



NEW MEXICO STATE INVESTMENT COUNCIL



REVENUE STABILIZATION & TAX POLICY COMMITTEE

INVESTMENT PERFORMANCE FOR FY15

IMPACT OF CONTRIBUTIONS & DISTRIBUTIONS ON
PERMANENT FUNDS

NM PRIVATE EQUITY OVERVIEW

JULY 22, 2015

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



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SIC Overview



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- **Total Fund:**
 - Record high close for fiscal year: **\$20,578,009,228**
 - FY15 investment returns: 3.6% vs. 7.5% target
 - 3-year & 5-year returns: 10.6% & 10.8%
- **Record fund distributions for FY16**
 - LGPF: \$655.8 million
 - STPF: \$193.5 million
 - Total: **\$849.3 million**
- **Projected FY17 total distributions: \$845 million**



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Combined LGPF & STPF Distributions



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- Why the drop in FY17?

Fiscal Year	Combined LGPF & STPF distributions (\$M)	Difference year over year (\$M)	LGPF Distribution Rate	STPF Distribution Rate
2010	\$713	\$0	5.8%	4.7%
2011	\$721	\$8	5.8%	4.7%
2012	\$737	\$16	5.8%	4.7%
2013	\$703	(\$34)	5.5%	4.7%
2014	\$706	\$3	5.5%	4.7%
2015	\$779	\$73	5.5%	4.7%
2016	\$849	\$70	5.5%	4.7%
2017*	\$845	(\$4)	5.0%	4.7%
2018*	\$913	\$68	5.0%	4.7%
2019*	\$976	\$63	5.0%	4.7%
2020*	\$1,026	\$50	5.0%	4.7%

*Estimated. Assumes 6/30/15 values for FY17; subsequent years assumes 7.2% annual net investment return & LGPF inflows of \$475m/yr & current SBOF projections for STPF inflows



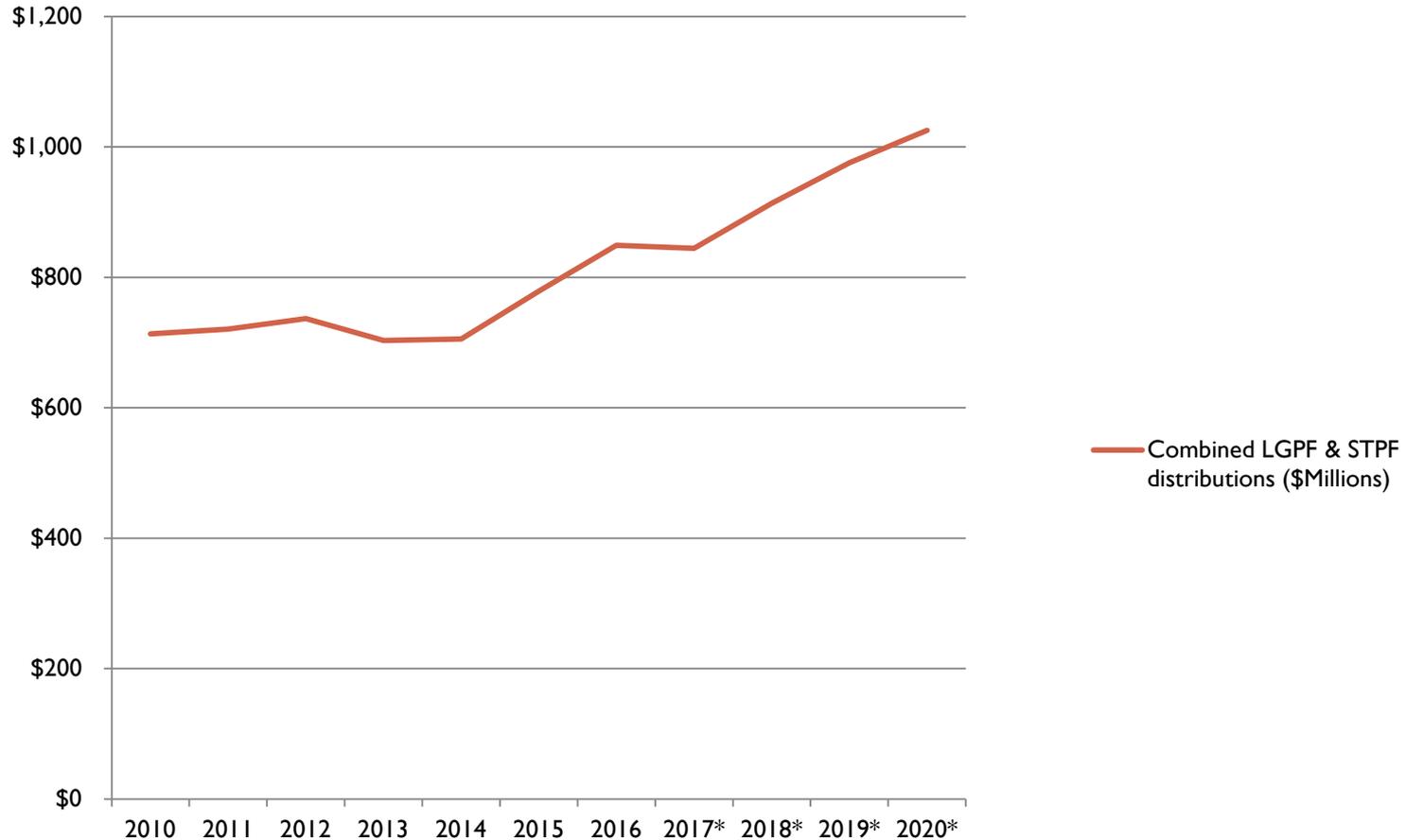
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Bigger Fund = Bigger Annual Impact



