



# New Mexico State Investment Council



## **REVENUE STABILIZATION AND TAX POLICY COMMITTEE**

**INVESTMENT PERFORMANCE FOR FY13**

**IMPACT OF CONTRIBUTIONS &  
DISTRIBUTIONS ON PERMANENT FUNDS**

**NM PRIVATE EQUITY OVERVIEW**

**AUGUST 19, 2013**



# STATE INVESTMENT COUNCIL

## Investment Performance Summary: June 30, 2013

2

### NMSIC Performance Summary

US equities were additive to total fund relative performance in June, outperforming their primary benchmark by 17 basis points, while non-US equities returned -4.65% and underperformed their benchmark by 31 basis points.

Both international developed and emerging markets posted negative absolute returns over the month.

The US large cap equity composite returned -1.30% in June, outperforming the Russell 1000 Index by 6 basis points. The US small/mid cap equity pool returned 0.66%, 175 basis points higher than the Russell 2500 Index.

Cortina returned 4.24%, outperforming the Russell 2000 Growth Index by 486 basis points. Donald Smith returned -3.62%, lagging the Russell 2000 Value Index by 321 basis points.

In June, the core bonds pool returned -2.54%, trailing the the Barclays US Aggregate Bond Index by 99 basis points. All fixed income managers underperformed their respective benchmark during the month.

	MTD	QTD	CYTD	1 Year	3 Years	5 Years	10 Years
<b>NMSIC Total Fund Composite</b>	<b>-1.06</b>	<b>0.92</b>	<b>5.89</b>	<b>13.11</b>	<b>11.72</b>	<b>4.29</b>	<b>6.80</b>
<b>Land Grant Total Fund Composite</b>	<b>-1.05</b>	<b>0.96</b>	<b>5.98</b>	<b>13.27</b>	<b>11.78</b>	<b>4.47</b>	<b>6.93</b>
<i>Land Grant Policy Index</i>	<i>-0.88</i>	<i>0.62</i>	<i>5.82</i>	<i>12.82</i>	<i>13.02</i>	<i>5.36</i>	<i>6.96</i>
Difference	-0.17	0.34	0.16	0.45	-1.24	-0.89	-0.03
<b>Severance Tax Total Fund Composite</b>	<b>-1.06</b>	<b>0.80</b>	<b>5.39</b>	<b>12.15</b>	<b>11.28</b>	<b>3.37</b>	<b>6.27</b>
<i>Severance Tax Policy Index</i>	<i>-0.88</i>	<i>0.62</i>	<i>5.82</i>	<i>12.82</i>	<i>13.02</i>	<i>5.21</i>	<i>7.04</i>
Difference	-0.18	0.18	-0.43	-0.67	-1.74	-1.84	-0.77

### Asset Allocation vs. Interim Targets

	Asset Allocation (\$)	Asset Allocation (%)	Interim Target (%)	Differences (%)
<b>LGPF Composite</b>	12,129,138,969	100.00	100.00	0.00
US Equity	4,491,038,253	37.03	37.00	0.03
Non-US Equity	1,674,870,568	13.81	15.00	-1.19
Fixed Income	2,763,460,057	22.78	20.00	2.78
Absolute Return	846,944,420	6.98	7.00	-0.02
Private Equity	1,165,533,110	9.61	10.00	-0.39
Real Estate	752,617,954	6.21	8.00	-1.79
Real Return	357,554,369	2.95	3.00	-0.05
Cash Equivalent	77,120,238	0.64	0.00	0.63
<b>STPF (Ex. ETI) Composite</b>	3,904,237,213	100.00	100.00	0.00
US Equity	1,428,241,327	38.90	37.00	-0.42
Non-US Equity	579,952,864	15.36	15.00	-0.15
Fixed Income	852,329,470	21.96	20.00	1.83
Absolute Return	299,289,964	6.34	7.00	0.67
Private Equity	360,036,611	9.06	10.00	-0.78
Real Estate	247,589,600	6.38	8.00	-1.66
Real Return	87,345,651	1.44	3.00	-0.76
Cash Equivalent	49,451,726	0.55	0.00	1.27

### NMSIC Total Fund - Schedule of Investable Assets

Periods Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	%Return
CYTD	16,272,051,380	-135,660,578	957,695,118	17,094,085,920	5.89



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## Permanent Fund Investment Performance for FY13

