

**STATE OF NEW MEXICO INVESTMENT COUNCIL –
INVESTMENT OFFICE
A DEPARTMENT OF THE STATE OF NEW MEXICO**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

JUNE 30, 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
A DEPARTMENT OF THE STATE OF NEW MEXICO
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**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
OFFICIAL ROSTER
JUNE 30, 2016**

GOVERNING BOARD

The Hon. Susana Martinez, Governor	<i>Ex officio</i> member, Chair
Tom Clifford, Secretary of the Department of Finance and Administration (through May 27, 2016)	<i>Ex officio</i> member
Duffy Rodriguez, DFA Cabinet Secretary Designate	<i>Ex officio</i> member
The Hon. Tim Eichenberg, State Treasurer	<i>Ex officio</i> member
The Hon. Aubrey Dunn, State Land Commissioner	<i>Ex officio</i> member
Scott Smart, V.P. of Business Affairs, Eastern New Mexico University	Public Member, Governor's Appointment
Peter B. Frank, Vice Chair	Public Member, Legislative Council Appointment
Leonard Lee Rawson	Public Member, Legislative Council Appointment
Harold W. Lavender	Public Member, Legislative Council Appointment
Linda N. Eitzen	Public Member, Governor's Appointment
Lynn Hoffman	Public Member, Governor's Appointment
Tim Z. Jennings	Public Member, Legislative Council Appointment



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INDEPENDENT AUDITORS' REPORT

The Honorable Susana Martinez, Chair and
State of New Mexico Investment Council - Investment Office and
Mr. Timothy Keller, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, each fiduciary fund, and the budgetary comparison for the general fund of the State of New Mexico Investment Council - Investment Office (the Office), a department of the State of New Mexico, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Honorable Susana Martinez, Chair and
State of New Mexico Investment Council – Investment Office and
Mr. Timothy Keller, New Mexico State Auditor

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund and each fiduciary fund of the Office as of June 30, 2016, and the respective changes in financial position and, respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Office are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the general fund, each fiduciary fund and the budgetary comparison for the general fund of the State of New Mexico attributable to the transactions of the Office. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2016, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. The Changes in Land Grant Permanent Trust Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Changes in Land Grant Permanent Trust Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic

The Honorable Susana Martinez, Chair and
State of New Mexico Investment Council – Investment Office and
Mr. Timothy Keller, New Mexico State Auditor

financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Changes in Land Grant Permanent Trust Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The vendor schedule required by 2.2.2.10(A)(2)(g) NMAC and the schedule of asset management costs have not been subjected to the auditing procedures applied in the audit of the basic and combining and individual fund financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 30, 2016

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

This discussion and analysis of the State of New Mexico Investment Council - Investment Office (the Office) provides a summary of the financial position and results of operations for the year ended June 30, 2016, with highlights and comparisons. The reader should review the actual financial statements, including the notes and supplemental schedules, for a more complete picture of the Office's financial activities.

Financial Position

Net Position

All expenses of the Office are related to investment management of the permanent funds and of external, governmental clients. As a result, these amounts are paid by the funds and clients based on relative market values managed. Accordingly, there tends to be little change in the net position of the Office.

The assets for the primary agency unit consist of cash and capital assets consisting of furniture and equipment. The unrestricted net position is equal to the amount of accrued vacation and sick pay liability, which is not a reimbursable expense of the funds until the compensated leave time is used. Except for the increases in due to/due from balances and in accounts payable attributed to decreased external investment management expenses, and related effect in the General Fund Investment Pool, there have not been significant changes to assets, liabilities and net position as compared to the prior year.

**Table A-1
Statement of Net Position**

	FY2016	FY2015
Assets:		
Interest in State Treasurer		
General Fund Investment Pool	\$ 22,899,573	\$ 15,610,211
Capital Assets, Net	2,191	9,004
Total Assets	\$ 22,901,764	\$ 15,619,215
Liabilities:		
Due to Land Grant Permanent Fund	\$ 9,621,749	\$ 4,692,821
Due to Severance Tax Permanent Fund	3,038,447	1,564,274
Accounts Payable	10,143,456	9,267,606
Accrued Payroll	95,921	85,510
Accrued Vacation and Sick Pay	168,770	194,045
Total Liabilities	23,068,343	15,804,256
Net Position:		
Net Investment in Capital Assets	2,191	9,004
Unrestricted (Deficit)	(168,770)	(194,045)
Total Net Position (Deficit)	(166,579)	(185,041)
Total Liabilities and Net Position	\$ 22,901,764	\$ 15,619,215

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Statement of Activities

The Statement of Activities focuses on the cost of various activities, which are funded by the Office's general and other revenues. This is intended to summarize and simplify the users' analysis of the cost of services. The governmental activities reflect the Office's basic service of collecting and optimizing revenues for fund beneficiaries and clients.

Decrease in Expenses and Revenues

The primary decrease in expenditures for fiscal year 2016 has been in external investment management expenses. Expenses are paid by the permanent funds and clients and, correspondingly, revenues recorded from the funds and clients are also lower.

**Table A-2
Statement of Activities**

	FY2016	FY2015
Expenses:		
General Government	\$ 43,319,752	\$ 43,877,273
Revenues:		
Program Revenues:		
Fees from External Investment Trust Participants	1,279,335	1,586,114
Transfers:		
Interfund Services Provided:		
Land Grant Permanent Fund	31,964,269	31,957,109
Severance Tax Permanent Fund	10,094,610	10,299,712
Total Program Revenues and Transfers	43,338,214	43,842,935
Change in Net Position	18,462	(34,338)
Net Position (Deficit) - Beginning of Year	(185,041)	(150,703)
Net Position (Deficit) - End of Year	\$ (166,579)	\$ (185,041)

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Financial Highlights – General Administrative Fund

The total revenues and expenditures for the General Administrative Fund compared to the prior year are as follows:

**Table A-3
Total Revenues and Expenditures**

	2016	2015	Increase (Decrease)
Revenues from External Trust Participants	<u>\$ 1,279,335</u>	<u>\$ 1,586,114</u>	-19.3%
Expenditures:			
Personnel Services and Benefits	\$ 3,913,667	\$ 3,918,968	-0.1%
Contractual Services and Custody Fees	38,840,252	39,392,621	-1.4%
Other - Operating Expenses	<u>584,295</u>	<u>531,346</u>	10.0%
Total Expenditures	<u>\$ 43,338,214</u>	<u>\$ 43,842,935</u>	-1.2%

Revenues from external trust participants decreased due mainly to changes in allocations among the available pools and due to lower external investment management expenses.

The Office's expenditures for fiscal year 2016 decreased in total, primarily due to decreased external investment management expenses. Personnel costs decreased slightly over fiscal year 2015, whereas certain positions were more fully staffed in fiscal year 2016, while the other operating expenses increased. The expenses of the Office are paid by the funds and then allocated back through the pools to appropriately associate costs to the funds and clients for services provided by the Office. The Office budgeted, but did not spend, approximately \$13.7 million.

Financial Highlights - Fiduciary Funds

The primary governmental activity for the Office is the administration and management of four State of New Mexico permanent funds: the Land Grant Permanent Fund (LGPF), the Severance Tax Permanent Fund (STPF), the Tobacco Settlement Permanent Fund (TSPF) and the Water Trust Fund (WTF). The State Investment Office, which is responsible for carrying out the investment management policies of the State Investment Council, also provides similar services to 21 state agencies and political subdivisions of New Mexico.

The purpose of the permanent funds is to contribute recurring revenues for the operating budget of the State of New Mexico and the beneficiaries of the permanent funds. The Office's mission is to protect and grow the State's permanent (endowment) funds for current and future generations through prudent, professional investment management – with a vision of becoming one of the best performing, most respected sovereign wealth funds worldwide. The amount of annual distributions for the Severance Tax Permanent Fund, per statute, is 4.7% of the average of the year-end market values of the funds for the immediately preceding five years. The Land Grant Permanent Fund and Tobacco Settlement Permanent Fund distribution formulas are detailed below. Administrative costs are projected and added to the distribution formula to arrive at the total spending policy.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

In September 2003, New Mexico voters approved Constitutional Amendment No.2, increasing the Land Grant Permanent Fund distribution formula to its beneficiaries, the public schools and 19 other specifically identified state institutions. The amendment provides for suspension of distributions greater than 5.0% under certain circumstances. Distributions changed as follows:

- Beginning October 2003, distributions increased to 5.0%.
- For fiscal years 2005-2012, distributions increased to 5.8%.
- For fiscal years 2013-2016, distributions decrease to 5.5%.
- Beginning fiscal year 2017, distributions decrease to 5.0%.

The Tobacco Settlement Permanent Fund distribution was originally established at 50% of the prior year's contributions from legal settlements with certain tobacco companies. In April 2003, the New Mexico State Legislature changed the Tobacco Settlement Permanent Fund distribution. Based on this change, in fiscal years 2003 through 2006 the distribution was increased to 100% of the current year contributions, and the distribution went to the State General Fund rather than the Tobacco Settlement Permanent Fund. Beginning in fiscal year 2007, the distribution for the Tobacco Settlement Permanent Fund returned to 50% of prior year's contributions. In 2009, the Legislature, by passing Senate Bill 79, increased the percentage of distribution from the Tobacco Settlement Permanent Fund to the Tobacco Settlement Program Fund for fiscal years 2009 through 2011 to 100% of the prior year's contribution received. In 2011, the Legislature passed House Bill 79, which extended this period of 100% distributions of the prior year's contribution received through fiscal year 2013. In fiscal year 2016, the distributions exceeded the contributions by \$0.5 million.

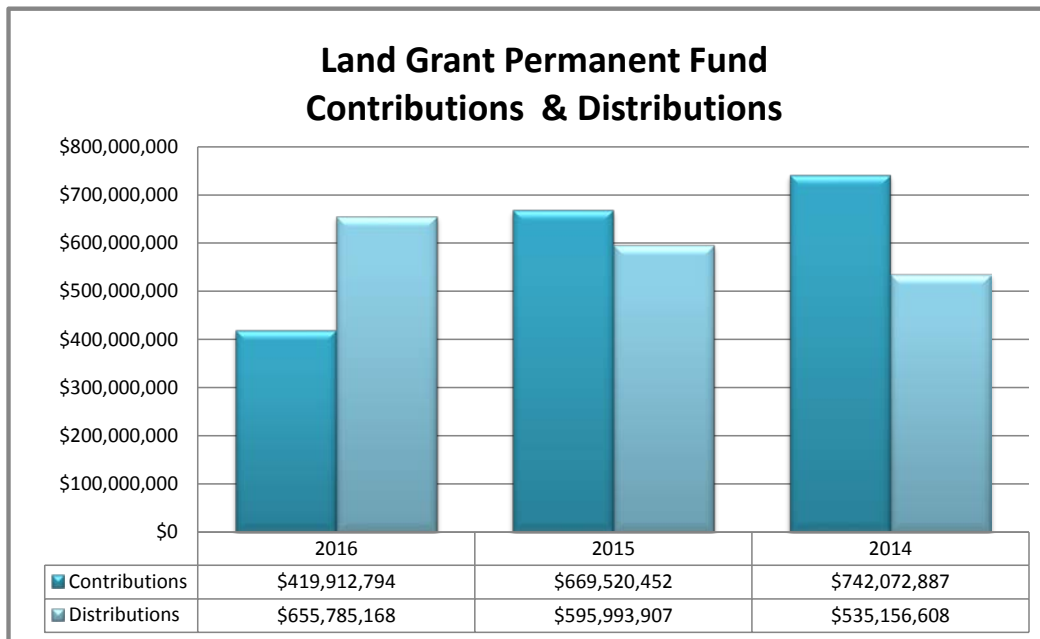
In April 2004, the Governmental Accounting Standards Board issued Technical Bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues (GASB TB 2004-1), which became effective for financial statements for periods ending after June 15, 2004. GASB TB 2004-1 clarifies recognition guidance for payments received under the Master Settlement Agreement (MSA) with the settling tobacco companies. Since annual tobacco settlement reimbursements are based on cigarette sales from the preceding calendar year, governments should estimate accrued tobacco settlement reimbursements that derive from tobacco sales from January 1 to their respective fiscal year-ends. Accordingly, the Tobacco Settlement Permanent Fund recognized \$18,646,943 and \$16,617,515 for the years ended June 30, 2016 and 2015, respectively.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The Land Grant Permanent Fund

The Land Grant Permanent Fund contributions from the State Land Office for fiscal year 2016 decreased 37.3% from fiscal year 2015. The change is inclusive of a Federal Taylor Grazing Act transfer of \$168,347. Distributions to the beneficiaries of the fund increased 10.0% from the prior year.

The chart below details the changes in contributions and distributions from the Land Grant Permanent Fund.

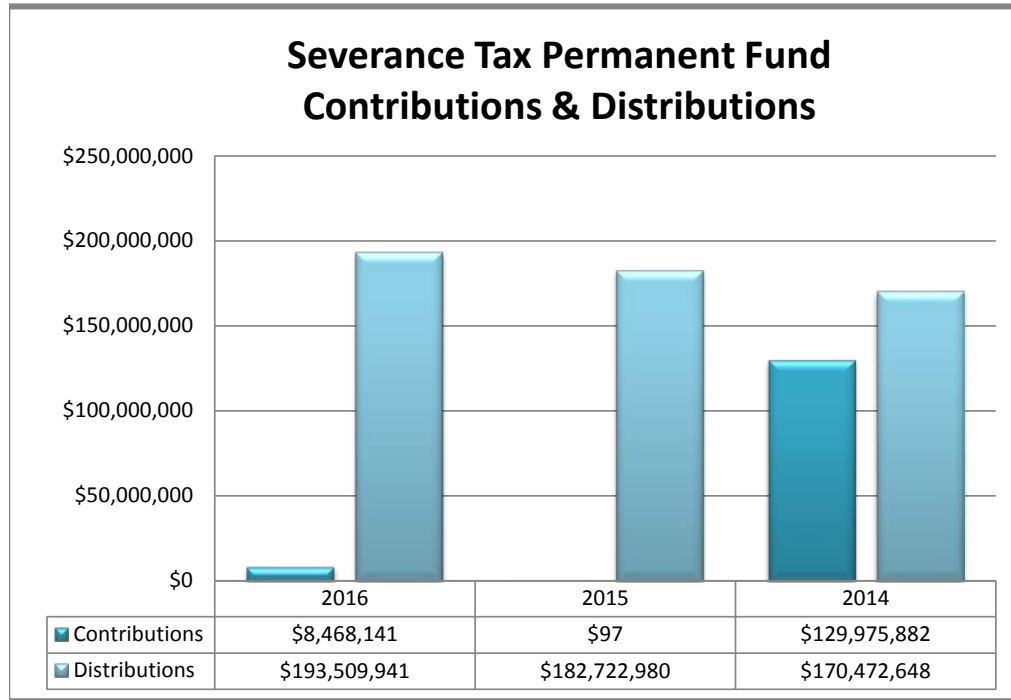


The Severance Tax Permanent Fund

Severance Tax Permanent Fund contributions are received from the Severance Tax Bonding Fund. Severance tax revenues first pay the required debt service on severance tax bonds issued by the State. Amounts transferred from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund increased from \$97 in fiscal year 2015 to \$8.4 million in fiscal year 2016. While as recently as the 1990s the Severance Tax Permanent Fund received half of the state's annual severance taxes (for a 50/50 split), a court ruling in 1999 and subsequent legislative actions during the past decade have resulted in changes allowing for up to 95% of severance taxes to be used for New Mexico's school and infrastructure bonding capacity. Supplemental or "sponge" bonds may also be deployed based on previous year's revenues, allowing the remaining 5% to be used for bonding as well. In 2015, legislators passed a measure to slowly reduce the percentage of targeted severance tax bonding every year, thereby increasing inflows to the Severance Tax Permanent Fund over time. The legislation will be fully implemented in fiscal year 2022, whereupon the bonding percentage target will be capped at 86.2% of the severance taxes collected for the year, down from its previous target of 95.0%.