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Combined LGPF & STPF distributions (\$Millions)



*Estimated. Assumes 6/30/15 values for FY17; subsequent years assumes 7.2% annual net investment return & LGPF inflows of \$475m/yr & current SBOF projections for STPF inflows



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STPF: slow growth=shrinking share



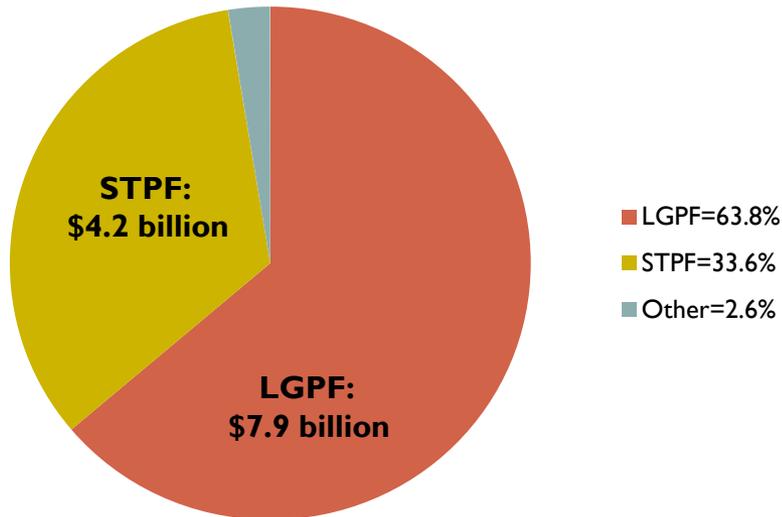
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SIC Fund Assets FY 2000