3

- **Three key performance metrics:**
  - *How we performed relative to target*
    - ✦ 13.27 % vs. 7.5%
  - *How we performed relative to policy benchmarks*
    - ✦ LGPF: 0.45% outperformance (adding \$51 million to fund)
  - *How we performed relative to peers*
    - ✦ 13.27% vs. peer median of 12.43% (\$96 million more than avg.)
    - ✦ LGPF: top-quartile, top third, & above median (Q/1/2/3/4-yrs)
    - ✦ Five & ten-year relative performance still third/fourth quartile

State Investment Council investment performance through 6/30/13  
 Based on Wilshire Trust Universe Comparison Service, public funds >\$1B

<u>Time Period:</u>	<u>1 Quarter</u>	<u>1 year</u>	<u>2 years</u>	<u>3 years</u>	<u>4 years</u>	<u>5 years</u>	<u>10 years</u>
LGPF % Inv. Return/(peer ranking)	0.96 (19)	13.27 (32)	6.83 (36)	11.79 (41)	12.44 (36)	4.47 (75)	6.93 (76)
STPF % Inv. Return/(peer ranking)	0.80 (28)	12.14 (56)	5.99 (75)	11.27 (58)	11.50 (63)	3.37 (94)	6.27 (95)
Tot. Fund % Inv Ret./(peer ranking)	0.92 (23)	13.07 (38)	6.66 (46)	11.63 (48)	12.18 (48)	4.26 (81)	6.78 (81)



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## Severance Tax Permanent Fund: Overview

4

- June 30 2013 STPF assets: \$4.147 billion
- October 2007 STPF assets: \$4.803 billion
  - **-\$656 million** off high watermark
- STPF annual distributions: 4.7% of 5-year average
- FY14 distributions: \$170 million (based on CY 2012)
- FY09 distributions: \$191 million (based on CY 2007)
  - **-\$21 million** less to general fund this year



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## STPF- LGPF Comparison

5

### Severance Tax Permanent Fund

- June 30 2013 balance: \$4.147 billion
- October 2007 balance: \$4.803 billion
  - -\$656 million off high watermark
- **-13.7% decrease**

### Land Grant Permanent Fund

- June 30 2013 balance: \$12.137 billion
- October 2007 balance: \$11.406 billion
  - +\$731 million above old high watermark
- **+6.5% increase**



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## STPF vs. LGPF Distributions

6

### Severance Tax Permanent Fund

- Annual distributions: 4.7% of 5-year average
- FY2009 distribution: \$191 M to general fund
- FY2014 distribution: \$170M to general fund
- **-\$21M**

### Land Grant Permanent Fund

- Annual distributions: 5.8%/5.5% 5-yr average
- FY2009 distr. (5.8%): \$521M to beneficiaries
- FY2014 distr. (5.5%): \$535M to beneficiaries
- **+\$14M (at lower rate)**