Distributions to the State General Fund in fiscal year 2016 increased 5.9% from the previous year.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**



The Tobacco Settlement Permanent Fund

The Tobacco Settlement Permanent Fund distribution was \$40.1 million to the State General Fund in fiscal year 2016, which was 101% of the amount of contributions to the tobacco settlement trust funds received in fiscal year 2016 as discussed on page 8.

The amounts presented below are from the total contributions and distributions for fiscal year 2016 shown in the Fiduciary Funds Statement of Net Position because of the presentation requirements of GASB Technical Bulletin 2004-1 as discussed on page 8 and differ from the actual contributions and distributions.

**Table A-4
Tobacco Settlement Permanent Fund**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contributions	<u>\$ 41,581,406</u>	<u>\$ 32,980,062</u>	<u>\$ 29,515,645</u>
Distributions	<u>\$ 42,112,128</u>	<u>\$ 17,226,967</u>	<u>\$ 37,746,083</u>

The Water Trust Fund

The Water Trust Fund (WTF) was created in 2003 but not funded by the Legislature until 2007. On July 1 of each fiscal year, the WTF distributes \$4 million to water projects. When 4.7% of the WTF is greater than \$4 million, annual distributions will be 4.7% of a 5-year rolling average of the WTF. At June 30, 2016, the balance of the WTF was \$44.5 million.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The net position of the fiduciary funds managed by the Office increased or decreased during the fiscal year by the following percentages:

**Table A-5
Fiduciary Funds Net Position**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Land Grant Permanent Fund	\$ 14,682,066,179	\$ 14,882,171,355	-1.3%
Severance Tax Permanent Fund	4,559,169,361	4,730,349,593	-3.6%
Tobacco Settlement Permanent Fund	110,246,643	216,144,137	-49.0%
Water Trust Fund	<u>44,554,203</u>	<u>47,822,365</u>	-6.8%
Total Private Purpose Trust Funds	<u>19,396,036,386</u>	<u>19,876,487,450</u>	-2.4%
External Client Trust Funds	<u>810,035,019</u>	<u>790,366,763</u>	2.5%
Total Net Fiduciary Funds	<u><u>\$ 20,206,071,405</u></u>	<u><u>\$ 20,666,854,213</u></u>	-2.2%

Asset classes authorized under the investment policy include:

- Small, mid and large capitalization U.S. stocks
- Non-U.S. developed markets and emerging markets stocks
- U.S. debt obligations
- Private equity limited partnerships
- Real assets, including real estate
- Absolute return funds
- Derivative instruments
- Structured credit instruments
- New Mexico direct equity investments
- Government guaranteed New Mexico home and farm loans
- Certificates of deposit in New Mexico financial institutions

Fund assets are managed using external advisors.

For the Tobacco Settlement Permanent Fund refer to the commitment footnote regarding a \$109,052,359 transfer to the General Fund for 2016 obligations. The above large decrease in net position is attributable to the transfer.

Using the Annual Report

The Office complies with the required financial statement presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. The financial report includes the sections described below.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Government-Wide Financial Statements

The government-wide financial statements provide readers with a broad overview of the Office's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the Office's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Office is improving or deteriorating. The statement of activities presents information showing how the Office's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds, rather than fund types.

The financial statements also include notes, which explain the history and purpose of the Office, significant accounting policies, investment details, statutory disclosures and other required information regarding the financial position of the funds.

The governmental major fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed.

The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the financial statements allow the demonstration of sources and uses and/or budgeting compliance associated with the funds.

The fund financial statements also allow the government to present its fiduciary funds. While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

Budgetary Comparisons

As required by the Office of the State Auditor under Section 2.2.2.10 P. (2) of 2.2.2 NMAC, the Budget Comparison-Statement for the General Administrative Fund is presented as part of the basic financial statements. This information is provided at the approved budget level to demonstrate compliance with legal requirements. The budgetary comparison schedule presents both the original and the final appropriated budget for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis. The only significant budgetary variation was approximately \$5.4 million in contractual services that was not expended, inclusive of \$2.1 million in legal fees. The legal fees will be incurred as trial dates approach.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Statutory Changes to the Council and its Powers

There was only one legislative revision in Fiscal Year 2016 which resulted in material changes to the statutes affecting the State Investment Council and the Severance Tax Permanent Fund. There were no bills passed in 2016 which impacted how the Land Grant Permanent Fund operates or is to be invested.

Senate Bill 215 was a bill drafted and sponsored by the State Investment Council following ongoing analysis of the New Mexico Private Equity Investment Program (NMPEIP). The Council determined that the NMPEIP could likely improve its returns by attracting additional and higher quality regional investors to participate in the program. The bill, which was passed by the legislature and signed into law in FY 2015, makes the following minor changes to statutory requirements of the NMPEIP:

- Changes the definition of “New Mexico private equity fund”, by removing the requirement that the fund must maintain an office staffed by a full time investment professional; and
- Removes the requirement that this investment professional must establish primary residency in the state.

From practical experience, and a poll of potential regional investors, the State Investment Council determined that both of these previous requirements were overreaching and impractical, limiting the pool of venture capitalists who could best succeed and diversify the NMPEIP. It was also determined that appropriate requirements that participating investors spend time in New Mexico working on investments would best be addressed through policy rather than statutory requirements and restrictions.

Economic Outlook

The Land Grant Permanent Fund finished fiscal year 2016 with a return of 0.37%. The Severance Tax Permanent Fund finished at 0.44%.

The investment strategy of the permanent funds is one that seeks to gain from the long-term performance of the financial markets and underlying economy. The funds are presently in the process of further diversification, particularly in moving from publicly-traded assets (primarily stocks and bonds) to privately held assets (such as real estate, private equity and real assets), and from publicly-traded equity investments (the stock market) to a more diversified mix of income-producing and less volatile investments.

Financial Contact

Any questions regarding the financial statements of the Office should be directed to the Chief Financial Officer, State of New Mexico Investment Council, 41 Plaza la Prensa, Santa Fe, NM 87507.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Investment in State Treasurer General Fund Investment Pool	\$ 22,899,573
Capital Assets, Net	<u>2,191</u>
Total Assets	<u><u>\$ 22,901,764</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Due to Land Grant Permanent Fund	\$ 9,621,749
Due to Severance Tax Permanent Fund	3,038,447
Accounts Payable	10,143,456
Accrued Payroll	95,921
Accrued Vacation and Sick Pay, Current	<u>168,770</u>
Total Liabilities	<u>23,068,343</u>
NET POSITION (DEFICIT)	
Net Investment in Capital Assets	2,191
Unrestricted (Deficit)	<u>(168,770)</u>
Total Net Position (Deficit)	<u>(166,579)</u>
Total Liabilities and Net Position	<u><u>\$ 22,901,764</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Governmental Activities
EXPENSES	
General Government	\$ 43,319,752
REVENUES	
Program Revenues:	
Fees from External Investment Trust Participants and Other Revenue	1,279,335
Transfers:	
Land Grant Permanent Fund	31,964,269
Severance Tax Permanent Fund	10,094,610
Total Program Revenues and Transfers	43,338,214
CHANGE IN NET POSITION	18,462
Net Position (Deficit) - Beginning of Year	(185,041)
NET POSITION (DEFICIT) - END OF YEAR	\$ (166,579)

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
BALANCE SHEET – GENERAL ADMINISTRATIVE FUND
JUNE 30, 2016**

ASSETS

Investment in State Treasurer General Fund Investment Pool	\$	22,899,573
		<hr/>
Total Assets	\$	22,899,573
		<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Land Grant Permanent Fund	\$	9,621,749
Due to Severance Tax Permanent Fund		3,038,447
Accounts Payable		10,143,456
Accrued Payroll		95,921
Total Liabilities		<hr/> 22,899,573

FUND BALANCE

Unassigned		<hr/> -
Total Liabilities and Fund Balance	\$	<hr/> 22,899,573
		<hr/> <hr/>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
RECONCILIATION OF THE BALANCE SHEET – GENERAL ADMINISTRATIVE FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Balance - General Administrative Fund (General Administrative Fund Balance Sheet)	\$	-
 Amounts reported for governmental activities in the Statement of Net Position are different because:		
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital Assets, Net		2,191
 Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.		
Accrued Vacation and Sick Pay		<u>(168,770)</u>
Net Position (Deficit) of Governmental Activities (Statement of Net Position)	\$	<u><u>(166,579)</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GENERAL ADMINISTRATIVE FUND
YEAR ENDED JUNE 30, 2016**

	<u>Governmental Activities</u>
REVENUES FROM EXTERNAL INVESTMENT TRUST PARTICIPANTS AND OTHER REVENUE	\$ 1,279,335
EXPENDITURES	
Current	43,338,214
General Government:	
Capital Outlay	-
Total Expenditures	<u>43,338,214</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(42,058,879)
OTHER FINANCING SOURCES	
Interfund Services Provided:	
Land Grant Permanent Fund	31,964,269
Severance Tax Permanent Fund	<u>10,094,610</u>
Net Other Financing Sources	<u>42,058,879</u>
NET CHANGE IN FUND BALANCE	-
Fund Balance - Beginning of Year	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – GENERAL ADMINISTRATIVE FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balance - General Administrative Fund (Statement of Revenues, Expenditures, and Changes in Fund Balances)	\$	-
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Amounts reported for governmental activities in the Statement of Activities are different because:

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

Decrease in Accrued Vacation and Sick Pay Liability		25,275
---	--	--------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$	-	
Depreciation Expense		(6,813)	
Excess of Capital Outlay over Depreciation Expense		<u>(6,813)</u>	<u>(6,813)</u>

Change in Net Position of Governmental Activities (Statement of Activities)	\$	<u>18,462</u>
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STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
STATEMENT OF REVENUES AND EXPENDITURES – GENERAL ADMINISTRATIVE FUND –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance From Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES FROM EXTERNAL INVESTMENT TRUST PARTICIPANTS AND OTHER REVENUE	\$ 1,111,700	\$ 1,111,700	\$ 1,279,335	\$ 167,635
EXPENDITURES				
Personnel Services and Benefits	4,635,900	4,635,900	3,913,667	722,233
Contractual Services	51,611,000	51,611,000	38,840,252	12,770,748
Other - Operating Expenses	862,800	862,800	584,295	278,505
Total Expenditures	<u>57,109,700</u>	<u>57,109,700</u>	<u>43,338,214</u>	<u>13,771,486</u>
Expenditures in Excess of Revenues	<u>(55,998,000)</u>	<u>(55,998,000)</u>	<u>(42,058,879)</u>	<u>13,939,121</u>
TRANSFERS				
Interfund Transfers in:				
Land Grant Permanent Fund	42,558,000	42,558,000	31,964,269	(10,593,731)
Severance Tax Permanent Fund	13,440,000	13,440,000	10,094,610	(3,345,390)
Total Transfers	<u>55,998,000</u>	<u>55,998,000</u>	<u>42,058,879</u>	<u>(13,939,121)</u>
EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2016

	Private-Purpose		
	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund
ASSETS			
Cash and Cash Equivalents	\$ 775,922,807	\$ 225,867,272	\$ 4,183,429
Investment in State Treasurer General Fund Investment Pool	27,438,006	7,656,714	-
Due from Brokers	206,589,031	55,570,252	4,476,219
Due from General Administrative Fund	9,621,749	3,038,447	-
Due from Other Funds	6,565,746	2,036,873	-
Due from Other State Entities	-	2,191,561	-
Accrued Investment Income	28,910,953	8,832,717	515,374
Accrued Tobacco Settlement Income	-	-	18,646,943
Total Assets	<u>1,055,048,292</u>	<u>305,193,836</u>	<u>27,821,965</u>
INVESTMENTS			
Government-Sponsored Enterprise and Agency Issues (GSE)	-	39,033,516	-
Investment Pools:			
Core Plus Bonds	1,380,239,195	353,961,973	55,352,499
U.S. Large Cap Active	1,280,603,850	374,454,310	-
U.S. Large Cap Index	1,429,406,789	407,695,244	119,207,169
U.S. Small/Mid Cap Active	218,527,032	74,159,724	1,142,005
Non-U.S. Developed Markets Active	1,118,746,909	341,058,773	-
Non-U.S. Emerging Markets Active	302,233,324	122,289,963	-
Non-U.S. Emerging Markets Index	24,807,373	11,802,797	8,622,550
Non-U.S. Developed Markets Index	244,672,067	109,588,886	12,842,200
Non-U.S. Developed Alternative Weighted Index	482,794,226	152,461,333	-
Unconstrained Fixed Income	509,150,390	163,602,316	-
Short-term Duration Fixed Income	327,416,438	50,455,052	-
Absolute Return Pool	710,653,395	251,082,362	20,075,022
National Private Equity Pool	1,325,289,846	185,004,182	-
Credit and Structured Finance Pool	544,901,473	177,067,296	-
Real Estate Pool	1,313,354,825	373,786,184	-
Real Return Pool	1,297,213,438	398,937,461	-
U.S. Small/Mid Cap Index Pool	16,220,701	7,990,980	5,580,014
U.S. Small/Mid Cap Enhanced Index Pool	125,679,950	35,556,805	-
Core Bonds Pool	632,220,596	219,062,640	-
U.S. Large Cap Alternative Weighted Index	912,480,916	296,791,710	-
Common Stock - Public	-	2,835,413	-
Private Equity	-	268,109,315	-
Total Investments	<u>14,196,612,733</u>	<u>4,416,788,235</u>	<u>222,821,459</u>
Total Assets	15,251,661,025	4,721,982,071	250,643,424
LIABILITIES			
Due to Brokers	508,618,836	144,725,325	12,661,096
Due to Other Funds	6,327,246	1,961,557	36,383
Due to Other State Agencies	-	-	109,052,359
Receipts Held for the Benefit of Others	-	-	18,646,943
Distributions Payable to Beneficiaries	54,648,764	16,125,828	-
Total Liabilities	<u>569,594,846</u>	<u>162,812,710</u>	<u>140,396,781</u>
NET POSITION HELD IN TRUST	<u>\$ 14,682,066,179</u>	<u>\$ 4,559,169,361</u>	<u>\$ 110,246,643</u>

