



# **New Mexico State Investment Council**



## **TOBACCO SETTLEMENT REVENUE OVERSIGHT COMMITTEE**

**TOBACCO SETTLEMENT  
PERMANENT FUND UPDATE**

**SEPTEMBER 19, 2012**



# STATE INVESTMENT COUNCIL

## SIC reforms affecting TSPF

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- **Portfolio restructuring & governance reform ongoing**
  - Additional underperforming managers replaced
  - Shifted Core Bonds portfolio to external managers
  - New US Large Cap managers
  - New US Small/Mid/SMID managers
- **Council restructured by legislature in 2010**
  - Four Governor appointees
  - Four Legislative Council appointees
  - Three elected ex-officio positions
  - Public members confirmed by the Senate



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## SIC reforms affecting TSPF

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- **Council extremely engaged in all SIC processes**
- **Additional Council oversight committees established**
  - Investment
  - Audit
  - Governance
- **Ongoing Council governance review**
  - Hewitt EnnisKnupp hired by Council in early 2012
    - ✦ Assessed progress since 2010 fiduciary review
    - ✦ Worked with Council Governance Committee on best practices
    - ✦ Identified areas of additional reforms needed
    - ✦ Suggested appropriate legislative initiatives for SIC
    - ✦ Endorsed by the Council in September



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## TSPF asset allocation

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- **Current asset allocation targets:**
  - Public Equities 61%
    - ✦ 51% US Equity
    - ✦ 10% Non-US Equity
  - Fixed Income 29%
  - Absolute Return (hedge funds) 10%
- **Fund was rebalanced to long-term targets in FY 2012**
- **Had previously held overweight cash position**
  - Strategic decision by previous SIO to preserve principal
  - Result was lower risk, lower returns
  - Underperformance compared to benchmark



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## Investment Allocation & July Performance

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- TSPF asset allocation for July 2012
- Fund performance relative to benchmark

New Mexico State Investment Council				
Tobacco Settlement Asset Allocation vs. Target				
As of July 31, 2012				
	Asset Allocation (\$)	Asset Allocation (%)	Target Allocation (%)	Differences (%)
Tobacco Settlement Total Fund Composite	150,561,242	100.00	100.00	-0.00
US Equity	78,938,447	52.43	51.00	1.43
Non-US Equity	10,042,226	6.67	10.00	-3.33
Fixed Income	46,728,804	31.04	29.00	2.04
Absolute Return	14,765,065	9.81	10.00	-0.19
Cash Equivalent	86,699	0.06	0.00	0.06

New Mexico State Investment Council									
Tobacco Settlement Comparative Performance									
As of July 31, 2012									
	MTD	QTD	FYTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years
Tobacco Settlement Total Fund Composite	1.06	1.06	1.06	6.67	1.82	6.72	1.45	4.06	5.81
Tobacco Settlement Policy Index	1.08	1.08	1.08	7.45	5.26	10.36	3.19	5.01	7.16
Difference	-0.02	-0.02	-0.02	-0.78	-3.44	-3.64	-1.74	-0.95	-1.35



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## Comparative Performance

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- Permanent Funds investment performance overview

New Mexico State Investment Council  
Comparative Performance  
As of June 30, 2012