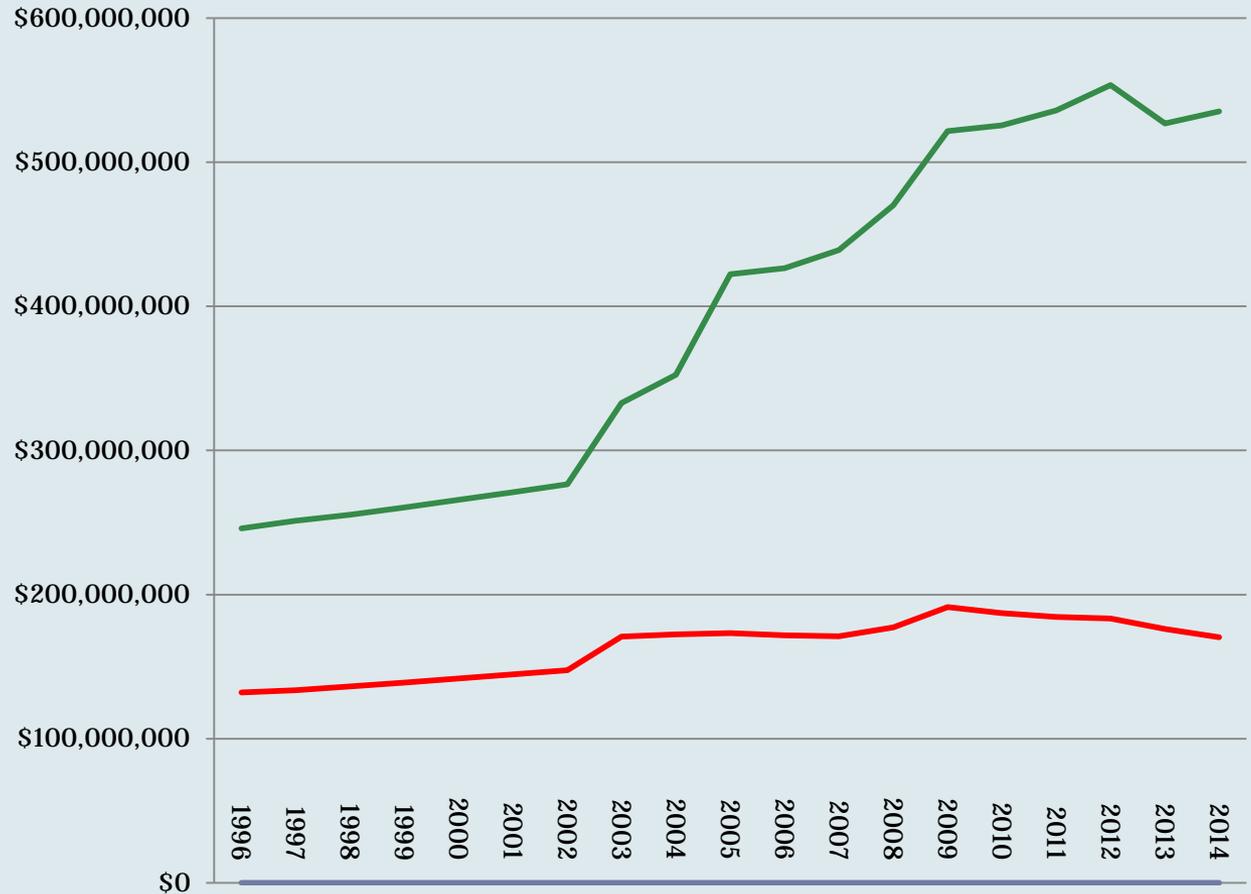


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## Permanent Fund Distribution Rates

7

- **LGPF:**  
4.9%/year  
increase
- **STPF:**  
1.7%/year  
increase





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## PF distributions: differences

8

- LGPF 5 & 10-year rates of investment return:
  - 5 year: 4.5%
  - 10-year: 6.9%
- LGPF 10-year average for contributions:
  - **\$393.8 million/year (in-flows)**
- STPF 5 & 10-year rates of investment return:
  - 5 year: 3.4%
  - 10-year: 6.3%
- STPF 10-year average for contributions:
  - **\$36.3 million/year (in-flows)**
- STPF contribution/distribution “deficit”: **\$140M/yr**