Trust Funds		External Investment Trust Funds		Total
Water Trust Fund	Total Private-Purpose Trust Funds	External Investment Trust Funds		Total
\$ 1,285,210	\$ 1,007,258,718	\$ 22,389,431		\$ 1,029,648,149
-	35,094,720	-		35,094,720
612,467	267,247,969	23,952,833		291,200,802
-	12,660,196	-		12,660,196
-	8,602,619	-		8,602,619
-	2,191,561	-		2,191,561
84,287	38,343,331	2,898,541		41,241,872
-	18,646,943	-		18,646,943
<u>1,981,964</u>	<u>1,390,046,057</u>	<u>49,240,805</u>		<u>1,439,286,862</u>
-	39,033,516	-		39,033,516
7,380,129	1,796,933,796	292,612,558		2,089,546,354
110,842	1,655,169,002	31,310,048		1,686,479,050
7,709,362	1,964,018,564	188,070,932		2,152,089,496
-	293,828,761	36,119,112		329,947,873
-	1,459,805,682	-		1,459,805,682
-	424,523,287	-		424,523,287
2,378,325	47,611,045	68,106,453		115,717,498
3,017,792	370,120,945	72,151,242		442,272,187
-	635,255,559	-		635,255,559
-	672,752,706	-		672,752,706
-	377,871,490	-		377,871,490
6,534,890	988,345,669	22,427,729		1,010,773,398
6,555,818	1,516,849,846	48,918,221		1,565,768,067
-	721,968,769	41,906,123		763,874,892
8,569,731	1,695,710,740	26,801,036		1,722,511,776
2,023,453	1,698,174,352	-		1,698,174,352
24,297	29,815,992	-		29,815,992
-	161,236,755	-		161,236,755
-	851,283,236	-		851,283,236
-	1,209,272,626	-		1,209,272,626
-	2,835,413	-		2,835,413
-	268,109,315	-		268,109,315
<u>44,304,639</u>	<u>18,880,527,066</u>	<u>828,423,454</u>		<u>19,708,950,520</u>
46,286,603	20,270,573,123	877,664,259		21,148,237,382
1,726,610	667,731,867	67,357,592		735,089,459
5,790	8,330,976	271,648		8,602,624
-	109,052,359	-		109,052,359
-	18,646,943	-		18,646,943
-	70,774,592	-		70,774,592
<u>1,732,400</u>	<u>874,536,737</u>	<u>67,629,240</u>		<u>942,165,977</u>
<u>\$ 44,554,203</u>	<u>\$ 19,396,036,386</u>	<u>\$ 810,035,019</u>		<u>\$ 20,206,071,405</u>

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2016

	Private-Purpose		
	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund
REVENUES			
Investment Earnings:			
Interest and Dividends	\$ 319,813,145	\$ 93,885,878	\$ 2,404,537
Net Increase (Decrease) in Fair Value of Investments	<u>(252,081,677)</u>	<u>(69,929,698)</u>	<u>1,430,582</u>
Total Investment Income (Loss)	67,731,468	23,956,180	3,835,119
OTHER FINANCING SOURCES (USES)			
Interagency Transfers In (Out):			
State Land Office	419,744,447	-	-
Severance Tax Bonding Fund	-	8,468,141	-
Tobacco Settlement Proceeds	-	-	41,581,406
Distributions to Beneficiaries of the Land Grant Permanent Fund	(655,785,168)	-	-
Distributions to State General Fund by the Severance Tax Permanent Fund and Tobacco Settlement Permanent Fund	-	(193,509,941)	(109,052,359)
Distribution to Beneficiary of the Tobacco Settlement Permanent Fund	-	-	(42,112,128)
Distribution to Beneficiary of the Water Trust Fund	-	-	-
Contributions to External Investment Trust Funds	-	-	-
Distributions from External Investment Trust Funds	-	-	-
Federal Taylor Grazing Act Transfer (Dept. of the Interior)	168,347	-	-
Interfund Services Used:			
General Administrative Fund	(32,936,252)	(10,401,555)	-
Internal Service Fees	971,982	306,943	(149,532)
Total Other Financing Sources (Uses)	<u>(267,836,644)</u>	<u>(195,136,412)</u>	<u>(109,732,613)</u>
CHANGE IN NET POSITION	(200,105,176)	(171,180,232)	(105,897,494)
Net Position - Beginning of Year	<u>14,882,171,355</u>	<u>4,730,349,593</u>	<u>216,144,137</u>
NET POSITION - END OF YEAR	<u>\$14,682,066,179</u>	<u>\$ 4,559,169,361</u>	<u>\$ 110,246,643</u>

Trust Funds			
Water Trust Fund	Total Private-Purpose Trust Funds	External Investment Trust Funds	Total
\$ 910,190	\$ 417,013,750	\$ 16,380,790	\$ 433,394,540
(153,405)	(320,734,198)	(12,223,119)	(332,957,317)
<u>756,785</u>	<u>96,279,552</u>	<u>4,157,671</u>	<u>100,437,223</u>
-	419,744,447	-	419,744,447
-	8,468,141	-	8,468,141
-	41,581,406	-	41,581,406
-	(655,785,168)	-	(655,785,168)
-	(302,562,300)	-	(302,562,300)
-	(42,112,128)	-	(42,112,128)
(4,000,000)	(4,000,000)	-	(4,000,000)
-	-	61,963,832	61,963,832
-	-	(45,348,801)	(45,348,801)
-	168,347	-	168,347
-	(43,337,807)	-	(43,337,807)
(24,947)	1,104,446	(1,104,446)	-
<u>(4,024,947)</u>	<u>(576,730,616)</u>	<u>15,510,585</u>	<u>(561,220,031)</u>
(3,268,162)	(480,451,064)	19,668,256	(460,782,808)
<u>47,822,365</u>	<u>19,876,487,450</u>	<u>790,366,763</u>	<u>20,666,854,213</u>
<u>\$ 44,554,203</u>	<u>\$19,396,036,386</u>	<u>\$ 810,035,019</u>	<u>\$20,206,071,405</u>

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 ORGANIZATION AND BACKGROUND

The State of New Mexico Investment Council (the Council) is responsible for the investment activities of certain State of New Mexico trust funds. The Council is composed of eleven members: the Governor; the State Treasurer, the Commissioner of Public Lands; the Secretary of the Department of Finance and Administration (DFA); four public members appointed by the Legislative Council; and three public members appointed by the Governor, one of which must be the Chief Financial Officer of a State institution of higher education. The Governor is designated as Chairman of the Council, which is required to meet ten times a year.

Within the constraints of New Mexico law, the Council establishes policies for the investment of trust funds entrusted to it. Policies established by the Council are carried out by personnel of the State Investment Office (Investment Office or the Office) under the direction of the State Investment Officer. The Office currently manages certain assets identified as the Land Grant Permanent Fund, the Severance Tax Permanent Fund, the Tobacco Settlement Permanent Fund, the Water Trust Fund, and client funds. The following is a brief description of the purpose and sources of these four funds:

Land Grant Permanent Fund (LGPF). The Fergusson Act of 1898 and the Enabling Act of 1910 granted certain lands held by the federal government to the territory of New Mexico. Under the terms of these grants, it was stipulated that such lands, totaling 13.4 million acres, were to be held in trust for the benefit of the public schools and other specific public institutions. Royalties and principal from land sales are transferred by the State Land Office to the Investment Office, which adds these amounts to the LGPF. Gains and losses on investment transactions are credited or charged to the LGPF and do not directly affect distributions to the beneficiaries.

On September 23, 2003, New Mexico voters approved Constitutional Amendment No. 2 that changed the LGPF distributions. Beginning with the October 2003 distribution, the annual distributions from the LGPF are five percent (5.0 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years. In addition to the five percent (5.0 percent) annual distribution made, an additional annual distribution shall be made pursuant to the following schedule: in fiscal years 2005 through 2012, an amount equal to eight-tenths percent (0.8 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years; and in fiscal years 2013 through 2016, an amount equal to one-half percent (0.5 percent) of the average of the year-end market values of the LGPF for the immediately preceding five calendar years.

The legislature, by a three-fifths vote of the members elected to each house, may suspend any additional distributions noted above. No additional distribution shall be made in any fiscal year if the average of the year-end market values of the LGPF for the immediately preceding five calendar years is less than \$5.8 billion.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 ORGANIZATION AND BACKGROUND (CONTINUED)

Severance Tax Permanent Fund (STPF). The State of New Mexico levies a severance tax on certain natural resources extracted from land within the State. Severance tax revenues are first applied to pay the required debt service on Severance Tax Bonds issued by the State. Remaining severance tax revenues are then transferred to the Investment Office, which adds these amounts to the STPF. Other State agencies are responsible for administering the severance tax and determining the amounts required to service the outstanding Severance Tax Bonds. The current annual distributions equal four and seven-tenths percent (4.7%) of the average of the year-end market values of the fund for the immediately preceding five years.

Tobacco Settlement Permanent Fund (TSPF). The State of New Mexico receives funds into the Tobacco Settlement Permanent Fund pursuant to the master settlement agreement entered into between the tobacco product manufacturers and various states, including New Mexico, which was executed on November 23, 1998. Money in this fund is invested pursuant to Chapter 6, Article 8 NMSA 1978. Income from investment of the fund is credited to the fund.

In 2011, House Bill 79 amended Section 6-4-9 NMSA 1978 related to the Tobacco Settlement Permanent Fund. This legislation temporarily changes the distribution of this fund as follows: in fiscal years 2011 through 2013, a distribution shall be made from the Tobacco Settlement Permanent Fund to the general fund in an amount equal to one hundred percent of the total amount of money distributed to the Tobacco Settlement Permanent Fund in that fiscal year. In fiscal year 2014 and in each fiscal year thereafter, an annual distribution will be made from the TSPF to the Tobacco Settlement Program Fund of an amount equal to fifty percent of the total amount of money distributed to the TSPF in the immediately preceding fiscal year until that amount is less than an amount equal to four and seven-tenths percent (4.7%) of the average of the year-end market values of the TSPF for the immediately preceding five calendar years. Thereafter, the amount of the annual distribution shall be four and seven-tenths percent (4.7%) of the average of the year-end market values of the TSPF for the immediately preceding five calendar years.

Chapter 312, Laws of 2003 mandates that the Tobacco Settlement Permanent Fund shall be considered a reserve fund of the state. Based on this, for fiscal year ended June 30, 2016, the New Mexico State Department of Finance and Administration has recorded the balance of the Tobacco Settlement Permanent Fund within their Governmental Fund, State General Fund balance. The State Investment Council has also included this balance within their Fiduciary Fund financial statements as a Private-Purpose Trust Fund.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 ORGANIZATION AND BACKGROUND (CONTINUED)

Water Trust Fund (WTF). The State Investment Council established the Water Trust Fund in August 2006 upon receiving a \$40,000,000 general fund appropriation per Chapter 109, Section 12, Laws of 2006. The fund consists of money appropriated, donated, or otherwise accrued to the fund. Money in the Water Trust Fund shall be invested as in the Land Grant Permanent Fund by the state investment officer pursuant to Chapter 6, Article 8 NMSA 1978. Earnings from investment of the fund shall be credited to the fund. On July 1 of each fiscal year, an annual distribution shall be made from the Water Trust Fund to the water project fund in the amount of \$4.0 million until that amount is less than an amount equal to four and seven-tenths percent (4.78%) of the average of the year-end market values of the Water Trust Fund for the immediately preceding five calendar years. Thereafter, the amount of the annual distribution shall be four and seven-tenths percent (4.7%) of the average of the year-end market values of the Water Trust Fund for the immediately preceding five calendar years.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Office conform to generally accepted accounting principles for State governmental units. The more significant of these accounting policies are summarized below:

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Reporting Entity

For financial reporting purposes, the financial statements include all funds controlled by the Council. Control by the Council was determined on the basis of oversight responsibility derived from the ability to significantly influence operations and accountability for fiscal matters. The Office is a department of the State of New Mexico.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities. The government-wide presentation is focused more on the sustainability of the Office as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements (Continued)

The statement of activities presents a comparison between direct expenses and revenues for the governmental activities. All expenses of the Office are considered direct expenses and are clearly identifiable to the investment function of the Office. Program revenues include external fees, and other revenues include transfers from the permanent funds for interfund services provided.

Governmental Fund Financial Statements

The fund financial statements are similar to the government-wide financial statements. Emphasis in these statements is on the administrative fund due to the limited fund structure of the Office. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Office's actual experience conforms to the budget or fiscal plan. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the government-wide presentation.

The Office's fiduciary funds are presented separately in the fund financial statements. Since, by definition, these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Measurement Focus, Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic financial resources measurement focus. The government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. The governmental funds are reported under the modified accrual basis of accounting, using the current financial resources measurement focus. Under this method, revenues are recognized when measurable and available. The Office considers all revenues reported in both the government-wide and governmental funds to be measurable and available since they are collected from the permanent funds and investment pools under the management of the Office.

The Office considers revenues to be available if they are collected within 60 days of the current fiscal year end. Revenues from external investment trust participants are susceptible to accrual. On the government-wide financial statement, expenditures are recorded when the related fund liability is incurred, except for accrued vacation and sick pay, which are recognized as an expenditure to the extent they have been earned. General capital asset acquisitions are reported as expenditures in governmental funds and are capitalized and depreciated over the estimated useful life in the government-wide financial statement.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General Administrative Fund

The General Administrative Fund accounts for all the administrative activities of the Office. The financing sources for the General Administrative Fund are transfers of revenue from the LGPF, STPF, and other sources as authorized by the Budget Division of the Department of Finance and Administration.

Fiduciary Funds

Fiduciary funds consist of trust funds as follows:

Private-Purpose Trust Funds. The LGPF, STPF, TSPF, and WTF are accounted for under the accrual basis of accounting and use a capital maintenance measurement focus. This means that all assets and liabilities associated with their activity are included on the statement of net position. The funds operate under legal constraints that specify distributions to ensure that an income stream will be available in future years to designated beneficiaries.

External Investment Trust Funds. Pursuant to New Mexico law Section 6-8-7I of NMSA 1978, as amended, the Office manages several equity and bond investment pools to provide long-term investment opportunities for State agencies and designated institutions that have funds available for a long-term investment program that will extend for more than one year. See Exhibit 3 for detail summaries of investment pool activity by external participants.

Reservations and Designations

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive branch's intent to be used for specific purposes or, in some cases, by legislation.

The Office's fund balances represent: 1) Restricted Purposes, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments; 2) Committed Purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches; 3) Assigned Purposes, which includes balances that are constrained by the government's intent to be used for specific purposes but are neither restricted or committed; 4) Unassigned, which includes all other spendable amounts. As of June 30, 2016, the Office's fund balance was all unassigned.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reservations and Designations (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, any restricted fund balance must be spent first. When expenditures are incurred for purposes for which amounts in any of unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

Budgetary Accounting

The State legislature annually approves transfers from the LGPF and STPF to the Office's General Administrative Fund. These transfers are made to fund the operating costs of the Office's General Administrative Fund. These transfers are reflected as Interfund Transfers in these financial statements. Any transfers made in excess of the actual accrued costs of the General Administrative Costs are reverted back to the LGPF and STPF. The reversions payable to the LGPF and STPF are reflected as Due to LGPF and Due to STPF.

Beginning with fiscal year 2005, the General Appropriation Act of 2004 established the modified accrual basis of accounting for governmental funds in accordance with the Manual of Model Accounting Practices issued by the Department of Finance and Administration as the budgetary basis of accounting for the State of New Mexico. The change in policy resulted in the recognition of budgetary control from a fiscal year to an appropriation period. As a result of this change, a reconciliation of budgetary basis to GAAP basis is not required.

Budgetary Matters

The Office is required to submit a budget request for the General Fund to DFA and the Legislative Finance Committee by September 1 of each year. Consistent with the General Appropriations Act of 2004, the Office prepares the budget using the modified accrual budgetary basis of accounting. The expenditures reported in the budget report agree to the amounts reported in the accompanying general administrative fund statement of revenues, expenditures, and changes in net position.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

Budgetary Data

The State Legislature makes annual appropriations to the Office. Legal compliance is monitored through the establishment of an annual budget. Annual budgets are adopted each fiscal year for the General Administrative Fund.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Data (Continued)

Expenditures may not legally exceed appropriations at the object expenditure classification level. Budget amendments require approval by the State's Budget Division of the Department of Finance and Administration. Unexpended and unencumbered amounts in the General Fund lapse at year-end.

