State of New Mexico
STATE INVESTMENT COUNCIL
41 Plaza la Prensa
Santa Fe, New Mexico 87507
Phone: (505) 476-9500
Fax: (505) 424-2510

SUSANA MARTINEZ
GOVERNOR

STEVEN K. MOISE
STATE INVESTMENT OFFICER

Summary of State Investment Council Reforms, April 2010-present

- **Investment performance**: Net asset values increased from $13.998B on 4/1/10 to $15.396B on 7/20/11. Our performance relative to our peers had us in the bottom quartile one year ago, and we are now in the top quartile. The LGPF (roughly 2/3 of our assets under management) went from the bottom 12% to the top 12% as of 12/31/10. The true test will, of course, be our performance over 3-5 years. We are implementing strategies to ensure appropriate diversification, and improved long-term performance, hedging against volatility and utilizing strategies designed to reduce risk.

The Council and staff adopted fundamental investment philosophies and beliefs. A preliminary asset allocation study was completed several months ago, with a thorough study in process now with our new general consultant RVKuhns. We will begin implementing the new allocations in September. We initiated actions for improving performance by reducing our internal management (approximately 40% of AUM one year ago - now about 25%) and increasing outsourced management, with prudent monitoring, and we are re-aligning both our strategies and staff. By calendar year end, only about 15% of assets will be internally managed.

- **Governance/Committees:** The Council formed the audit, governance and investment committees, and staff formed the internal investment committee – all have been actively engaged. Assigning a staff liaison to each committee has significantly improved communication between the Office and the Council. We have implemented 28 of the 82 Ennis Knupp recommendations, with 27 others actively in progress, and the remaining items are being evaluated.

- **Policies & procedures**: 14 policies have been adopted or updated, at least 10 others are being considered or updated.

- **Codes:** Office integrity has been enhanced through the implementation of a Staff Code of Ethics adopted by the Council and signed by each staff member. A Council Code of Conduct is under consideration.

- **Human resources:** An in-depth organizational analysis, coordinated by SPO, resulted in critical adjustments. Several staff changes occurred (about 1/3 of the staff has changed), including completed searches for and hiring of highly professional Deputy, CFO, and General Counsel.

- **RFP's**: 9 external managers have been terminated, primarily for under-performance, and many new investment manager & consultant searches are in progress or targeted, with several completed. An outsourced internal audit RFP is pending.

- **Litigation**: Several matters are pending, with significant settlements achieved (one for $150MM+). Regarding placement agent-related recovery efforts, Day Pitney was hired using a RFP process, and SIC has filed. We received legislative & executive contingent fee authorization (thank you). The NM Attorney General is serving as co-counsel.

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- **Investigations:** Cooperating fully (including compliance with all requested document production) with DOJ, SEC, and NMAG. We have contracted with a paralegal to facilitate AG investigations, and numerous IPRA requests.

- **Legislative matters**: Six Council-initiated bills were endorsed prior to the last session by the Interim Investments Oversight Committee and other key committees, three of which were passed & signed by the Governor. Other initiatives will be proposed to the Council for the January Session, including re-introduction of HB 31 & SJR 17, both of which ran out of time for passage. HB 31 (Rep. Larranaga) will create an appropriate standard of care (increased discretion for appropriate investment strategies) for the Water Trust Fund, and requires a constitutional amendment. SJR 17 (Sen. Burt) will increase the constitutional limits on international investments from 15% to 25%, and also requires a constitutional amendment.

Awaiting Legislative Council appointment of new Council Member to fill position vacated when Craig Reeves resigned for health reasons. Critical skill sets have been provided to Council leadership.

- **Budget/audit:** Our unqualified audit was completed timely, and FY 10 was completed with only one insignificant budget variance. General ledger software selection has been completed & implementation is in progress.

- **Communications/public relations**: We have established candid and positive working relationships with the media, and are working to merit public trust.

- **Mission, Vision, and Values** created & adopted by staff (copy attached).

- **Strategic planning** in progress.

Prepared for the Revenue Stabilization & Tax Policy Committee
July 21, 2011

New Mexico State Investment Council

Mission:

"To protect and grow the state's permanent endowment funds for current and future generations, through prudent, professional investment management"

Vision:

"To become one of the best performing, most respected sovereign wealth funds worldwide"

Values:

Accountability – *Being:* responsible, knowledgeable, trustworthy

Excellence – *Possessing:* skills, professionalism, quality

Integrity – *Exhibiting:* ethics, principles, honesty

Pride – *Showing:* leadership, ownership, commitment

Respect – *Encouraging:* teamwork, communication, collegiality