SIC Fund Assets FY 2015

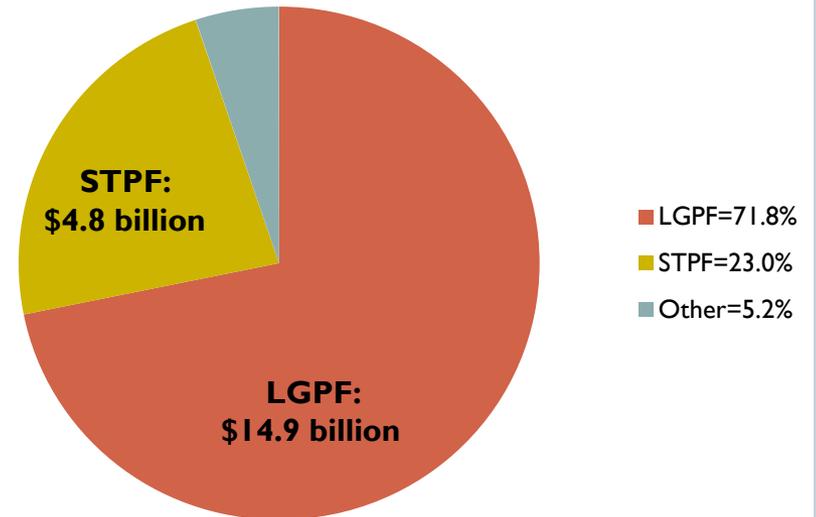
- Fund Value: \$12.4 billion

FY2000 Fund % of SIC assets



- Fund value: \$20.8 billion

FY2015 Fund % of SIC assets





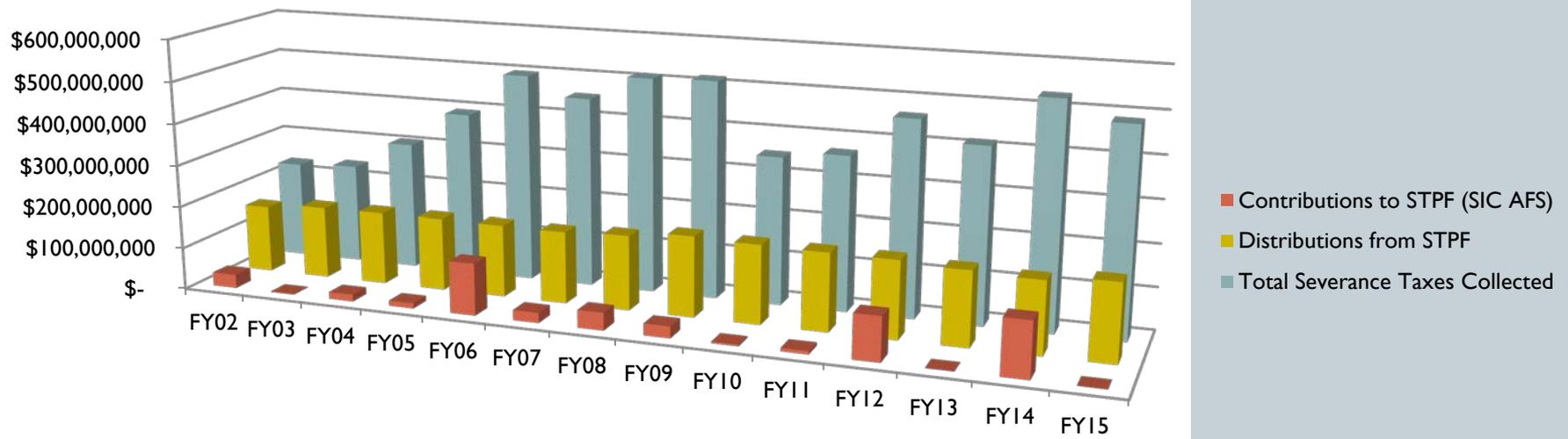
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STPF average cash-flows, 2002-present



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- Severance taxes collected: **\$411 million/year**
- STPF distributions: **\$177 million/year**
- STPF in-flows: **\$37 million/year**