The Office is required to submit a budget report for the General Administrative Fund to the Department of Finance and Administration and the Legislative Finance Committee by September 1 of each year. The report submitted by the Office also details revenues and expenditures or expenses for the preceding year. The budget for the General Administrative Fund is adopted on the modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of the next year's budget. A reconciliation of budgetary basis to GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The Council has not included such reconciliation for fiscal year 2016 as all payables were paid by the statutory deadline.

The Department of Finance and Administration makes recommendations and adjustments to the appropriation request which becomes the Governor's proposal to the Legislature. The Legislative Finance Committee holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.

Both the Department of Finance and Administration and the Legislative Finance Committee's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan. All subsequent budget transfers and increases must be authorized by the Director of the State Budget Division. Legal budget control for expenditures and encumbrances is by appropriation unit.

Investments

Basis of Accounting. Investments are stated at fair value in accordance with GASB Statement No. 72, with increases or decreases in fair value recognized in the statement of changes in net position at the end of each month. Investment transactions are recorded on the trade date. Dividends are recognized as income when declared. Current fair value of investments may fluctuate markedly from what is recorded at June 30 of each year.

Investment Pools. The Office's investments are reported in the following categories: private-purpose trust funds and external investment trust funds. Private purpose trust funds are participants in: U.S. Large Cap Active Pool, U.S. Large Cap Index Pool, U.S. Large Cap Alternative Weighted Index Pool, U.S. Small/Mid Cap Active Pool, U.S. Small/Mid Cap Index Pool, U.S. Small/Mid Cap Enhanced Index Pool, Short-Term Duration Fixed income Pool, Core Bonds Pool, Credit & Structured Finance, Unconstrained Fixed Income Pool, Core Plus Bonds Pool, Non-U.S. Developed Markets Index Pool, Non-U.S. Emerging Markets Index Pool, Non-U.S. Developed Markets Active Pool, Non-U.S. Emerging Markets Active Pool, Non-U.S. Developed Alternative Weighted Index Pool, Absolute Return Pool, National Private Equity Pool, Real Estate Pool, and Real Return Pool. External investment

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Trust funds are participants in: Core Bonds Pool, U.S. Large Cap Active Pool, U.S. Large Cap Index Pool, U.S. Small/Mid Cap Active Pool, Non-US Developed Markets Index Pool, and Non-US Emerging Markets Index Pool and alternative asset pools provided minimum size requirements are met. The pools are detailed as follows:

Domestic Equity Pools

The U.S. Large Cap Active Pool four actively managed portfolios (2 growth, 1 value, 1 core). All four strategies use fundamental, bottom-up analysis.

The U.S. Large Cap Index Pool one passively managed portfolio.

The U.S. Large Cap Alternative Weighted Index Pool four passively managed portfolios (value, low volatility, top 200, and equal weight).

The U.S. Small/Mid Cap Active Pool three actively managed portfolios (1 small-cap value, 1 small-cap growth, 1 mid-cap core). Two strategies use fundamental, bottom-up analysis; one strategy uses quantitative and fundamental bottom-up analysis.

The U.S. Small/Mid Cap Index Pool one passively managed Russell 2000 Index portfolio.

The U.S. Small/Mid Cap Enhanced Index Pool one actively managed small-cap core portfolio. The strategy uses quantitative bottom-up analysis.

Fixed Income Pools

The U.S. Core Plus Bonds Pool is managed externally by three managers and invests in all major segments of the broad investment-grade debt obligation markets. The primary objective of the Core Plus Bonds Pool is to achieve the rate of return of the Barclay's Capital Universal Bond Index, plus a small premium from active management. The role of this pool in the asset mixes of the SIC's portfolios is to provide preservation of capital and income generation.

The Credit & Structured Finance Pool is managed externally, investing in various classes of fixed income securities oriented toward credit. The role of this pool in the asset mixes of the SIC's portfolios is to provide growth of capital and income generation.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The Core Bonds Pool is a passively managed portfolio benchmarked against the Barclays U.S. Aggregate Bond Index.

The Unconstrained Fixed Income Pool is managed externally by three managers and invests in various classes of fixed income securities and derivatives. The role of this pool in the asset mixes of the SIC's portfolio is to provide optimized sources of total return in fixed income while providing the flexibility to adjust sector allocations as the markets dictate.

Short Duration Fixed Income Pool is managed externally and invests in U.S. Treasuries, U.S. Agency Mortgages, investment-grade corporate bonds, and investment-grade asset-backed securities with a mandate to keep the overall duration of the portfolio within 1-2 years. The role of this pool is to provide preservation of capital, interest income generation and to provide a hedge against rate risk.

International Equity Pools

The Non-U.S. Developed Markets Index Pool: one passively managed portfolio benchmarked against the MSCI EAFE Index.

The Non-U.S. Emerging Markets Index Pool: one passively managed portfolio benchmarked against the MSCI Emerging Market Free Index

The Non-U.S. Developed Markets Active Pool: four actively managed portfolios (1 large-cap value, 1 large-cap core, 1 large-cap growth, 1 small-cap value) benchmarked against the MSCI EAFE Index. Three strategies use fundamental, bottom-up analysis; one strategy uses quantitative analysis.

The Non-U.S. Emerging Markets Active Pool: one actively managed portfolio benchmarked against the MSCI Emerging Markets Index. The strategy uses quantitative analysis.

The Non-U.S. Developed Alternative-Weighted Index Pool: four passively managed portfolios (value, quality, momentum, and minimum variance).

Alternative Asset Pools

The Absolute Return Pool contains direct investments in a pool of hedge fund managers. These hedge fund strategies may be either equity market oriented or fixed income oriented. The objective of the pool is to outperform the Credit Suisse Hedge Fund Index. The role of the pool in the asset mixes of SIC portfolios is to provide long-term risk-adjusted returns and to reduce the plan's beta profile to the public equity markets.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The Real Estate Pool contains primarily open- and closed-end comingled real estate funds, dominated by stable, core real estate properties. The objective of the pool is to match the rate of return on the NCREIF-ODCE index, plus a small premium from active management. The role of the pool in the asset mixes of SIC portfolios is to provide modest growth of capital, income generation, and to diversify the investment risk of the equity pools.

The Real Return Pool contains a diversified mix of assets which have a positive match the rate of return of a custom mix of benchmarks representing similar assets. The role of the pool in the asset mixes of SIC portfolios is to provide modest growth of capital, income generation, and to diversify the investment risk of the equity pools.

The Private Equity Pool contains more than 100 private equity funds diversified across the sectors of private equity. The objective of the pool is to provide a higher rate of return than the Venture Economics All Private Equity Index. The role of the pool in SIC portfolios is to provide growth of capital.

Private Equity, Real Estate, and Real Return

Private equity, real estate, and real return investments are recorded at estimated fair value as reported by the general partner fund managers. Income is recognized when the investees report distributions received in excess of the capital invested.

Portfolio Restrictions

The Constitution or the laws of the State of New Mexico require a "prudent investor standard" for all investments of the LGPF, STPF, TSPF, and WTF, including the differential (below market) rate investments of the STPF for economic development purposes within the State of New Mexico. Such investments are primarily intended to stimulate residential construction, provide a source of capital to small business enterprises and create additional jobs by providing incentives to major corporations to construct large facilities in the State. External investment trust funds managed pursuant to a joint powers agreement are subject to the same standard of care.

Vacation and Sick Pay

Certain amounts of vacation and sick pay earned and not taken are obligations of the Office and recorded as payables. Sick leave accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually at a rate equal to 50 percent of the employee's hourly wage. Upon termination, vacation pay up to 240 hours becomes immediately payable. Vacation in excess of 240 hours and the first 600 hours of sick leave are forfeited upon termination. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. Accrued vacation and sick pay is recorded as a liability, and the net change during the current year is recorded as an expense in the General Administrative Fund.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Amounts Held in Trust for Pool Beneficiaries

Amounts reserved for designated beneficiaries are required to be segregated in accordance with State law.

Interfund Receivables and Payables

The Office has numerous transactions between funds and other State agencies, including interfund transfers for services provided and used for all administrative activities of the Office, transfers of investment income and transfers of resources for investment. At June 30, 2016, \$9,621,749 and \$3,038,447 were due from the general administrative fund to the LGPF and STPF, respectively.

Cash and Cash Equivalents

Interest in the pooled investments on deposit with the State Treasurer's Office (STO) and the J.P. Morgan short-term investment fund are considered cash and cash equivalents.

Capital Assets

Capital assets are recorded at historical cost and depreciated over their estimated useful lives with no salvage value. Additions, improvements and other capital outlays greater than \$5,000 that significantly extend the useful life of assets are capitalized. The Office includes software in capital assets as required by the state General Services Department (GSD) Rule. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the estimated useful lives of three to seven years for furniture and equipment

Encumbrances

Due to the change in budgetary accounting, encumbrances no longer remain outstanding at year end as any remaining amounts are reverted. As a result, there are no differences between measurement focus at June 30, 2016.

External Trust Fund Accounting Policies

Units of Participation. Each pool is composed of units of participation of unlimited quantity. Each unit of participation represents an equal beneficial interest in the respective pool and no unit has priority or preference over any other. Each purchase or sale of units requires written authorization as defined in the joint powers agreements executed between the Office and each participant. All units are purchased by cash payment. Each unit participation is recorded in book entry form by the Office and consists of an account for each participant that maintains the following information:

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

External Trust Fund Accounting Policies (continued)

1. Name of participant;
2. Date of all unit purchases and sales;
3. Number of units purchased or sold;
4. Valuation of each unit owned; and
5. Total valuation of all units owned.

Initial Valuation. At the inception of each pool, all initial purchases were made by the participants for a valuation price of \$1,000 per unit.

Method of Valuation. The Office uses the following method of determining the value of each investment held in the pools:

- For purposes of this procedure, the recorded closing price for each investment is provided by a recognized pricing service and/or the custodian.
- In the case of a stock where a dividend has been declared and not yet paid, then the amount of such dividend accrual is included in the per unit value.
- An investment purchased and awaiting payment against delivery is included for valuation purposes as a security held and the cost thereof recorded as an account payable.
- For the purposes of valuation of an investment, with the exception of investments sold but not delivered, ascertained brokers' commissions or other expenses which would be incurred on a sale are not deducted.

Valuation of Units. With respect to the valuation of investments determined as provided above, there is added the following:

- All uninvested cash;
- The value of any rights or stock dividends which may have been declared but not received as of the valuation date; and
- All cash dividends and interest that are determined to be earned but not received.

All expenses, including management fees, chargeable to the respective pool as due or accrued are deducted from the valuation as determined above. The net per unit value is then determined by dividing the number of existing units into the total valuation calculated above.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Purchases and Sales. A written Notice of Intent to purchase or sell units must be received by the Office on or before the fifth business day preceding the valuation date. All notices must be signed by an authorized representative as specified in the applicable joint powers agreement. The Office reserves the right to limit a participant's sale to the participant's proportional interest in the current net cash position of the respective pooled investment fund, unless the Office receives a written Notice of Intent thirty (30) days prior to the effective date of the sale. All purchases or sales of units are effective as of the first day following the valuation date.

Cash payment for all additions must be received by the Office in the form of a wire transfer or by interagency cash transfer through the DFA, on or before the third business day following the valuation date. The Office reserves the right to return funds received after this date and cancel that participant's Notice of Intent to purchase units.

Expenses and Management Fee. The Office assesses each pool a management fee that will at least cover the costs of the management services provided and the costs related to maintaining each pool and the individual participant's related account. The amount of the management fee is based on each participant's proportionate ownership of the net assets managed by the Office. The Office reviews the management fee periodically and adjusts the fee, if necessary.

Reporting. The Office provides each participant with a monthly statement that contains net asset value, units owned and change in net asset value from the previous month's transactions. The Office provides each participant with a statement that details the respective participant's total investment.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Office did not have any items that were required to be reported in this category as of June 30, 2016.

Net Position

The government-wide statements utilize a net position presentation categorized as follows:

Net investment in capital assets – This category reflects the portion of net position that is associated with capital assets less outstanding capital asset related debt.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

Restricted net position – For the government-wide statement of net position, net position is reported as restricted when constraints placed on net position used are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This category reflects net position of the Office not restricted for any project or other purpose.

Pensions

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

In January 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Compliant with the requirements of Government Accounting Standards Board Statement No.68 and No.71, the State of New Mexico has implemented the standards for the fiscal year ending June 30, 2015.

The Office, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, the total pension liability exceeds Plan net position resulting in a Net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 CASH AND CASH EQUIVALENTS

State General Fund Investment Pool

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control division began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

The State Controller indicated on August 8, 2016 that calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months; resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP and that all claims will be honored at face value.

The Office has established daily and monthly procedures that mitigate the risk of misstatement of the Office's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

State law (Section 8-6-3 NMSA 1978) requires the Office's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Office consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

Investment in the State General Fund Investment Pool

State law (Section 8-6-3 NMSA 1978) requires the agency's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the agency consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office. At June 30, 2016, the agency had the following invested in the General Fund Investment Pool:

General Fund Investment Pool:	
General Administrative Fund	\$ 22,899,573
Fiduciary Funds	\$ 35,094,720

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Investment in the State General Fund Investment Pool (Continued)

Interest Rate Risk – The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk – The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2016.

Deposits

Cash and cash equivalents are held by the custodian, J.P. Morgan. The Office’s cash held by J.P. Morgan is invested in short-term investment funds which are insured or registered with securities held by the government or its agent in the government’s name.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk (Continued)

Investments in the State Treasurer Investment Pool (STIP) and cash and cash equivalents balances as of June 30, 2016 were as follows:

	SHARE Fund	State Treasurer's Office Funds	J.P. Morgan	Total
General Administration Fund	17300	\$ 22,899,573	\$ -	\$ 22,899,573
Subtotal		22,899,573	-	22,899,573
Land Grant Permanent Fund	60100	27,438,006	148,909,580	176,347,586
Severance Tax Permanent Fund	60200	7,656,714	34,408,609	42,065,323
Tobacco Settlement Permanent Fund	95200	-	2,094,383	2,094,383
Water Trust Fund	10120	-	277,464	277,464
Large Cap Active Pool	09400	-	77,599,705	77,599,705
Large Cap Index Pool	62800	-	559,694	559,694
Large Cap Alternative Weighted Index Pool	35150	-	8,713,915	8,713,915
Core Bonds Pool	30870	-	166,282,216	166,282,216
Core Plus Bonds Pool	35150	-	65,053,286	65,053,286
Short Term Duration Fixed Income Pool	50360	-	(594,442)	(594,442)
Small/Mid Cap Active Pool	22000	-	28,489,633	28,489,633
Small/Mid Cap Index Pool	30840	-	6	6
Small/Mid Cap Enhanced Index Pool	30860	-	704,161	704,161
Non-U.S. Developed Markets Index Pool	21800	-	1,393,495	1,393,495
Non-U.S. Developed Markets Active Pool	11950	-	32,486,565	32,486,565
Non-U.S. Emerging Markets Index Pool	61100	-	629,072	629,072
Non-U.S. Emerging Markets Active Pool	11930	-	9,760,502	9,760,502
Non-U.S. Developed Weighted Index Pool	50320	-	4,780,831	4,780,831
Private Equity Pool	11380	-	39,441,085	39,441,085
Real Estate Pool	11390	-	65,171,983	65,171,983
Real Asset Pool	11540	-	176,758,160	176,758,160
Unconstrained Pool	11940	-	56,041,500	56,041,500
Absolute Return Pool	72100	-	7,493,267	7,493,267
Credit and Structured Finance Pool	20140	-	103,193,479	103,193,479
Subtotal		35,094,720	1,029,648,149	1,064,742,869
Total		\$ 57,994,293	\$ 1,029,648,149	\$ 1,087,642,442

NOTE 4 INVESTMENTS

In accordance with NMSA 6-8, the Council is authorized to invest in domestic and international stocks; debt obligations of the U.S. government, its agencies or instrumentalities; debt obligations of any U.S. or foreign corporation, partnerships or trusts with an investment-grade rating from a national rating service; real estate investments; real return; national private equity investments; repurchase agreements secured by U.S. obligations or other securities backed by the U.S. and absolute return funds. In addition, the Council is authorized to invest in other investments as specified in statute, including New Mexico private equity, SBAs, CDs, film projects and various other loan guarantees. Numerous restrictions, either statutorily or policy in origin, define various elements of the

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 INVESTMENTS (CONTINUED)

investments. Examples include investment size, limitation of percentage ownership of a particular fund or investment, percentage the investment type comprises of the entire fund, and requiring guarantees or other forms of assurance of repayment. The investment policy has been structured in accordance with the Uniform Prudent Investor Act, NMSA 45-7 (600-612).

