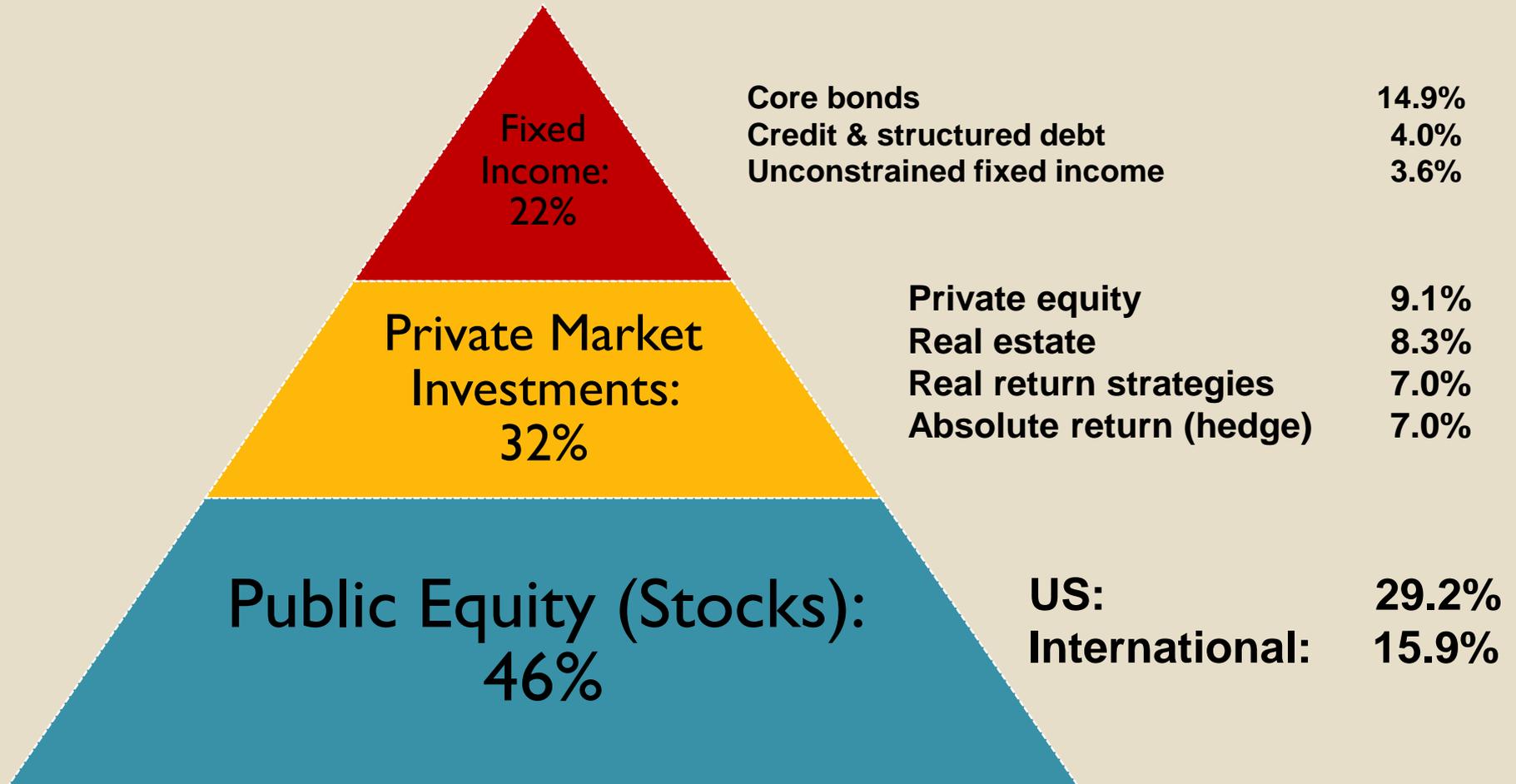


STATE INVESTMENT COUNCIL

Investment Allocation as of 3/31/16



6





STATE INVESTMENT COUNCIL

Investment Performance



7

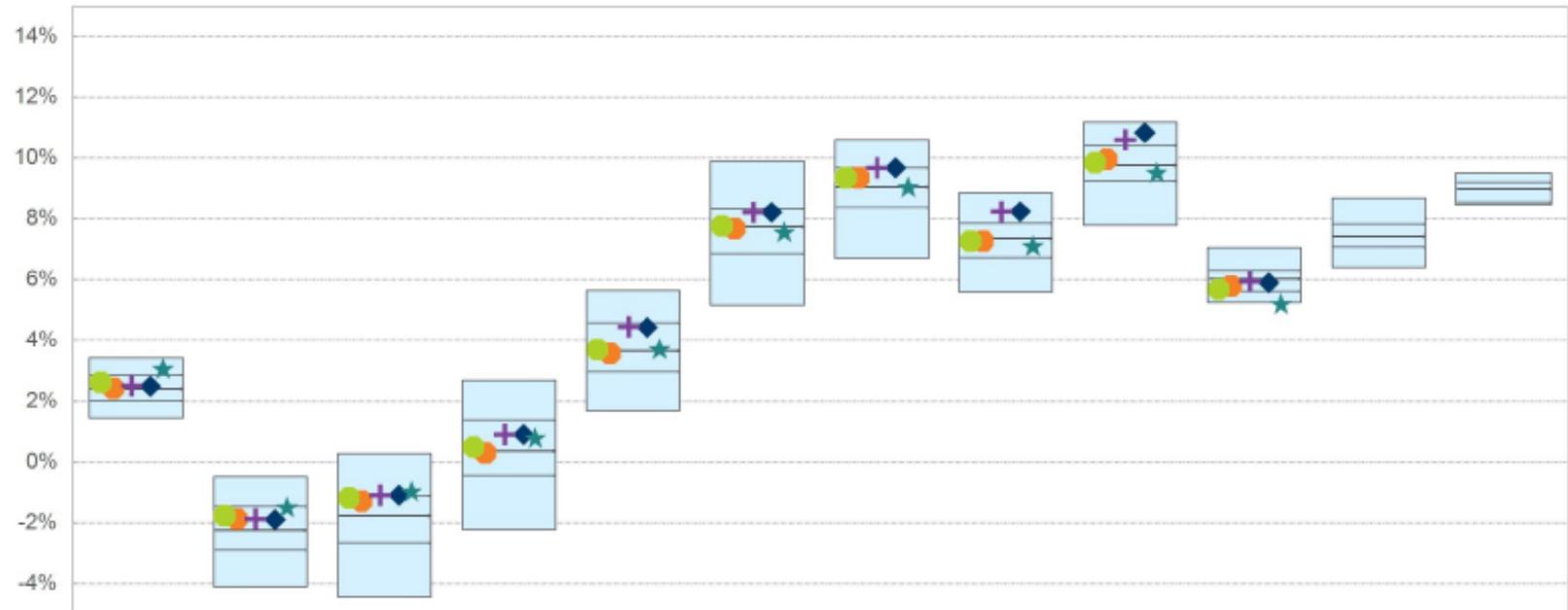
- Permanent Fund returns as of 12/31/15:

	QTD	FYTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	FY 2015	FY 2014	FY 2013	FY 2012
Land Grant Total Fund Composite - Gross	2.30	-2.00	0.15	0.15	7.55	7.13	9.82	5.65	3.54	15.67	13.28	0.74
Land Grant Total Fund Composite - Net	2.26	-2.04	0.05	0.05	7.38	6.96	9.62	5.47	3.38	15.46	13.06	0.62
<i>Land Grant Interim Policy Index</i>	2.54	-1.85	0.92	0.92	8.14	8.14	10.75	5.79	4.54	16.44	12.85	2.95
Severance Tax Total Fund Composite - Gross	2.95	-1.63	0.66	0.66	7.44	7.00	9.41	5.07	3.35	15.75	12.15	0.19
Severance Tax Total Fund Composite - Net	2.91	-1.67	0.56	0.56	7.29	6.84	9.20	4.88	3.20	15.54	11.99	0.06
<i>Severance Tax Interim Policy Index</i>	2.55	-1.84	0.93	0.93	8.14	8.14	10.50	5.83	4.54	16.44	12.85	2.95

- Long-term return targets: **7.0%** for LGPF, **6.75%** for STPF
- 1-year, 10-year returns: below target
- Returns for 3, 5 & 7 year periods: above target
- Expectation of below-average returns led Council to reduce long-term investment targets in 2015

New Mexico State Investment Council Performance Comparison

Total Returns of Master Trusts - Public : Plans > \$1 Billion
Cumulative Periods Ending : December 31, 2015



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years	20 Years	30 Years
5th	3.42	-0.50	0.28	2.69	5.63	9.90	10.61	8.86	11.20	7.05	8.70	9.51
25th	2.85	-1.46	-1.13	1.38	4.57	8.32	9.68	7.85	10.41	6.30	7.83	9.20
50th	2.41	-2.24	-1.78	0.36	3.66	7.75	9.06	7.36	9.77	6.03	7.43	9.00
75th	2.02	-2.92	-2.67	-0.46	2.97	6.86	8.37	6.74	9.26	5.62	7.08	8.56
95th	1.44	-4.11	-4.45	-2.23	1.68	5.16	6.72	5.59	7.79	5.25	6.40	8.47
No. Of Obs	66	65	61	58	42	12						

● LAND GRANT	2.30 (59)	-2.01 (39)	-1.43 (35)	0.17 (59)	3.43 (57)	7.55 (57)	9.24 (40)	7.14 (60)	9.83 (46)	5.65 (69)		
◆ Land Grant Policy Inde	2.37 (53)	-2.02 (40)	-1.24 (26)	0.76 (34)	4.31 (28)	8.08 (35)	9.56 (28)	8.11 (19)	10.72 (15)	5.77 (58)		
● NEW MEXICO SIC	2.50 (43)	-1.90 (34)	-1.31 (32)	0.37 (48)	3.56 (53)	7.63 (57)	9.24 (40)	7.14 (60)	9.73 (53)	5.55 (81)		
★ SEVERANCE TAX	2.95 (23)	-1.63 (29)	-1.10 (23)	0.66 (37)	3.58 (51)	7.44 (60)	8.93 (51)	7.00 (67)	9.40 (66)	5.07 (97)		
+ Severance Tax Policy I	2.38 (53)	-2.01 (39)	-1.23 (26)	0.77 (34)	4.32 (28)	8.08 (35)	9.56 (28)	8.11 (19)	10.48 (23)	5.81 (57)		



STATE INVESTMENT COUNCIL

Investment Outlook



9

- **Council annual plan**
 - 7-10 year macroeconomic and financial outlook
 - Financial model analysis
 - Asset allocation & return target analysis
 - Peer group analysis
- **Market trends**
 - Reducing expected rates of return
 - Reducing benefit levels when possible
 - New investment strategies
 - ✦ Risk parity
 - ✦ Increased tactical asset allocation



STATE INVESTMENT COUNCIL

Closing Thoughts



10

- Council believes its strategy to be effective:
 - Continue reducing exposure to equity market risk
 - Increase income-producing power of portfolio
 - Seek investments with down-side protection
 - Position for rising rates & rising inflation
- Q&A