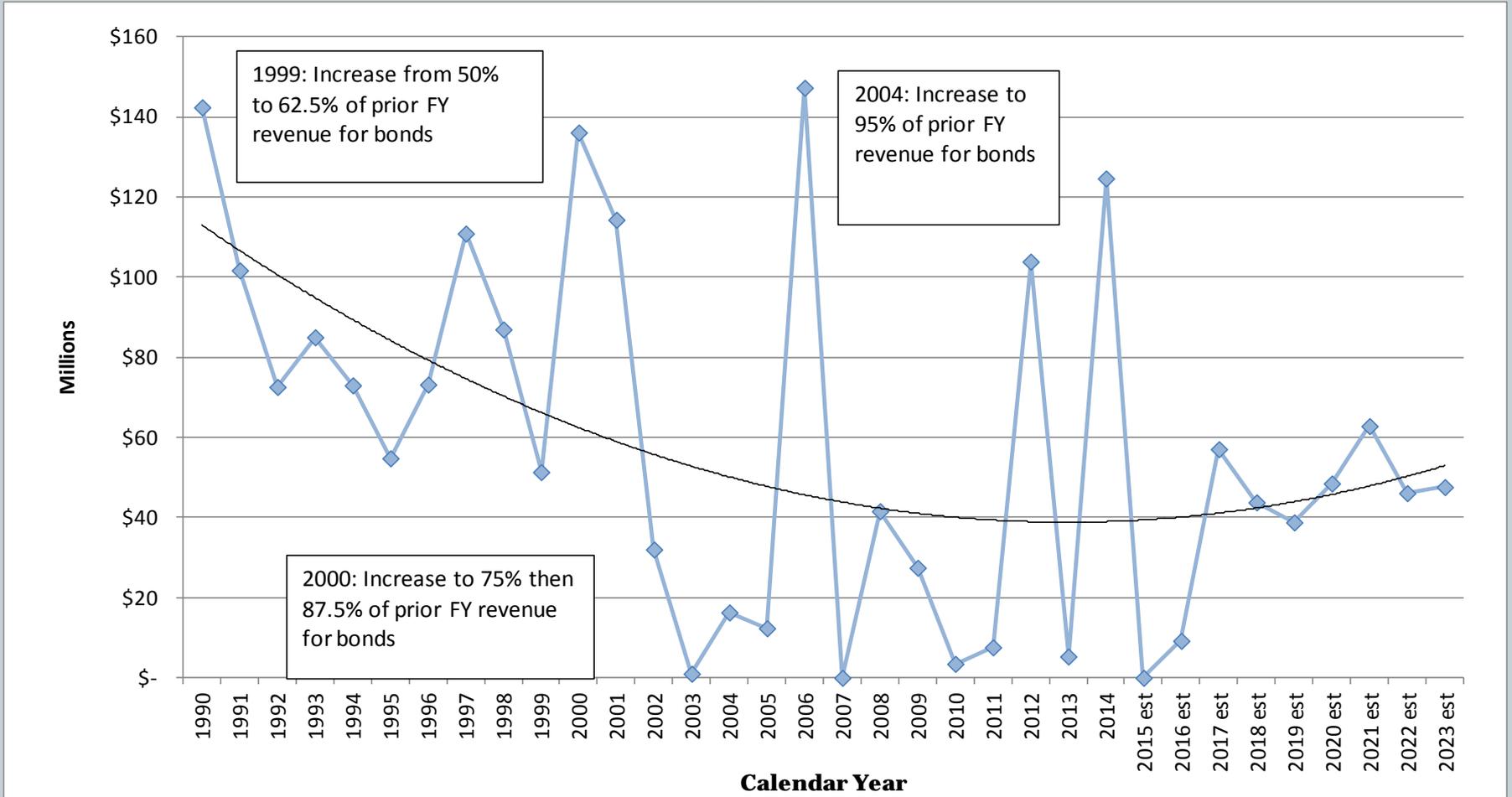


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STPF in-flows, projected

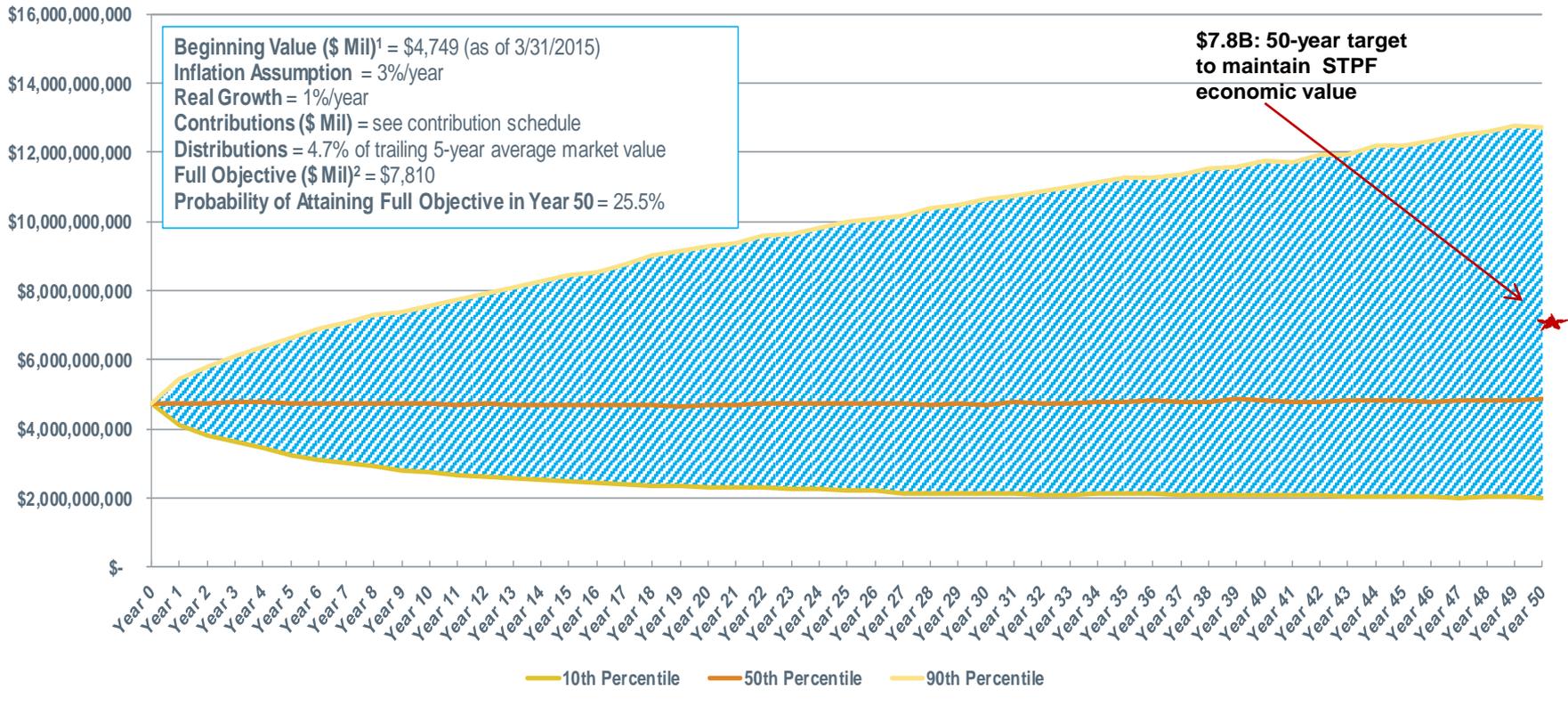


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Source: State Board of Finance

Severance Tax Permanent Fund - Real Basis



¹Monte Carlo Simulations assume Severance Tax Permanent Fund is invested at the Long-Term Target Allocation.

²Year 50 Full Objective is estimated as the current Fund market value increased by 1% real growth each year.