Credit Risk - Debt Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In order to assess credit risk, the Office is required to disclose credit ratings of its debt investments. U.S. government obligations and obligations guaranteed by the U.S. government are not considered to have credit risk and, accordingly, do not require disclosure. Currently, the Office does not have a policy for the Core Bond Fund that restricts purchases of securities to those above a certain rating as rated by one or more national rating agencies.

The Office's investments and their exposure to credit risk at June 30, 2016 are as follows:

Investment	Rating	Fair Value
Investments Subject to Credit Risk - S&P Ratings:		
Asset-Backed Securities	AAA	\$ 112,140,895
Non-Government-Backed C.M.O.s	AAA	2,512,389
Commercial Mortgage-Backed	AAA	31,656,088
Corporate Bonds	AAA	3,287,783
Government Bonds	AAA	22,126,539
Municipal Bonds	AAA	1,093,682
Asset-Backed Securities	AA+	4,926,657
Non-Government-Backed C.M.O.s	AA+	25,458,341
Commercial Mortgage-Backed	AA+	17,714,050
Corporate Bonds	AA+	14,277,862
Government Bonds	AA+	51,062,010
Commercial Mortgage-Backed	AA+	490,538,280
Municipal Bonds	AA+	1,062,389
Asset-Backed Securities	AA-	1,316,834
Commercial Mortgage-Backed	AA-	3,425,555
Corporate Bonds	AA-	53,469,539
Government Bonds	AA-	2,939,146
Municipal Bonds	AA-	40,792,933
Asset-Backed Securities	AA	22,926,052

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 INVESTMENTS (CONTINUED)

Credit Risk - Debt Investments (Continued)

Investment	Rating	Fair Value
Investments Subject to Credit Risk - S&P Ratings (Continued):		
Non-Government-Backed C.M.O.s	AA	\$ 299,932
Commercial Mortgage-Backed	AA	2,464,918
Corporate Bonds	AA	11,668,191
Government Bonds	AA	1,915,819
Municipal Bonds	AA	3,055,976
Corporate Bonds	A-2	15,687,690
Asset-Backed Securities	A+	13,538,701
Non-Government-Backed C.M.O.s	A+	828,575
Commercial Mortgage-Backed	A+	1,362,070
Corporate Bonds	A+	51,318,071
Government Bonds	A+	4,579,083
Municipal Bonds	A+	2,730,599
Asset-Backed Securities	A-	219,198
Non-Government-Backed C.M.O.s	A-	161,550
Commercial Mortgage-Backed	A-	2,379,462
Corporate Bonds	A-	125,475,471
Municipal Bonds	A-	732,174
Asset-Backed Securities	A	26,817,654
Non-Government-Backed C.M.O.s	A	238,072
Commercial Mortgage-Backed	A	6,450,460
Corporate Bonds	A	104,100,895
Government Bonds	A	4,816,718
Municipal Bonds	A	4,604,845
Asset-Backed Securities	BBB+	10,447,088
Non-Government-Backed C.M.O.s	BBB+	1,040,203
Commercial Mortgage-Backed	BBB+	516,475
Corporate Bonds	BBB+	219,407,202
Government Bonds	BBB+	6,749,232
Municipal Bonds	BBB+	1,942,197
Asset-Backed Securities	BBB-	3,812,724
Non-Government-Backed C.M.O.s	BBB-	1,313,204
Commercial Mortgage-Backed	BBB-	6,012,820
Corporate Bonds	BBB-	189,149,373
Government Bonds	BBB-	3,312,662
Asset-Backed Securities	BBB	5,201,911
Non-Government-Backed C.M.O.s	BBB	653,238
Corporate Bonds	BBB	181,269,983
Government Bonds	BBB	12,969,374
Asset-Backed Securities	BB+	13,600,222
Non-Government-Backed C.M.O.s	BB+	131,517
Corporate Bonds	BB+	116,341,276
Government Bonds	BB+	11,446,351
Asset-Backed Securities	BB-	1,383,295
Non-Government-Backed C.M.O.s	BB-	612,448

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 INVESTMENTS (CONTINUED)

Credit Risk - Debt Investments (Continued)

<u>Investment</u>	<u>Rating</u>	<u>Fair Value</u>
Investments Subject to Credit Risk - S&P Ratings (Continued):		
Commercial Mortgage-Backed	BB-	\$ 2,822,488
Corporate Bonds	BB-	53,995,808
Government Bonds	BB-	1,974,350
Non-Government-Backed C.M.O.s	BB	2,692,356
Commercial Mortgage-Backed	BB	246,539
Corporate Bonds	BB	101,705,998
Government Bonds	BB	21,784,307
Asset-Backed Securities	B+	252,775
Non-Government-Backed C.M.O.s	B+	552,614
Corporate Bonds	B+	73,642,354
Government Bonds	B+	2,982,900
Asset-Backed Securities	B-	1,185,673
Non-Government-Backed C.M.O.s	B-	2,680,175
Commercial Mortgage-Backed	B-	975,132
Corporate Bonds	B-	27,130,938
Government Bonds	B-	4,625,006
Asset-Backed Securities	B	1,845,645
Non-Government-Backed C.M.O.s	B	717,425
Corporate Bonds	B	59,410,307
Non-Government-Backed C.M.O.s	CCC+	645,878
Corporate Bonds	CCC+	4,893,033
Non-Government-Backed C.M.O.s	CCC-	167,276
Corporate Bonds	CCC-	626,875
Asset-Backed Securities	CCC	22,875,822
Non-Government-Backed C.M.O.s	CCC	15,833,694
Asset-Backed Securities	CC	3,696,677
Non-Government-Backed C.M.O.s	CC	353,068
Corporate Bonds	CC	90,313
Asset-Backed Securities	D	8,869,720
Non-Government-Backed C.M.O.s	D	28,453,641
Corporate Bonds	D	1,178,606
Total Investments Subject to Credit Risk - S&P Ratings		2,524,393,336
Investments Subject to Credit Risk - Not Rated:		
Corporate Bonds	Not Rated	285,668,081
Commercial Paper	Not Rated	-
Asset-Backed Securities	Not Rated	86,057,205
Non-Government-Backed C.M.O.s	Not Rated	50,851,109
Commercial Mortgage-Backed	Not Rated	42,377,495
Government Bonds	Not Rated	36,911,326
Total Investments Subject to Credit Risk - Not Rated		501,865,216

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 INVESTMENTS (CONTINUED)

Credit Risk - Debt Investments (Continued)

<u>Investment</u>	<u>Rating</u>	<u>Fair Value</u>
Investments Subject to Other Ratings:		
Private Equity, Equity Securities and Real Estate		\$ 16,375,549,137
NM Private Equity		268,109,315
Government Agencies		39,033,516
Total Investments Subject to Other Ratings		<u>16,682,691,968</u>
Total Investments		<u><u>\$ 19,708,950,520</u></u>

Interest Rate Risk - Debt Investments

Interest rate risk is the risk that changes in interest rates could adversely affect the fair value of an investment. The Office does not have a policy for interest rate risk management, but its practice is to address interest rate risk through the management of debt investment duration.

A summary of the investments at June 30, 2016 and their exposure to interest rate risk is as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Life Not Available</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>Greater than 10 Years</u>
Investments subject to interest rate risk						
Asset-Backed Securities	\$ 341,114,746	\$ 3,854,805	\$ 178,258,456	\$ 69,569,045	\$ 64,101,123	\$ 25,331,317
Cash Collateral	18,826,794	19,247,961	-	-	-	(421,168)
Non-Government-Backed C.M.O.s	161,850,317	-	129,597,781	2,083,193	488,351	29,680,992
Commercial Mortgage-Backed	122,496,226	-	61,192,166	1,050,150	-	60,253,910
Commercial Paper	53,456,254	-	53,456,254	-	-	-
Corporate Bonds	1,717,904,226	-	187,742,245	700,473,080	605,532,155	224,156,746
Discounted Notes	4,289,026	-	4,289,026	-	-	-
Derivatives/Interest Rate SWAP	(32,276,198)	65,651	9,679,990	(9,376,958)	(15,921,775)	(16,723,106)
Government Bonds	1,179,597,147	-	232,062,073	465,967,043	245,202,430	236,365,601
Money Market	683,301	683,301	-	-	-	-
Mortgage Backed Securities	588,391,537	-	13,994,031	267,778	8,965,235	565,164,493
Municipal/Provincial Bonds	56,014,795	-	-	209,796	311,340	55,493,659
U.S. Treasury Bonds/Bills/Notes	32,303,823	-	32,303,823	-	-	-
Total	<u>4,244,651,994</u>	<u>\$ 23,851,718</u>	<u>\$ 902,575,845</u>	<u>\$ 1,230,243,127</u>	<u>\$ 908,678,859</u>	<u>\$ 1,179,302,444</u>
Investments Not Subject to Interest Rate Risk						
Securities, Equity and Real Estate Investments	<u>15,464,298,526</u>					
Total Investments	<u><u>\$ 19,708,950,520</u></u>					

Concentration of Credit Risk – Investments

Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer that represent 5% or more of total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2016, the Office was not exposed to concentration of credit risk as no single issuer represented 5% of total investments.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 INVESTMENTS (CONTINUED)

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates could adversely affect an investment's or deposit's fair value. This risk is eliminated in the Core Bond pool by adhering to the Office's policy that all securities be denominated in U.S. dollars, and is managed in the equity funds by limiting the size of the internationally-invested funds.

A summary of the investments and cash and cash equivalents at June 30, 2016 and their exposure to foreign currency risk are as follows:

Investment	Foreign Currency	Amount	% of Total Investments
Common Stock	AUSTRALIAN DOLLAR	\$ 92,352,842	0.44%
Common Stock	BRAZILIAN REAL	27,123,524	0.13%
Common Stock	CANADIAN DOLLAR	87,408,052	0.42%
Common Stock	CHILEAN PESO	4,634,786	0.02%
Common Stock	CZECH KORUNA	1,972,166	0.01%
Common Stock	DANISH KRONE	47,204,650	0.23%
Common Stock	EGYPTIAN POUND	213,917	0.00%
Common Stock	EURO	605,485,455	2.91%
Common Stock	HONG KONG DOLLAR	240,144,684	1.16%
Common Stock	HUNGARIAN FORINT	2,440,770	0.01%
Common Stock	INDONESIAN RUPIAH	18,494,580	0.09%
Common Stock	ISRAELI SHEKEL	18,029,145	0.09%
Common Stock	JAPANESE YEN	506,664,259	2.44%
Common Stock	MALAYSIAN RINGGIT	12,231,789	0.06%
Common Stock	MEXICAN PESO	19,470,632	0.09%
Common Stock	NEW TAIWAN DOLLAR	88,242,649	0.42%
Common Stock	NEW TURKISH LIRA	19,039,834	0.09%
Common Stock	NEW ZEALAND DOLLAR	8,527,811	0.04%
Common Stock	NORWEGIAN KRONE	26,882,781	0.13%
Common Stock	PHILIPPINE PESO	13,442,829	0.06%
Common Stock	POLISH ZLOTY	4,697,856	0.02%
Common Stock	POUND STERLING	416,226,568	2.00%
Common Stock	QATARI RIAL	2,510,700	0.01%
Common Stock	SINGAPORE DOLLAR	32,701,180	0.16%
Common Stock	SOUTH AFRICAN RAND	44,997,987	0.22%
Common Stock	SOUTH KOREAN WON	123,903,578	0.60%
Common Stock	SWEDISH KRONA	58,483,043	0.28%
Common Stock	SWISS FRANC	197,562,791	0.95%
Common Stock	THAI BAHT	10,595,902	0.05%
Common Stock	UAE DIRHAM	2,760,895	0.01%
Cash	AUSTRALIAN DOLLAR	1,176,990	0.01%
Cash	BRAZILIAN REAL	570,627	0.00%
Cash	CANADIAN DOLLAR	2,041,518	0.01%
Cash	CHILEAN PESO	66,174	0.00%
Cash	CZECH KORUNA	236,865	0.00%

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 INVESTMENTS (CONTINUED)

Foreign Currency Risk – Investments (Continued)

Investment	Foreign Currency	Amount	% of Total Investments
Cash	DANISH KRONE	\$ 62,189	0.00%
Cash	EURO	12,420,998	0.06%
Cash	HONG KONG DOLLAR	1,420,528	0.01%
Cash	HUNGARIAN FORINT	373,720	0.00%
Cash	INDIAN RUPEE	-	0.00%
Cash	INDONESIAN RUPIAH	11,145	0.00%
Cash	ISRAELI SHEKEL	147,850	0.00%
Cash	JAPANESE YEN	3,469,525	0.02%
Cash	MALAYSIAN RINGGIT	77,884	0.00%
Cash	MEXICAN PESO	230,228	0.00%
Cash	NEW TAIWAN DOLLAR	847,942	0.00%
Cash	NEW TURKISH LIRA	205,511	0.00%
Cash	NEW ZEALAND DOLLAR	189,868	0.00%
Cash	NORWEGIAN KRONE	272,295	0.00%
Cash	PHILIPPINE PESO	3,059	0.00%
Cash	POLISH ZLOTY	11,678	0.00%
Cash	POUND STERLING	2,257,961	0.01%
Cash	SINGAPORE DOLLAR	238,367	0.00%
Cash	SOUTH AFRICAN RAND	1,171,511	0.01%
Cash	SOUTH KOREAN WON	607,822	0.00%
Cash	SWEDISH KRONA	281,683	0.00%
Cash	SWISS FRANC	265,417	0.00%
Cash	THAI BAHT	127,752	0.00%
Cash	YUAN RENMINBI	56,533	0.00%
Cash Collateral	AUSTRALIAN DOLLAR	38,719	0.00%
Cash Collateral	CANADIAN DOLLAR	(343,439)	(0.00)%
Cash Collateral	EURO	(1,004,401)	(0.00)%
Cash Collateral	HONG KONG DOLLAR	(58,629)	(0.00)%
Cash Collateral	JAPANESE YEN	(102,753)	(0.00)%
Cash Collateral	POUND STERLING	(459,887)	(0.00)%
Corporate Bonds	BRAZILIAN REAL	64,218	0.00%
Corporate Bonds	CANADIAN DOLLAR	117,663	0.00%
Corporate Bonds	EURO	17,226,733	0.08%
Corporate Bonds	HONG KONG DOLLAR	294,859	0.00%
Corporate Bonds	JAPANESE YEN	2,430,500	0.01%
Corporate Bonds	MEXICAN PESO	198,249	0.00%
Corporate Bonds	POUND STERLING	4,604,589	0.02%
Corporate Bonds	SINGAPORE DOLLAR	425,830	0.00%
Corporate Bonds	SWEDISH KRONA	117,141	0.00%
Corporate Bonds	SWISS FRANC	2,199,425	0.01%
Corporate Bonds	YUAN RENMINBI	287,194	0.00%
Derivatives	AUSTRALIAN DOLLAR	(478,727)	(0.00)%
Derivatives	BRAZILIAN REAL	(514,001)	(0.00)%
Derivatives	CANADIAN DOLLAR	(323,883)	(0.00)%

