



# NEW MEXICO STATE INVESTMENT COUNCIL



## WATER TRUST PERMANENT FUND STATUS UPDATE

FOR

THE NM FINANCE AUTHORITY OVERSIGHT COMMITTEE &  
THE WATER AND NATURAL RESOURCES COMMITTEE

SENATOR JOSEPH CERVANTES

&

REPRESENTATIVE GEORGE DODGE, JR.

JULY 1, 2014



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## Water Trust Permanent Fund: History



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- **Water Trust Permanent Fund**
  - Created in statute in 2003
  - Approved by voters in 2006, given same constitutional protections as LGPF
  - Funded by legislature with \$40 million in 2007, another \$15 million in 2008
  - No subsequent legislative appropriations
  - Must distribute \$4 million/year for Water Project Fund & projects approved by Water Trust Board
  - Current fund value: \$45 million



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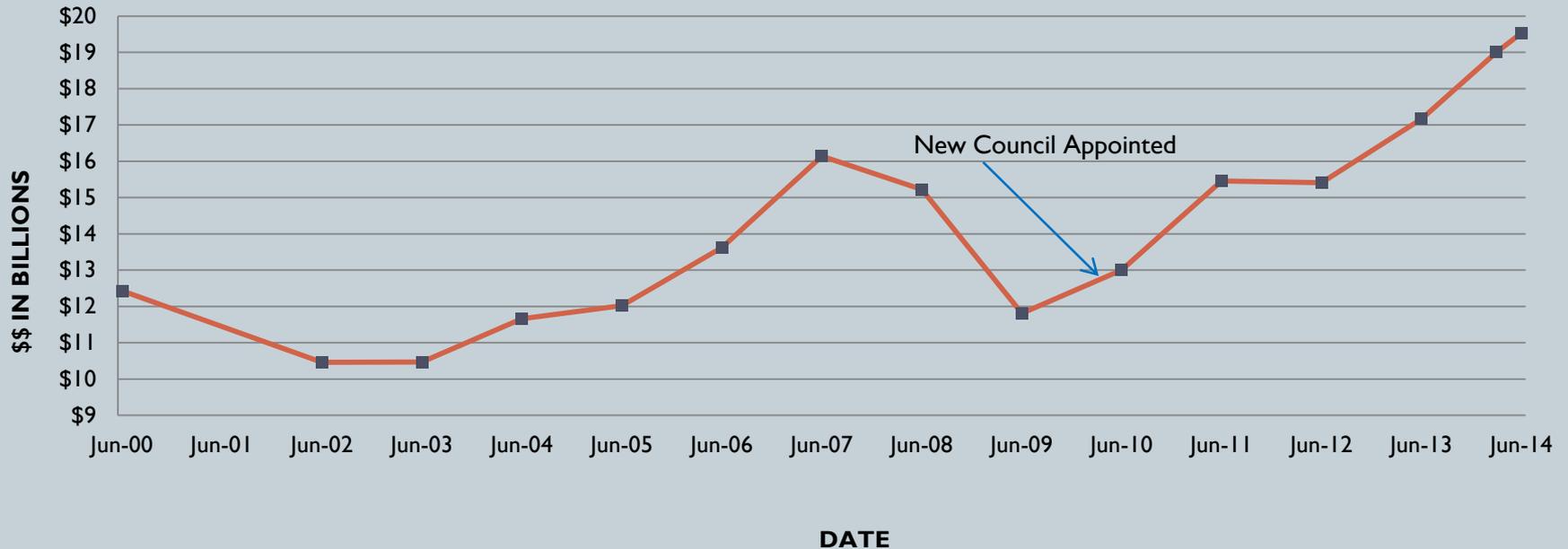
## Permanent Fund Growth



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- Growth of assets under management
  - From \$14 billion (April 2010) to more than \$19 billion today

### Net Asset Value 2000 - 2014





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## Four Years of Fund Growth



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- Investment returns for total assets: 9.9% annualized for four years ending 3/31/14
- Strong growth in all funds except Water Trust Fund
  - Returns outpaced 7% investment return target
  - Unlikely to maintain