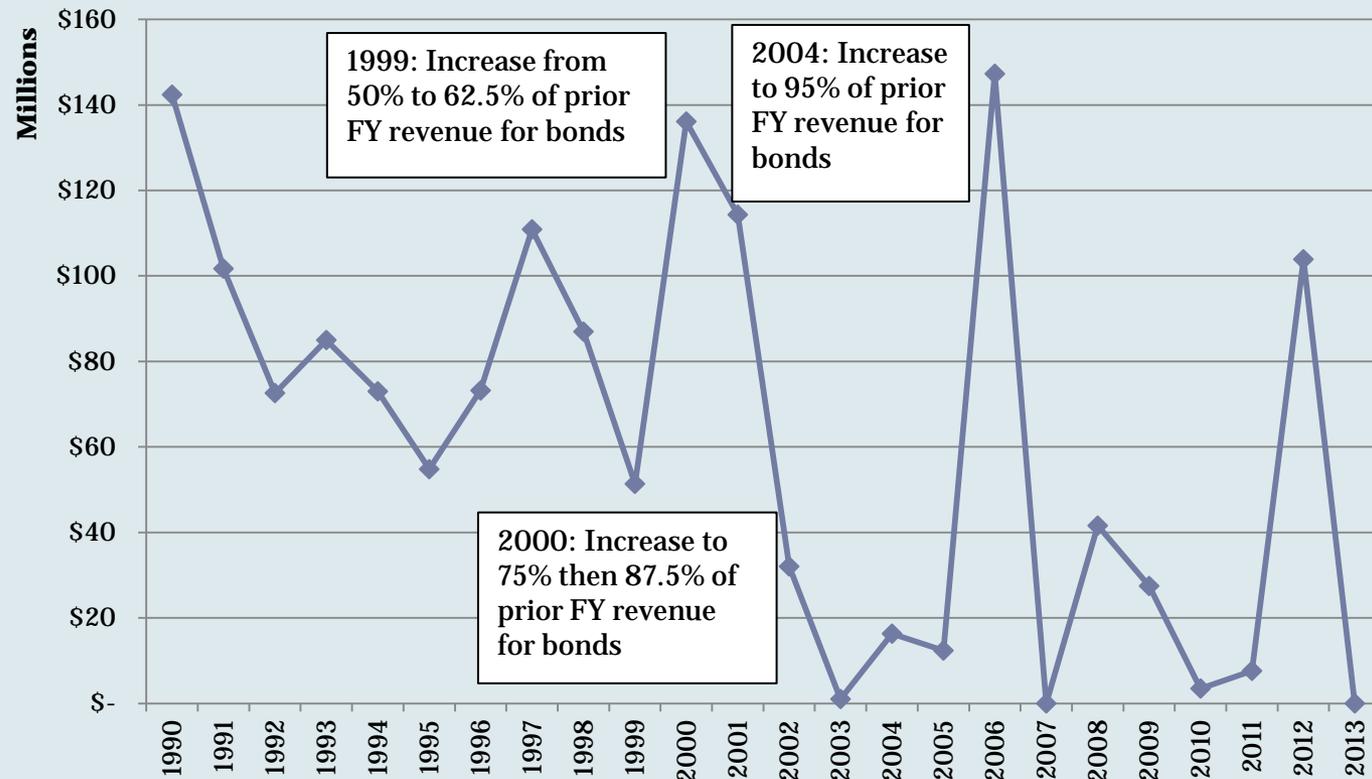
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## Transfer History: Severance Tax Bonding Fund to STPF

9

Calendar Year	Amount Transferred
1990	\$ 142,400,000
1991	\$ 101,700,000
1992	\$ 72,600,000
1993	\$ 85,000,000
1994	\$ 73,000,000
1995	\$ 54,800,000
1996	\$ 73,200,000
1997	\$ 110,895,604
1998	\$ 86,966,166
1999	\$ 51,356,981
2000	\$ 136,113,342
2001	\$ 114,325,831
2002	\$ 32,034,751
2003	\$ 1,032,282
2004	\$ 16,318,268
2005	\$ 12,371,958
2006	\$ 147,282,474
2007	\$ 8,029
2008	\$ 41,590,792
2009	\$ 27,472,206
2010	\$ 3,488,067
2011	\$ 7,617,058
2012	\$ 103,888,282
2013	\$ 85

### Severance Tax Contributions to Severance Tax Permanent Fund





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## Permanent Fund Health: Overview

10

- **\$12.2B LGPF:**
  - Healthy returns & contributions: maintaining fund
- **\$4.1B STPF:**
  - Inconsistent contributions: fund losing real dollar value, resulting in diminished distributions to general fund
- **\$170M Tobacco Settlement Permanent Fund:**
  - No new contributions since 2008: no to slow real dollar value growth; fund cannot make distributions & self-sustain
- **\$46M Water Trust Permanent Fund:**
  - No new contributions, \$4M/yr distributions; better than a 50% chance the fund will be \$0 in 20 years



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## Contributions/Distributions Recap

11

- **STPF & the power of a permanent endowment fund**
  - STPF distributions: \$170M in FY 2014
  - Approximately 45% of annual STPF distributions go to public school operational budget
- **The lower the yearly contributions/inflows, the less the fund can grow (or the greater chance it shrinks)**
- **The less the fund grows, the lower the annual distributions to the general fund/schools**
- **The bigger the fund grows, the greater the benefits to the state schools every year & over time**



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## NM Private Equity Investment Program

12

- **Basics:**
  - Only allowed from Severance Tax Permanent Fund
  - Up to 9% of STPF by statute
  - Council has targeted 5% as prudent
  - Council invests in Funds, no direct investment in NM businesses
- **Program is primary “ETI” for NM**
  - Seeks “double bottom line” of investment return & economic development/high-wage job creation benefit
  - Other ETIs (Film, SBIC) are below market-rate investments
  - NMPEIP operated as differential rate investment 1993-2004
  - Operated at market-rate since 2004
  - Venture capital investments are long-term & higher risk