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 INVESTMENTS (CONTINUED)

Foreign Currency Risk – Investments (Continued)

Investment	Foreign Currency	Amount	% of Total Investments
Derivatives	CHILEAN PESO	\$ (162,807)	(0.00)%
Derivatives	COLOMBIA PESO	70,527	0.00%
Derivatives	CZECH KORUNA	(124,227)	(0.00)%
Derivatives	DANISH KRONE	30,186	0.00%
Derivatives	EURO	1,173,272	0.01%
Derivatives	HONG KONG DOLLAR	13,090	0.00%
Derivatives	HUNGARIAN FORINT	(46,609)	(0.00)%
Derivatives	INDIAN RUPEE	(8,453)	(0.00)%
Derivatives	INDONESIAN RUPIAH	(5,375)	(0.00)%
Derivatives	JAPANESE YEN	(1,250,338)	(0.01)%
Derivatives	MALAYSIAN RINGGIT	(1,035)	(0.00)%
Derivatives	MEXICAN PESO	459,190	0.00%
Derivatives	NEW TAIWAN DOLLAR	(70,314)	(0.00)%
Derivatives	NEW TURKISH LIRA	15,321	0.00%
Derivatives	NEW ZEALAND DOLLAR	(353,245)	(0.00)%
Derivatives	NORWEGIAN KRONE	(428,888)	(0.00)%
Derivatives	POLISH ZLOTY	39,738	0.00%
Derivatives	POUND STERLING	(3,746,731)	(0.02)%
Derivatives	RUSSIAN RUBLE	(20,941)	(0.00)%
Derivatives	SINGAPORE DOLLAR	748,003	0.00%
Derivatives	SOUTH AFRICAN RAND	699,836	0.00%
Derivatives	SOUTH KOREAN WON	(69,525)	(0.00)%
Derivatives	SWEDISH KRONA	3,961,987	0.02%
Derivatives	SWISS FRANC	61,473	0.00%
Derivatives	THAI BAHT	(722)	(0.00)%
Derivatives	YUAN RENMINBI	(64,486)	(0.00)%
Global Depository Receipt	AUSTRALIAN DOLLAR	561,163	0.00%
Global Depository Receipt	EURO	5,693,322	0.03%
Global Depository Receipt	SWEDISH KRONA	2,045,652	0.01%
Global Depository Receipt	THAI BAHT	13,668,746	0.07%
Government Bonds	AUSTRALIAN DOLLAR	1,076,851	0.01%
Government Bonds	BRAZILIAN REAL	20,793,307	0.10%
Government Bonds	CHILEAN PESO	244,279	0.00%
Government Bonds	COLOMBIA PESO	935,267	0.00%
Government Bonds	DANISH KRONE	6,032,520	0.03%
Government Bonds	EURO	17,592,667	0.08%
Government Bonds	JAPANESE YEN	777,793	0.00%
Government Bonds	MEXICAN PESO	2,549,938	0.01%
Government Bonds	SOUTH AFRICAN RAND	1,168,266	0.01%
Government Bonds	SWEDISH KRONA	7,812,592	0.04%
Government Bonds	UNIDADES DE FORMENTO	9	0.00%
Limited Partnerships	CANADIAN DOLLAR	3,001	0.00%
Limited Partnerships	EURO	162,815,531	0.78%
Limited Partnerships	POUND STERLING	46,226,648	0.22%

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 INVESTMENTS (CONTINUED)

Foreign Currency Risk – Investments (Continued)

Investment	Foreign Currency	Amount	% of Total Investments
Money Markets	EURO	\$ 1,146	0.00%
Preferred Stock	BRAZILIAN REAL	10,699,377	0.05%
Preferred Stock	CHILEAN PESO	117,582	0.00%
Preferred Stock	EURO	9,026,703	0.04%
Preferred Stock	SOUTH KOREAN WON	2,339,313	0.01%
Rights	AUSTRALIAN DOLLAR	4,042	0.00%
Rights	BRAZILIAN REAL	112	0.00%
Rights	CHILEAN PESO	1,049	0.00%
Rights	EURO	46,167	0.00%
Rights	SINGAPORE DOLLAR	10,952	0.00%
Real Estate Investment Trust	AUSTRALIAN DOLLAR	12,069,226	0.06%
Real Estate Investment Trust	CANADIAN DOLLAR	444,252	0.00%
Real Estate Investment Trust	EURO	5,353,096	0.03%
Real Estate Investment Trust	HONG KONG DOLLAR	2,337,741	0.01%
Real Estate Investment Trust	ISRAELI SHEKEL	198,293	0.00%
Real Estate Investment Trust	JAPANESE YEN	4,353,432	0.02%
Real Estate Investment Trust	MEXICAN PESO	159,638	0.00%
Real Estate Investment Trust	NEW TURKISH LIRA	70,554	0.00%
Real Estate Investment Trust	NEW ZEALAND DOLLAR	610,217	0.00%
Real Estate Investment Trust	POUND STERLING	3,104,421	0.01%
Real Estate Investment Trust	SINGAPORE DOLLAR	2,211,348	0.01%
Real Estate Investment Trust	SOUTH AFRICAN RAND	1,967,038	0.01%
Treasury Bills	BRAZILIAN REAL	3,166,525	0.02%
Warrants	THAI BAHT	2,738	0.00%
Foreign Currency Investments and Cash and Cash Equivalents		3,137,222,138	15.10%
Non-Foreign Currency Investments and Cash and Cash Equivalents		<u>17,636,471,251</u>	84.90%
Total Investments and Cash and Cash Equivalents		<u>\$ 20,773,693,389</u>	100.00%

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The Office categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Office has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Fair Value 6/30/16
Investments by Fair Value Level				
Debt Securities				
Agency Bonds	\$ -	\$ 57,033,662	\$ -	\$ 57,033,662
Government Bonds	-	127,800,585	-	127,800,585
Municipal Bonds	-	56,014,795	-	56,014,795
Treasuries	-	981,748,268	-	981,748,268
Asset Backed Securities	-	340,459,747	654,999	341,114,746
Mortgage Backed Securities	-	981,425,572	-	981,425,572
Sovereign Debt	-	13,014,632	-	13,014,632
Total Debt Securities	-	3,987,871,667	676,292	3,988,547,959
Equity Securities				
Pooled Funds - Commingled Funds	-	2,255,223,957	-	2,255,223,957
Equities	6,518,724,902	313,946	4,303,181	6,523,342,030
Total Equity Investments	6,518,724,902	2,255,537,903	4,303,181	8,778,565,987
Alternative Investments				
National Private Equity Funds	-	-	1,562,837,630	1,562,837,630
Regional Private Equity Funds	-	-	268,109,397	268,109,397
Real Estate Funds	-	-	1,722,511,505	1,722,511,505
Real Assets Funds	-	-	1,023,905,403	1,023,905,403
Absolute Return Funds	-	-	1,010,773,397	1,010,773,397
Credit & Structured Finance Funds	-	-	763,874,893	763,874,893
Master Limited Partnerships	329,911,610	-	-	329,911,610
Bank Loans	-	289,095,160	-	289,095,160
Other Alternatives	358,068	-	-	358,068
Total Alternative Investments	330,269,679	289,095,160	6,352,012,226	6,971,377,065
Investment in Derivative Instruments				
Credit Derivatives	-	320,979	-	320,979
Equity Derivatives	2,317,471	-	-	2,317,471
Foreign Exchange Derivatives	(119,341)	412,079	-	292,738
Interest Rate Derivatives	8,237,210	(40,509,995)	-	(32,272,785)
Foreign Currency Contracts	-	(589,143)	-	(589,143)
Total Derivative Instruments	10,435,340	(39,975,830)	-	(29,540,491)
Total	<u>\$ 6,859,429,921</u>	<u>\$ 6,492,528,900</u>	<u>\$ 6,356,991,700</u>	<u>\$ 19,708,950,520</u>

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy

Plan members are required to contribute 8.92% of their gross salary. The Office is required to contribute 16.99% of the gross covered salary. The contribution requirements of plan members and the Office are established in State statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Office's contributions to PERA for the years ended June 30, 2016, 2015 and 2014 were \$424,041, \$437,461, and \$408,668, respectively, equal to the amount of the required contributions for each fiscal year.

There are employees who are making contributions to a deferred compensation plan funded through salary reductions in accordance with the provisions of Section 457 of the Internal Revenue Code. Neither the Office nor the State of New Mexico makes any contributions to this plan. All contributions withheld from the participants by the Office have been remitted to PERA, which administers the plan.

NOTE 7 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The Office contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

**NOTE 7 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Plan Description (Continued)

for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy

The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2016, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

**NOTE 7 POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy (Continued)

the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office's contributions to the RHCA for the years ended June 30, 2016, 2015 and 2014 were \$49,916, \$51,514 and \$49,350, respectively, which equal the required contributions for each year.

NOTE 8 CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Furniture and Equipment	\$ 140,084	\$ -	\$ (6,070)	\$ 134,014
Accumulated Depreciation	(131,080)	(6,813)	6,070	(131,823)
Total Capital Assets	<u>\$ 9,004</u>	<u>\$ (6,813)</u>	<u>\$ -</u>	<u>\$ 2,191</u>

Depreciation expense recorded by the Office in fiscal year 2016 was \$6,813. This amount was recognized as an expense in the general fund statement of activities.

NOTE 9 CHANGES IN ACCRUED VACATION AND SICK PAY

A summary of changes in accrued vacation and sick pay is as follows:

Balance at June 30, 2015	\$ 194,045
Additions	163,579
Deletions	(188,854)
Balance at June 30, 2015	<u>\$ 168,770</u>

Of the balance outstanding at June 30, 2016, \$168,770 is estimated to be due within one year of the statement date.

NOTE 10 COMMITMENTS

The Office has commitments for capital contributions to the various private equity partnerships and real estate / real asset investments. As of June 30, 2016, the Office was an investor in approximately 175 private equity limited partnerships and various real estate investments. When making an investment in a limited partnership, the Office commits

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 COMMITMENTS (CONTINUED)

to a capital commitment that will be drawn down by the limited partnership over the life of the partnership, typically twelve to fifteen years. As of June 30, 2016, unfunded commitments to private equity partnerships were approximately \$1.6 billion, and unfunded commitments to real estate and real asset investments were approximately \$1.7 billion. Due to the nature of these investments, the Office cannot predict when these capital contributions will be called. Subsequent to June 30, 2016, the Office approved an additional \$100 million of commitments to real estate partnerships.

In addition to the above investment commitments, the Office leases office space under a non-cancelable operating lease and leases two Xerox copiers. Total lease expense for the year ended June 30, 2016 was \$292,716. Minimum annual lease payments under these leases for the years ended June 30 are as follows:

2017	\$	297,061
2018		295,627
2019		24,667
Total	<u>\$</u>	<u>617,355</u>

Per the Statement of Changes in Net Position and the detail of interagency transactions, the Tobacco Settlement Permanent Fund will transfer \$109,052,359 to the State General Fund to cover 2016 obligations. It is likely there will be a further transfer related to 2017 obligations which will further substantially reduce the balance of the fund.

NOTE 11 JOINT POWERS AGREEMENTS

The Office manages investments for several governmental entities under joint powers agreements that may be terminated by either party upon thirty days' notice to the other party. The revenues and expenditures of the investment pools are recorded in the accompanying financial statements, and the net changes to the participants' assets are recorded in the External Investment Trust Funds financial statements. In addition, each participant reports their net position in their individual financial statements. At June 30, 2016, the Office had joint powers agreements with the following entities:

- (a) New Mexico Retiree Healthcare Authority (NMRHCA) dated June 25, 1992, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMRHCA in accordance with guidelines established in NMRHCA's investment policy. At June 30, 2016, the NMRHCA had total net assets held in trust of \$466,657,945.
- (b) New Mexico Institute of Mining & Technology (NMIMT) dated November 24, 1992, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMIMT in accordance with guidelines established in NMIMT's investment policy. At June 30, 2016, the NMIMT had total net assets held in trust of \$73,182,169.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)

- (c) New Mexico School for the Blind and Visually Impaired (NMSBVI) dated March 25, 1993, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMSBVI in accordance with guidelines established in NMSBVI's investment policy. At June 30, 2016, the NMSBVI had total net assets held in trust of \$8,615,710.
- (d) Commissioner of Public Lands (the Commissioner) dated March 11, 1994, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Commissioner in accordance with guidelines established in the Commissioner's investment policy. At June 30, 2016, the Commissioner had total net assets held in trust of \$14,355,164.
- (e) New Mexico Interstate Stream Commission (Commission) dated March 11, 1994, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Commission in accordance with guidelines established in the Commission's investment policy. At June 30, 2016, the Commission had total net assets held in trust of \$14,583,212.
- (f) New Mexico Military Institute (NMMI) dated July 1, 1997, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMMI in accordance with guidelines established in NMMI's investment policy. At June 30, 2016, the NMMI had total net assets held in trust of \$33,158,407.
- (g) New Mexico Department of Game and Fish (NMDGF) dated July 28, 1998, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMDGF in accordance with guidelines established in NMDGF's investment policy. At June 30, 2016, the NMDGF had total net assets held in trust of \$761,413.
- (h) Eastern New Mexico University (ENMU) dated December 4, 1998, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to ENMU in accordance with guidelines established in ENMU's investment policy. At June 30, 2016, the ENMU had total net assets held in trust of \$11,182,511.
- (i) Springer Municipal School District (SMSD) dated February 5, 1999, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to SMSD in accordance with guidelines established in SMSD's investment policy. At June 30, 2016, the SMSD had total net assets held in trust of \$170,118.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)

- (j) New Mexico Public Regulation Commission, Superintendent of Insurance (the Agency) dated September 18, 2000, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Agency in accordance with guidelines established in the Agency's investment policy. At June 30, 2016, the Agency had total net assets held in trust of \$31,503,799.
- (k) County of Los Alamos (County) dated October 4, 2000, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the County in accordance with guidelines established in the County's investment policy. At June 30, 2016, the County had total net assets held in trust of \$32,449,669.
- (l) New Mexico Public School Insurance Authority (NMPSIA) dated April 30, 2004, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMPSIA in accordance with guidelines established in NMPSIA's investment policy. At June 30, 2016, the NMPSIA had total net assets held in trust of \$31,677,948.
- (m) New Mexico Highlands University (NMHU) dated December 10, 2004, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMHU in accordance with guidelines established in NMHU's investment policy. At June 30, 2016, the NMHU had total net assets held in trust of \$3,653,459.
- (n) Children, Youth, and Family Department (CYFD) dated January 1, 2006, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to CYFD in accordance with guidelines established in CYFD's investment policy. At June 30, 2016, the CYFD had total net assets held in trust of \$5,715,889.
- (o) New Mexico Mortgage Finance Authority (NMMFA) dated November 16, 2005, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMMFA in accordance with guidelines established in NMMFA's investment policy. At June 30, 2016, the NMMFA had total net assets held in trust of \$38,835,638.
- (p) New Mexico Higher Education Department (NMHED) dated April 3, 2007, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to NMHED in accordance with guidelines established in NMHED's investment policy. At June 30, 2016, the NMHED had total net assets held in trust of \$7,598,044.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)

- (q) City of Las Cruces (Client) dated September 28, 2007, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2016, the Client had total net assets held in trust of \$20,300,487.
- (r) San Juan College (Client) dated October 1, 2014, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2016, the Client had total net assets held in trust of \$9,782,464.
- (s) John R. Carver Testamentary Trust (Client) dated November 5, 2015, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2016, the Client had total net assets held in trust of \$469,109.
- (t) Clovis Community College (Client) dated September 28, 2015, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2016, the Client had total net assets held in trust of \$2,330,406.
- (u) New Mexico Small Business Investment Corporation (SBIC) dated May 6, 2016, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2016, the Client had total net assets held in trust of \$3,051,479.