<u>SIC Funds</u>	<u>Value April 2010</u>	<u>Value May 2014</u>	<u>\$ Change</u>	<u>% Change</u>	<u>Distributions</u>	<u>Contributions</u>
Land Grant	9,606,224,381	13,963,432,264	\$4.4B	<b>31.3</b>	\$535M/yr	\$495M/yr
Severance Tax	3,692,471,822	4,556,952,838	\$865M	<b>19.1</b>	\$180M/yr	\$30M/yr
Tobacco	179,445,603	219,527,713	\$40M	<b>18.3</b>	0	0
<b>Water Trust</b>	<b>49,182,226</b>	<b>48,878,182</b>	<b>(\$304k)</b>	<b>-0.1</b>	<b>\$4M/year</b>	<b>0</b>
Govt. Clients	568,447,773	735,023,526	\$167M	<b>22.7</b>	N/A	N/A
Net Asset Value	14,113,769,160	19,523,812,237	\$5.4B	<b>28.7</b>		



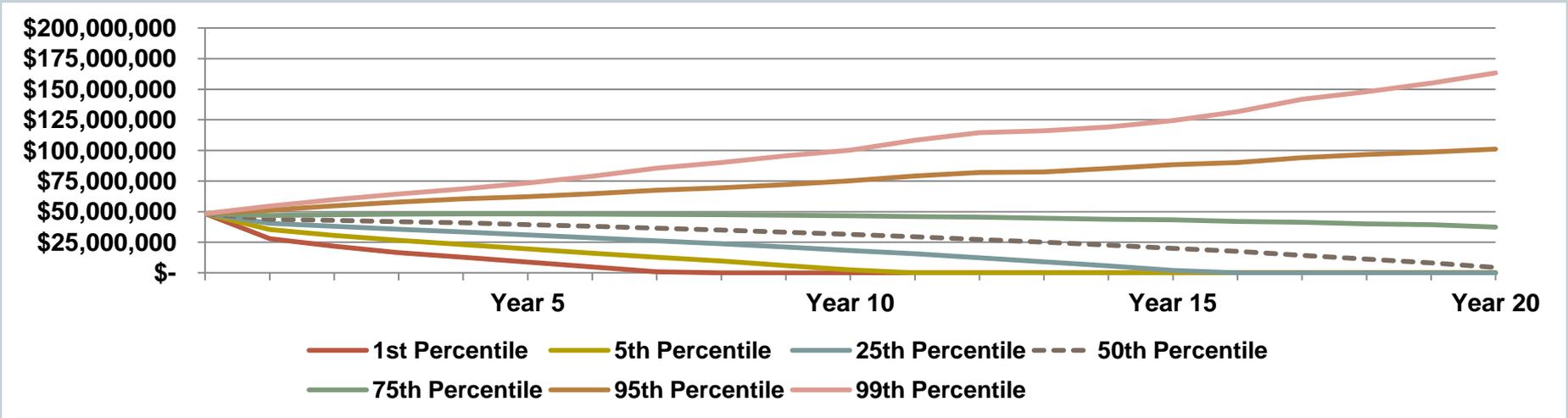
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## Water Trust Fund Projections



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Year 20 Projected Nominal Market Value	New Target Allocation
1st Percentile	\$0
5th Percentile	\$0
25th Percentile	\$0
<b>50th Percentile</b>	<b>\$4,500,431</b>
75th Percentile	\$37,440,239
95th Percentile	\$101,253,413
99th Percentile	\$163,358,439





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## Asset Allocation



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- Council changed the asset allocation last August to focus on capital preservation
  - Additional diversification
  - Reduced volatility
  - Risk reduction
  - Long-term performance improvement

Investment Strategies	6/30/13 Allocation	Portfolio Today
Broad US Equity	55	20
Broad International Equity	10	15
Intermediate Duration Fixed Income	25	15
Core Real Estate	0	15
Absolute Return Multi Strat. Fund of Fund	10	15
Private Equity	0	15
Diversified Infl. Strat	0	5
Total	100	100