Contribution schedule: Year 1, 4.8m; Year 2, 8.7m; Year 3, 52.2m; Year 4, 38.9m; Year 5, 33.5m; Year 6, 40.6m; Year 7, 51.1m; Year 8, 36.4m; Year 9, 36.5m; Years 10-50, 57.7m.

Projected Fund Market Value by Percentile for Next Fifty (50) Years

Severance Tax Permanent Fund	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30	Year 35	Year 40	Year 45	Year 50
10th Percentile	\$ 3,234,057,163	\$ 2,737,742,713	\$ 2,489,661,773	\$ 2,322,508,444	\$ 2,222,878,078	\$ 2,127,319,580	\$ 2,116,666,010	\$ 2,084,647,611	\$ 2,044,873,951	\$ 2,018,792,059
25th Percentile	\$ 3,942,847,005	\$ 3,599,456,459	\$ 3,434,175,434	\$ 3,336,505,530	\$ 3,181,971,011	\$ 3,126,227,713	\$ 3,140,191,429	\$ 3,088,798,409	\$ 3,002,154,297	\$ 2,983,640,947
50th Percentile	\$ 4,751,290,501	\$ 4,726,732,675	\$ 4,702,686,264	\$ 4,693,393,725	\$ 4,748,422,007	\$ 4,716,479,831	\$ 4,804,976,688	\$ 4,819,891,982	\$ 4,815,337,983	\$ 4,859,123,318
75th Percentile	\$ 5,689,747,439	\$ 6,052,089,535	\$ 6,395,931,726	\$ 6,682,179,942	\$ 6,921,254,364	\$ 7,204,430,184	\$ 7,395,252,829	\$ 7,627,021,292	\$ 7,785,425,910	\$ 7,893,140,554
90th Percentile	\$ 6,620,539,458	\$ 7,563,241,492	\$ 8,434,931,304	\$ 9,285,243,579	\$ 10,004,719,181	\$ 10,673,659,872	\$ 11,272,980,238	\$ 11,749,448,572	\$ 12,175,408,911	\$ 12,730,798,919



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SIC Investment Strategy



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- **Asset allocation study updated**
 - Continue to shift from public equity to diversified portfolio
 - Seeking stability through income-producing real assets
 - Take advantage of illiquidity premium
 - Years-long process
- **Increased exposure to international markets**
 - Allowed under 2014 Constitutional Amendment
 - Increase from 15% to 18% target
 - Still below most peer funds



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Permanent Fund Overview



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- **LGPF 6/30 value: \$14.8 billion**
- **STPF 6/30 value: \$4.7 billion**
- **Tobacco Settlement Permanent Fund: \$216.4 million**
 - 'Reserve' fund status
 - New contribution of \$15.7 million in FY15, first since FY08
- **Water Trust Permanent Fund: \$43.3 million**
 - \$4M distributed to Water Trust Board projects annually
 - No new money since FY07
 - **Fund projected to hit \$0 in 20 years**



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NM Private Equity Investments



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- NM private equity investment program
 - Up to 9% of STPF allowed in statute
 - Current target 5%
 - Operated since 2004 to seek market-rate returns: job-creation an important, but secondary concern
- Returns have improved significantly
 - 1993-2004: **-18.2%**
 - 2004-present: **4.7%**
- Additional investments:
 - \$70M in commitments since 2013
 - \$40M/year on average



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NMPEIP Investments 2011-present



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Metric	2011	2012	2013	2014	2015*
NMPEIP Investment (\$M)	\$24.6	\$22.6	\$25.4	\$20.6	\$8.8
External Investment (\$M)	\$63.2	\$18.5	\$85.2	\$41.2	\$48.7
Total NM Investment (\$M)	\$87.8	\$41.1	\$110.6	\$61.8	\$57.5
# of Companies Receiving Funding	23	18	26	15	12

*Preliminary 2015 investment data as of 6/30/15, prior annual data is for calendar year