NOTE 12 RISK MANAGEMENT

The Office, as a "State Agency" defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. The Office pays annual premiums to the Risk Management Division for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico and the members of the State Investment Council;
2. Coverage to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverage for State of New Mexico employees.

At June 30, 2016, the Office had no claims that the Risk Management Division had determined not to cover. Denial of coverage by the Risk Management Division would result in the responsibility for coverage reverting to the Office.

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 13 SHORT -TERM DEBT

The Office had no short-term debt activity during the year or any outstanding balances at year-end.

NOTE 14 NON-REVERTING FUND

6-8-5(B), NMSA 1978, authorizes the State Investment Council (SIC) to prepare an operating budget as follows: "The state investment officer shall annually prepare a budget for administering and investing all funds managed by the investment office, which shall be reviewed by the council. Any funds provided for the operating budget of the investment office shall be appropriated from the assets of the Land Grant Permanent Fund, the Severance Tax Permanent Fund, funds available for investment pursuant to Subsection G of Section 6-8-7 NMSA 1978 or any other funds managed by the investment office, as authorized by law." The state constitution has vested sole authority for appropriation to the state legislature; therefore, the legislature annually appropriates funds for the SIC operating budget from the sources specified in this statute. Unexpended/unencumbered funds at fiscal year-end subsequently revert back to their original funding source.

NOTE 15 NEW PRONOUNCEMENTS

GASB has issued the following statements, which are applicable in future years. At this time, management has not determined the impact, if any, on the Office.

Statement No. 73

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

Effective Date: The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 NEW PRONOUNCEMENTS (CONTINUED)

Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

Statement No. 74

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local

OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 NEW PRONOUNCEMENTS (CONTINUED)

Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

Statement No. 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

Statement No. 76,

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective Date: The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
CHANGES IN LAND GRANT PERMANENT TRUST FUND HELD FOR BENEFICIARIES
YEAR ENDED JUNE 30, 2016**

Exhibit 1

Beneficiary	Balance June 30, 2015	State Land Office Transfers	Distributions to Beneficiaries	Other Increases in Capital Accounts, Net	Balance June 30, 2016	Participation Percentage June 30, 2016
Carrie Tingley Hospital	\$ 213,219	\$ -	\$ (9,301)	\$ 43	\$ 203,961	0.001398%
Charitable, Penal and Reform	120,023,063	919,757	(5,256,279)	44,597	115,731,138	0.793394%
Public Schools	12,517,292,178	391,034,589	(555,103,287)	11,837,238	12,365,060,718	84.768600%
Eastern New Mexico University	11,755,509	122,071	(515,644)	5,080	11,367,016	0.077927%
Improvements to the Rio Grande	33,922,175	196,492	(1,484,301)	11,073	32,645,439	0.223801%
Miners' Colfax Medical Center	134,660,248	1,255,895	(5,902,681)	55,206	130,068,668	0.891685%
New Mexico Boys School	813,935	29,534	(35,710)	353	808,112	0.005540%
New Mexico Highlands University	3,751,945	42,126	(164,615)	1,712	3,631,168	0.024893%
New Mexico Institute of Mining and Technology	28,544,909	376,945	(1,253,752)	13,585	27,681,687	0.189772%
New Mexico Military Institute	466,313,369	5,171,828	(20,461,501)	213,417	451,237,113	3.093453%
New Mexico School for the Deaf	283,867,569	3,287,342	(12,459,193)	134,090	274,829,808	1.884094%
New Mexico School for the Blind and Visually Impaired	283,253,439	3,288,367	(12,432,406)	133,967	274,243,367	1.880074%
New Mexico State Hospital	47,899,066	2,330,337	(2,146,063)	63,564	48,146,904	0.330071%
New Mexico State University	64,836,899	439,271	(2,838,701)	22,874	62,460,343	0.428197%
Northern New Mexico Community College	3,029,472	42,249	(133,104)	1,570	2,940,187	0.020156%
Penitentiary of New Mexico	284,625,914	5,104,613	(12,539,631)	170,271	277,361,167	1.901448%
Public Buildings - Capitol	160,396,968	2,706,038	(7,058,766)	93,818	156,138,058	1.070404%
The University of New Mexico	202,987,189	2,050,189	(8,903,061)	82,731	196,217,048	1.345165%
The University of New Mexico Saline Lands	6,555,897	241,650	(291,777)	7,110	6,512,880	0.044649%
Water Reservoirs	151,415,802	1,063,027	(6,629,919)	56,960	145,905,870	1.000257%
Western New Mexico University	3,771,729	42,127	(165,476)	1,716	3,650,096	0.025023%
Alternative Asset Fair Market Value Adjustments	58,807,849	-	-	10,322,916	69,130,765	0.473926%
Due from Pools	13,433,012	-	-	12,661,654	26,094,666	0.178892%
Total	\$ 14,882,171,355	\$ 419,744,447	\$ (655,785,168)	\$ 35,935,545	\$ 14,682,066,179	100.00%

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
 DETAIL OF INTERAGENCY TRANSFERS
 YEAR ENDED JUNE 30, 2016**

Exhibit 2

Agency Initiating Transfer/Fund	Transferring Cash Account	Agency Receiving Transfer/Fund	Receiving Cash Account
State Land Office	26400/77700	State Investment Office/ Land Grant Permanent Fund	60100
A total of \$419,744,447 was received from the State Land Office for fiscal year 2016. Funds transferred are from royalties and principal from land sales generated by the State Land Office (see Note 1).			
State Treasurer's Office/ Severance Tax Bonding Fund	41000	State Investment Office/ Severance Tax Permanent Fund	60200
A total of \$8,468,141 was transferred from the Severance Tax Bonding Fund during 2016. Funds transferred are remaining severance tax revenues after paying Severance Tax Bonding debt service (see Note 1).			
New Mexico Attorney General Tobacco Settlement Proceeds	Wire Received	State Investment Office/ Tobacco Settlement Permanent Fund	95200
A total of \$39,551,978 was received in fiscal year 2016 for the Tobacco Settlement Permanent Fund's portion of the Tobacco Settlement Proceeds (see Note 1). The difference between what was received and what was recorded in the Statement of Changes in Net Position is due to accrued amounts recorded as receivables at June 30, 2016.			
State Investment Office/ Land Grant Permanent Fund	60100	Land Grant Permanent Fund Beneficiaries	Various
A total of \$655,785,168 was distributed for fiscal year 2016 to the various beneficiaries of the Land Grant Permanent Fund (see Note 1).			
State Investment Office/ Severance Tax Permanent Fund	60200	Department of Finance and Administration/ State General Fund	85300
A total of \$193,509,941 was distributed for fiscal year 2016 to the various beneficiaries of the Severance Tax Permanent Fund (see Note 1).			
State Investment Office/ Tobacco Settlement Permanent Fund	95200	Department of Finance and Administration/ Tobacco Settlement Program Fund	69700
A total of \$40,082,700 was distributed for fiscal year 2016 to the Tobacco Settlement Program Fund (see Note 1). The difference between what was paid and what was recorded in the Statement of Changes in Net Position is due to accrued amounts recorded as due to other state agencies at June 30, 2016.			
Department of Finance and Administration/ Federal Taylor Grazing	73800	State Investment Office/ Land Grant Permanent Fund	60100
A total of \$168,347 was received from the Department of Finance and Administration for fiscal year 2015. Funds transferred are a distribution from the Federal Taylor Grazing Act.			
State Investment Office/ Tobacco Settlement Permanent Fund	95200	Department of Finance and Administration/ State General Fund	85300
The Tobacco Settlement Permanent Fund will transfer \$109,052,359 to the State General Fund to cover 2016 obligations. This transfer is per Laws 2016, 2nd Special Session, Chapter 2, Sec 2 A.			

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS
YEAR ENDED JUNE 30, 2016**

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For fiscal year ended June 30, 2016, activity by participating agency was as follows:

Core Bonds Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
Clovis Community College Fund	\$ -	\$ -	\$ 678,683	\$ -	\$ 33,082	\$ 711,766
Eastern New Mexico University	2,236,897	-	73,000	-	115,072	2,424,969
John Carver Trust	-	-	90,000	-	5,638	95,638
Los Alamos County - Cemetery	134,797	(29,620)	-	-	5,305	110,482
Los Alamos County - General Fund	1,886,900	-	-	-	95,210	1,982,110
Los Alamos County - Permanent Fund	3,602,736	(706,750)	-	-	146,134	3,042,120
NM Children's, Youth & Family Department Next Generation Fund	1,186,834	-	-	-	59,895	1,246,729
NM Children's, Youth & Family Department Trust Fund	3,111,424	-	-	-	157,021	3,268,445
NM Commissioner of Public Lands - Oil and Gas	5,907,084	-	-	-	298,112	6,205,196
NM Department of Game and Fish	221,108	-	-	-	11,168	232,276
NM Higher Education Department	2,669,195	(250,000)	-	-	119,045	2,538,240
NM Highlands University - Endowment Fund	1,022,567	-	-	-	51,606	1,074,172
NM Institute of Mining and Technology - Employee Benefit Trust	297,527	-	-	-	15,015	312,542
NM Institute of Mining and Technology - Endowment Fund	12,164,181	-	2,689,450	-	739,672	15,593,303
NM Institute of Mining and Technology - Plant Debt Allocated Funds	14,575,315	-	-	-	735,568	15,310,884
NM Institute of Mining and Technology - Research Fund	8,014,418	-	-	-	404,451	8,418,869
NM Interstate Stream Comm. - Improvements on the Rio Grande	793,012	-	-	-	40,020	833,033
NM Interstate Stream Comm. - Irrigation Works Construction	8,299,870	(2,700,000)	-	-	292,505	5,892,375
NM Military Institute - Capital Outlay	618,826	-	-	7,256	31,666	657,749
NM Military Institute - Legislative Scholarship	4,368,323	-	57,483	(59,456)	222,366	4,588,716
NM Military Institute - LFC/VC Maintenance Endowment	2,073,598	-	-	25,477	106,107	2,205,182
NM Military Institute - Operating	396,579	-	36,000	3,922	22,070	458,571
NM Military Institute - Patterson Account	1,828,740	-	-	21,818	93,526	1,944,084
NM Military Institute - Trust Scholarship	2,226,743	-	-	26,174	113,850	2,366,768
NM Mortgage Finance Authority	20,853,387	-	-	-	1,052,403	21,905,789
NM Mortgage Finance Authority - IFT Housing Trust Fund	13,719,303	(3,801,654)	281,463	-	508,955	10,708,067
NM Public Regulation Commission - Patients' Comp. Fund	27,992,681	(5,000,000)	-	-	1,168,991	24,161,672
NM Public Schools Insurance Authority - Benefits	4,318,671	-	-	2,749,253	356,698	7,424,622
NM Public Schools Insurance Authority - Risk	4,348,468	-	-	2,622,868	351,822	7,323,158
NM Retiree Health Care Authority	85,928,917	-	7,000,000	-	4,600,421	97,529,337
NM School for the Blind and Visually Impaired	4,507,155	-	-	-	227,466	4,734,620
San Juan College	2,030,624	-	-	-	102,474	2,133,097
NM Small Business Investment Corp.	-	-	3,000,000	-	51,479	3,051,479
Springer Municipal School District	26,467	-	-	-	1,125	27,592
Total	\$ 241,362,347	\$ (12,488,024)	\$ 13,906,080	\$ 5,397,312	\$ 12,335,938	\$ 260,513,653

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 2 of 10

U.S. Large Cap. Active Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
Los Alamos County - Cemetery	\$ 221,764	\$ (49,040)	\$ -	\$ -	\$ (747)	\$ 171,977
Los Alamos County - General Fund	3,151,237	-	-	-	(13,734)	3,137,503
Los Alamos County - Permanent Fund	6,029,074	(1,190,150)	-	-	(21,127)	4,817,797
City of Las Cruces	7,743,030	-	-	-	(33,789)	7,709,242
NM Commissioner of Public Lands - Oil and Gas	4,141,608	-	-	-	(18,073)	4,123,535
NM Children's, Youth & Family Department Next Generation Fund	270,935	-	-	-	(1,182)	269,753
NM Children's, Youth & Family Department Trust Fund	698,464	-	-	-	(3,043)	695,420
NM Higher Education Department	812,062	-	-	-	(3,522)	808,540
NM Interstate Stream Comm. - Improvements on the Rio Grande	958,728	-	-	-	(4,183)	954,545
NM Interstate Stream Comm. - Irrigation Works Construction	9,153,325	(2,300,000)	-	-	49,934	6,903,259
NM Military Institute - LFC/VC Maintenance Endowment	-	-	-	-	-	-
NM Retiree Health Care Authority	-	-	-	-	-	-
NM School for the Blind and Visually Impaired	1,044,112	-	-	-	(4,538)	1,039,574
San Juan	2,133,166	-	-	-	(9,304)	2,123,861
Total	<u>\$ 36,357,506</u>	<u>\$ (3,539,190)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (63,309)</u>	<u>\$ 32,755,007</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 3 of 10