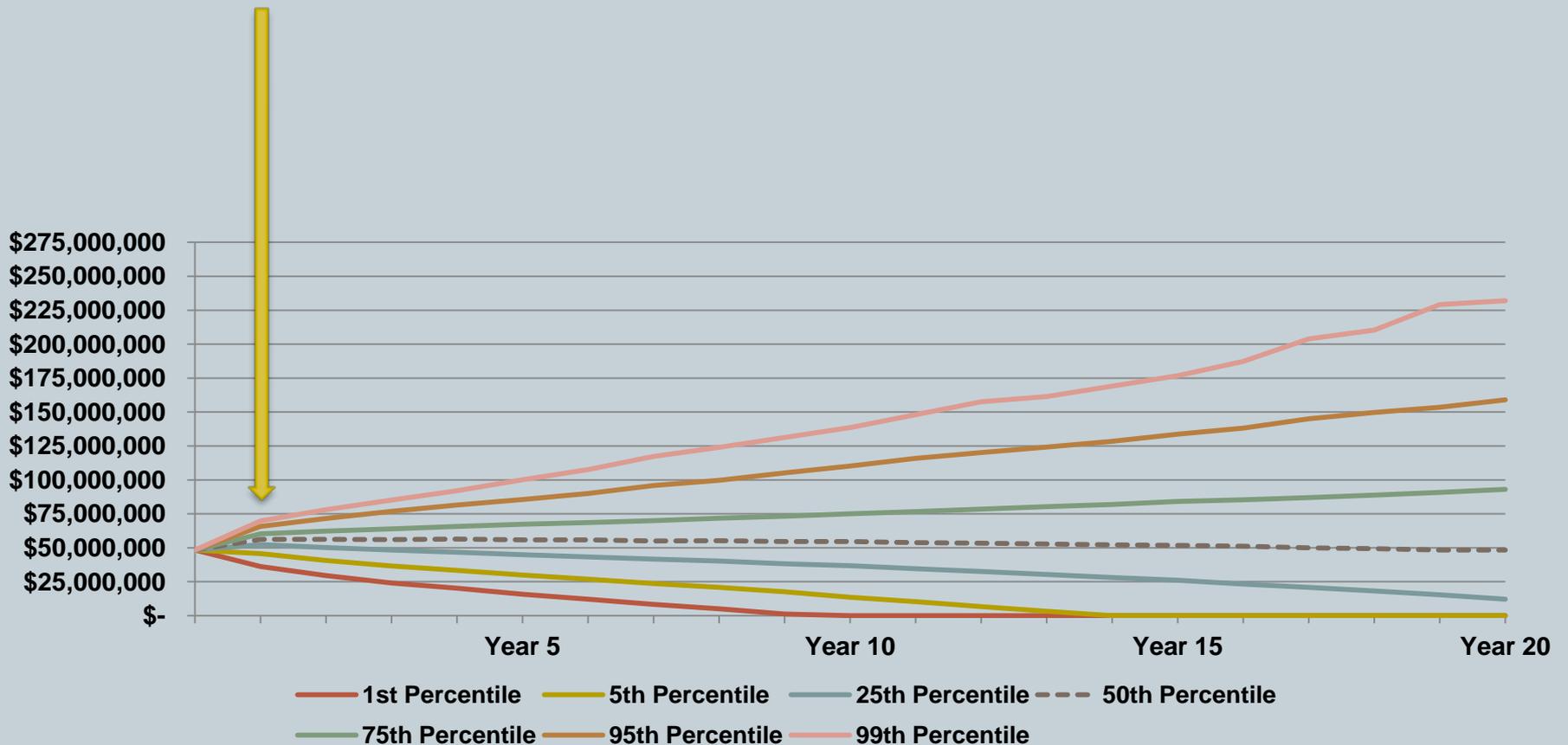
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## Potential Water Trust Fund Fixes



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- \$12M contribution: improves chances to maintain fund





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## Summary & Conclusions



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- Outlook has improved slightly since last year
  - Estimated “day zero” now 2035
- Cannot count on continued market outperformance
  - Poor market returns could shorten life to 15 years or less
- Ways to lengthen life of Water permanent fund:
  - One-time infusion of \$12M (or more to adjust for inflation)
  - Find annual revenue source for Fund
  - Reduce annual distributions through statutory change
    - ✦ 4.7% of 5-year average=\$2.2 million
  - Base distributions on earnings