	QTD	CYTD	FYTD	1 Year	3 Years	5 Years	10 Years	2011	2010	2009	2008	2007
<b>Land Grant Total Fund Composite</b>	<b>-2.16</b>	7.08	0.74	0.74	12.16	1.11	5.99	<b>-0.87</b>	14.44	19.30	<b>-27.53</b>	9.19
<i>Land Grant Policy Index</i>	<i>-1.54</i>	7.11	2.90	2.90	13.90	1.29	5.96	2.34	14.50	20.65	<i>-29.36</i>	7.14
Difference	<b>-0.62</b>	<b>-0.03</b>	<b>-2.16</b>	<b>-2.16</b>	<b>-1.74</b>	<b>-0.18</b>	0.03	<b>-3.21</b>	<b>-0.06</b>	<b>-1.35</b>	1.83	2.05
<i>All Public Plans-Total Fund Median</i>	<i>-1.94</i>	5.88	1.10	1.10	11.41	2.25	6.11	0.27	12.83	19.39	<i>-23.91</i>	8.19
Land Grant Total Fund Composite Rank	60	10	56	56	27	85	54	74	19	52	83	26
<b>Severance Tax Total Fund Composite</b>	<b>-1.84</b>	6.68	0.19	0.19	11.28	0.13	5.37	<b>-0.39</b>	12.82	18.59	<b>-29.41</b>	9.14
<i>Severance Tax Policy Index</i>	<i>-1.54</i>	7.11	2.90	2.90	13.73	1.17	6.04	2.34	14.71	18.56	<i>-28.79</i>	8.01
Difference	<b>-0.30</b>	<b>-0.43</b>	<b>-2.71</b>	<b>-2.71</b>	<b>-2.45</b>	<b>-1.04</b>	<b>-0.67</b>	<b>-2.73</b>	<b>-1.89</b>	0.03	<b>-0.62</b>	1.13
<i>All Public Plans-Total Fund Median</i>	<i>-1.94</i>	5.88	1.10	1.10	11.41	2.25	6.11	0.27	12.83	19.39	<i>-23.91</i>	8.19
Severance Tax Total Fund Composite Rank	47	19	68	68	56	96	76	65	51	59	95	27
<b>Tobacco Settlement Total Fund Composite</b>	<b>-2.08</b>	5.55	0.13	0.13	7.40	1.03	5.18	<b>-2.59</b>	9.40	10.97	<b>-17.25</b>	8.07
<i>Tobacco Settlement Policy Index</i>	<i>-1.63</i>	6.29	3.23	3.23	11.96	2.66	6.45	1.53	12.30	22.21	<i>-24.20</i>	7.73
Difference	<b>-0.45</b>	<b>-0.74</b>	<b>-3.10</b>	<b>-3.10</b>	<b>-4.56</b>	<b>-1.63</b>	<b>-1.27</b>	<b>-4.12</b>	<b>-2.90</b>	<b>-11.24</b>	6.95	0.34
<i>All Public Plans-Total Fund Median</i>	<i>-1.94</i>	5.88	1.10	1.10	11.41	2.25	6.11	0.27	12.83	19.39	<i>-23.91</i>	8.19
Tobacco Settlement Total Fund Composite Rank	57	60	70	70	96	86	84	96	96	96	6	54
<b>Water Trust Total Fund Composite</b>	<b>-3.54</b>	6.18	<b>-1.71</b>	<b>-1.71</b>	9.24	2.07	N/A	<b>-4.16</b>	13.22	16.41	<b>-18.72</b>	8.61
<i>Consumer Price Index</i>	<i>0.04</i>	1.69	1.66	1.66	2.09	1.95	2.46	2.96	1.50	2.72	<i>0.09</i>	4.08
Difference	<b>-3.58</b>	4.49	<b>-3.37</b>	<b>-3.37</b>	7.15	0.12	N/A	<b>-7.12</b>	11.72	13.69	<b>-18.81</b>	4.53
<i>All Public Plans-Total Fund Median</i>	<i>-1.94</i>	5.88	1.10	1.10	11.41	2.25	6.11	0.27	12.83	19.39	<i>-23.91</i>	8.19
Water Trust Total Fund Composite Rank	96	40	93	93	93	57	N/A	100	41	77	9	40



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## TSPF overview

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- Tobacco Fund value/contributions/distributions & return % since inception
  - \$484M in contributions, \$428M in distributions
  - No new TSPF contributions since FY 2008

FY Ending	Beginning Mkt Value (\$000)	New Contributions (\$000)	Distributions (\$000)	Gain/Loss (\$000)	Ending Mkt Value (\$000)	%Return
May 2000 - June 2000	\$ 49,036			\$ 968	\$ 50,004	1.5%
2001	\$ 50,004	\$ 37,388	\$ 24,410	\$ (2,049)	\$ 60,933	-7.3%
2002	\$ 60,933	\$ 43,647	\$ 18,752	\$ (4,368)	\$ 81,460	-6.2%
2003	\$ 81,460	\$ 43,783	\$ 65,666	\$ 2,416	\$ 61,994	0.2%
2004	\$ 61,994	\$ 37,463	\$ 37,552	\$ 8,785	\$ 70,689	14.1%
2005	\$ 70,689	\$ 38,046	\$ 38,009	\$ 6,608	\$ 77,334	9.0%
2006	\$ 77,334	\$ 34,465	\$ 34,892	\$ 7,722	\$ 84,629	11.1%
2007	\$ 84,629	\$ 36,240	\$ 18,120	\$ 13,899	\$ 116,648	14.9%
2008	\$ 116,648	\$ 44,864	\$ 22,432	\$ (1,234)	\$ 137,846	-1.6%
2009	\$ 137,846	\$ 48,950	\$ 48,968	\$ (16,908)	\$ 120,920	-13.6%
2010	\$ 120,920	\$ 40,950	\$ 40,950	\$ 11,111	\$ 132,031	9.9%
2011	\$ 132,031	\$ 38,565	\$ 38,565	\$ 16,780	\$ 148,791	12.6%
2012	\$ 148,791	\$ 39,321	\$ 39,321	\$ 186	\$ 148,978	0.1%
		\$ 483,682	\$ 427,637	\$ 43,916		



# STATE INVESTMENT COUNCIL

## TSPF Notes

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- **Allocation strategy to remain conservative**
  - Shorter duration investments with more liquidity
  - No exposure to private equity, real estate, other long-term horizon investments
  - Cash investment component greatly reduced, which should improve performance in non-distressed markets
- **Tobacco Fund still a reserve fund**
- **All contributions for FY 13 swept to General Fund**
- **Barring 2013 legislation, FY 14 contributions formula returns to 50/50 split for TSPF/General Fund**