U.S. Large Cap. Index Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
Los Alamos County - Cemetery	\$ 223,794	\$ (49,600)	\$ -	\$ -	\$ 5,132	\$ 179,326
City of Las Cruces	4,150,201	-	-	-	122,437	4,272,637
Los Alamos County - General Fund	3,181,117	-	-	-	93,842	3,274,959
Los Alamos County - Permanent Fund	5,987,917	(1,184,570)	-	-	141,698	4,945,044
Eastern New Mexico University	5,911,040	-	182,000	-	178,988	6,272,028
NM Higher Education Department	1,125,085	(100,000)	-	-	29,446	1,054,531
NM Commissioner of Public Lands - Oil and Gas	3,911,052	-	-	-	115,381	4,026,433
NM Department of Game and Fish	364,396	-	-	-	10,742	375,138
NM Highlands University - Endowment Fund	1,787,017	-	-	-	52,719	1,839,736
NM Institute of Mining and Technology - Employee Benefit Trust	733,574	-	-	-	21,641	755,216
NM Institute of Mining and Technology - Endowment Fund	18,779,153	121,120	3,913,056	-	596,105	23,409,433
NM Institute of Mining and Technology	9,919,398	(1,053,000)	-	-	290,280	9,156,678
NM Military Institute - Capital Outlay	687,006	-	-	(35,613)	16,834	668,227
NM Military Institute - Legislative Scholarship	4,846,054	-	60,677	(207,759)	120,969	4,819,940
NM Military Institute - LFC/VC Maintenance Endowment	2,305,113	-	-	(121,175)	56,308	2,240,246
NM Military Institute - Operating	439,464	-	38,000	(23,309)	11,859	466,014
NM Military Institute - Patterson Account	2,031,348	-	-	(106,007)	49,731	1,975,071
NM Military Institute - Trust Scholarship	2,472,026	-	-	(128,078)	60,599	2,404,548
NM Mortgage Finance Authority	6,043,490	-	-	-	178,291	6,221,782
NM Public Regulation Commission - Patients' Comp. Fund	10,850,634	(7,600,000)	-	-	152,118	3,402,752
NM Public Schools Insurance Authority - Benefits	7,911,113	-	-	(3,685,230)	113,310	4,339,194
NM Public Schools Insurance Authority - Risk	7,725,654	-	-	(3,557,524)	111,785	4,279,916
NM Retiree Health Care Authority	85,884,992	-	7,000,000	-	2,822,836	95,707,828
Springer Municipal School District	42,591	(7,500)	-	-	1,096	36,187
Clovis Community College Fund	-	-	1,583,638	-	35,003	1,618,641
John Carver Trust	-	-	360,000	-	13,472	373,472
Total	\$ 187,313,231	\$ (9,873,550)	\$ 13,137,370	\$ (7,864,695)	\$ 5,402,619	\$ 188,114,975

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 4 of 10

U.S. Small/Mid Cap. Active Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
Los Alamos County - Cemetery	\$ 173,107	\$ (38,140)	\$ -	\$ -	\$ (9,874)	\$ 125,093
Los Alamos County - General Fund	2,450,254	-	-	-	(179,415)	2,270,839
Los Alamos County - Permanent Fund	4,647,827	(914,000)	-	-	(273,436)	3,460,391
City of Las Cruces	6,687,699	-	-	-	(489,724)	6,197,975
Eastern New Mexico University	1,645,420	-	45,000	-	(119,400)	1,571,020
NM Department of Game and Fish	99,045	-	-	-	(7,265)	91,780
NM Higher Education Department	2,573,956	(200,000)	-	-	(194,584)	2,179,372
NM Highlands University - Endowment Fund	474,697	-	-	-	(34,761)	439,936
NM Institute of Mining and Technology - Employee Benefit Trust	144,886	-	-	-	(10,610)	134,277
NM Military Institute - Capital Outlay	194,935	-	-	8,883	(13,184)	190,634
NM Military Institute - Legislative Scholarship	1,375,522	-	17,564	92,662	(92,727)	1,393,021
NM Military Institute - LFC/VC Maintenance Endowment	653,693	-	-	29,637	(44,204)	639,126
NM Military Institute - Operating	124,734	-	11,000	6,337	(9,135)	132,936
NM Military Institute - Patterson Account	576,185	-	-	26,188	(38,913)	563,460
NM Military Institute - Trust Scholarship	701,496	-	-	31,878	(47,387)	685,986
NM Retiree Health Care Authority	12,019,806	-	1,050,000	-	(863,776)	12,206,030
NM Public Regulation Commission - Patients' Comp. Fund	2,797,371	(1,200,000)	-	-	(211,338)	1,386,033
NM Public Schools Insurance Authority - Benefits	1,887,123	-	-	(458,667)	43,568	1,472,024
NM Public Schools Insurance Authority - Risk	1,822,805	-	-	(413,866)	42,978	1,451,917
NM School for the Blind and Visually Impaired	1,137,901	-	-	-	(83,310)	1,054,591
San Juan College	1,566,593	-	-	-	(114,705)	1,451,888
Springer Municipal School District	41,268	-	-	-	(3,022)	38,247
Total	\$ 43,796,324	\$ (2,352,140)	\$ 1,123,564	\$ (676,949)	\$ (2,754,223)	\$ 39,136,575

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 5 of 10

Non U.S. Developed Markets Index Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
Eastern New Mexico University	\$ 931,592	\$ -	\$ -	\$ -	\$ (84,957)	\$ 846,635
City of Las Cruces	2,333,431	-	-	-	(212,798)	2,120,633
Los Alamos County - Cemetery	116,705	(26,140)	-	-	(8,247)	82,318
Los Alamos County - General Fund	1,644,854	-	-	-	(150,012)	1,494,842
Los Alamos County - Permanent Fund	3,124,102	(624,450)	-	-	(227,959)	2,271,693
NM Children's, Youth & Family Department Next Generation Fund	56,170	-	-	-	(5,122)	51,047
NM Children's, Youth & Family Department Trust Fund	156,476	-	-	-	(14,271)	142,205
NM Department of Game and Fish	47,922	-	-	-	(4,366)	43,556
NM Institute of Mining and Technology - Employee Benefit Trust	100,096	-	-	-	(9,128)	90,967
NM Higher Education Department	848,486	(100,000)	-	-	(73,084)	675,402
NM Military Institute - Capital Outlay	205,657	-	-	10,083	(18,441)	197,299
NM Military Institute - Legislative Scholarship	1,452,111	-	19,161	123,422	(133,351)	1,461,343
NM Military Institute - LFC/VC Maintenance Endowment	688,783	-	-	34,511	(61,761)	661,533
NM Military Institute - Operating	131,738	-	12,000	6,681	(12,890)	137,529
NM Military Institute - Patterson Account	607,479	-	-	30,202	(54,492)	583,188
NM Military Institute - Trust Scholarship	740,024	-	-	36,304	(66,387)	709,942
NM Public Regulation Commission - Patients' Comp. Fund	2,982,772	(1,300,000)	-	-	(191,918)	1,490,854
NM Public Schools Insurance Authority - Benefits	693,201	-	-	2,291,033	(272,144)	2,712,090
NM Public Schools Insurance Authority - Risk	682,490	-	-	2,260,963	(268,424)	2,675,028
NM Retiree Health Care Authority	50,870,559	-	4,200,000	-	(4,755,246)	50,315,313
NM School for the Blind and Visually Impaired	1,118,575	-	-	-	(102,013)	1,016,563
San Juan College	3,057,136	-	-	-	(278,811)	2,778,325
Springer Municipal School District	40,474	-	-	-	(3,691)	36,783
NM Highlands University - Endowment Fund	219,226	-	-	-	(19,992)	199,234
Total	\$ 72,850,058	\$ (2,050,590)	\$ 4,231,161	\$ 4,793,198	\$ (7,029,506)	\$ 72,794,320

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 6 of 10

Non U.S. Emerging Markets Index Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
Eastern New Mexico University	\$ 76,843	\$ -	\$ -	\$ -	\$ (8,983)	\$ 67,860
Los Alamos County - Cemetery	33,297	(7,460)	-	-	(3,006)	22,832
Los Alamos County - General Fund	479,689	-	-	-	(56,051)	423,637
Los Alamos County - Permanent Fund	901,000	(179,980)	-	-	(84,313)	636,707
NM Children's, Youth & Family Department Next Generation Fund	11,331	-	-	-	(1,325)	10,006
NM Children's, Youth & Family Department Trust Fund	36,554	-	-	-	(4,272)	32,282
NM Department of Game and Fish	21,121	-	-	-	(2,458)	18,662
NM Higher Education Department	567,329	(150,000)	-	-	(75,370)	341,959
NM Military Institute - Capital Outlay	49,688	-	-	9,391	(4,561)	54,518
NM Military Institute - Legislative Scholarship	350,933	-	4,790	51,133	(32,257)	374,599
NM Military Institute - LFC/VC Maintenance Endowment	166,493	-	-	31,551	(15,231)	182,812
NM Military Institute - Operating	31,846	-	3,000	6,370	(3,216)	38,000
NM Military Institute - Patterson Account	146,803	-	-	27,799	(13,430)	161,172
NM Military Institute - Trust Scholarship	178,832	-	-	33,722	(16,360)	196,194
NM Public Regulation Commission - Patients' Comp. Fund	2,224,380	(900,000)	-	-	(261,892)	1,062,488
NM Public Schools Insurance Authority - Benefits	896,388	-	-	(896,389)	1	-
NM Public Schools Insurance Authority - Risk	912,440	-	-	(912,441)	1	-
NM Retiree Health Care Authority	64,944,290	-	5,250,000	-	(7,422,667)	62,771,623
NM School for the Blind and Visually Impaired	872,335	-	-	-	(101,973)	770,362
San Juan College	1,466,744	-	-	-	(171,452)	1,295,292
Springer Municipal School District	35,431	-	-	-	(4,142)	31,289
NM Highlands University - Endowment Fund	113,668	-	-	-	(13,288)	100,380
Total	\$ 74,517,436	\$ (1,237,440)	\$ 5,257,790	\$ (1,648,865)	\$ (8,296,245)	\$ 68,592,676

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 7 of 10

Credit and Structured Finance Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
NM Retiree Health Care Authority	\$ 43,831,712	\$ -	\$ 3,500,000	\$ -	\$ 235,920	\$ 47,567,632
Total	<u>\$ 43,831,712</u>	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ 235,920</u>	<u>\$ 47,567,632</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 8 of 10

Absolute Return Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
NM Retiree Health Care Authority	\$ 21,619,852	\$ -	\$ 1,750,000	\$ -	\$ (775,811)	\$ 22,594,042
Total	<u>\$ 21,619,852</u>	<u>\$ -</u>	<u>\$ 1,750,000</u>	<u>\$ -</u>	<u>\$ (775,811)</u>	<u>\$ 22,594,042</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 9 of 10

Private Equity Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
NM Retiree Health Care Authority	\$ 45,552,488	\$ -	\$ 3,500,000	\$ -	\$ 1,098,318	\$ 50,150,805
Total	<u>\$ 45,552,488</u>	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ 1,098,318</u>	<u>\$ 50,150,805</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

Exhibit 3 – Page 10 of 10

Real Estate Pool	Beginning Balance June 30, 2015	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2016
Participant:						
NM Retiree Health Care Authority	\$ 23,165,809	\$ -	\$ 1,750,000	\$ -	\$ 2,899,525	\$ 27,815,334
Total	<u>\$ 23,165,809</u>	<u>\$ -</u>	<u>\$ 1,750,000</u>	<u>\$ -</u>	<u>\$ 2,899,525</u>	<u>\$ 27,815,334</u>

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2016

Exhibit 4 – Page 1 of 3

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
Admin Fund				
<i>Cash and Cash Equivalents</i>				
NM State Treasurer's Office	Fund 173 - General Administrative Fund	Interest in SGFIP	\$ 22,899,573	\$ 22,899,573
	Total Admin Fund		<u>\$ 22,899,573</u>	<u>\$ 22,899,573</u>
Fiduciary Funds				
<i>Cash and Cash Equivalents</i>				
N.M. State Treasurer's Office	Fund 601 - Land Grant Permanent Fund	Interest in SGFIP	\$ 27,438,006	\$ 27,438,006
N.M. State Treasurer's Office	Fund 602 - Severance Tax Permanent Fund	Interest in SGFIP	7,656,714	7,656,714
JP Morgan	Land Grant Permanent Fund	Money Market	148,909,580	148,909,580
JP Morgan	Severance Tax Permanent Fund	Money Market	34,408,609	34,408,609
JP Morgan	Tobacco Settlement Permanent Fund	Money Market	2,094,383	2,094,383
JP Morgan	Water Trust Fund	Money Market	277,464	277,464
JP Morgan	Alliance Bernstein Non-U.S. Developed Mkts. Index	Money Market	1,319,807	1,319,807
JP Morgan	Alliance Bernstein Non-U.S. Emerging Mkts. Index	Money Market	628,905	628,905
JP Morgan	Blackrock Sm./Mid. Enhanced	Money Market	704,161	704,161
JP Morgan	Blackrock Emerging Mkts.Opportunity Fund	Money Market	6,524,621	6,524,621
JP Morgan	Blackrock (Core Bonds Pool)	Money Market	166,282,216	166,282,216
JP Morgan	Blackrock FTSE Developed Ex-US Minimum Variance	Money Market	1,271,753	1,271,753
JP Morgan	Blackrock MSCI EAFE IMI Sector Neutral Quality Index	Money Market	1,708,066	1,708,066
JP Morgan	Blackrock MSCI EAFE IMI Enhanced Value Index	Money Market	1,055,032	1,055,032
JP Morgan	Blackrock MSCI EAFE IMI Momentum Index	Money Market	628,097	628,097
JP Morgan	Brown Brothers Harriman	Money Market	52,152,869	52,152,869
JP Morgan	Cash Accounts	Money Market	17	17
JP Morgan	Cortina Asset Management	Money Market	5,004,299	5,004,299
JP Morgan	Credit and Structured Finance Cash	Money Market	28,193,479	28,193,479
JP Morgan	Credit Suisse (Real Asset Pool)	Money Market	9,589,799	9,589,799
JP Morgan	Donald Smith Co.	Money Market	17,771,411	17,771,411
JP Morgan	GAM (Unconstrained)	Money Market	31,945,777	31,945,777
JP Morgan	Harvest MLP (Real Asset Pool)	Money Market	7,801,169	7,801,169
JP Morgan	Hedge Fund Pooled Cash Account	Money Market	7,493,267	7,493,267
JP Morgan	ING (Real Asset Pool)	Money Market	15,984,657	15,984,657
JP Morgan	JP Morgan Asset Management	Money Market	6,143,667	6,143,667
JP Morgan	Loomis Sayles (Core Plus Bond Fund)	Money Market	10,746,512	10,746,512
JP Morgan	Loomis Sayles Unconstrained	Money Market	13,853,201	13,853,201
JP Morgan	LSV Int'l Lrg.Cap. Value Equity	Money Market	5,922,072	5,922,072
JP Morgan	MFS Int'l Growth Equity	Money Market	4,038,850	4,038,850
JP Morgan	Neuberger Berman	Money Market	6,116,023	6,116,023
JP Morgan	NMSIC Rio Grande	Money Market	75,000,000	75,000,000
JP Morgan	NT Russell 1000 EW	Money Market	267,356	267,356
JP Morgan	NT Russell 1000 Index	Money Market	559,692	559,692
JP Morgan	NT Russell Fundamental (Alt Weighted Index)	Money Market	6,667,475	6,667,475
JP Morgan	NT Russell Top 200	Money Market	488,611	488,611
JP Morgan	NT FTSE RAFI (Alt Weighted Index)	Money Market	1,290,471	1,290,471
JP Morgan	PIMCO (Core Plus Bond Fund)	Money Market	30,366,706	30,366,706
JP Morgan	PIMCO Unconstrained Pool	Money Market	10,231,249	10,231,249
JP Morgan	National Private Equity Pool	Money Market	39,441,085	39,441,085
JP Morgan	Prudential (Core Plus Bond Fund)	Money Market	23,940,067	23,940,067
JP Morgan	Real Asset Pool	Money Market	143,382,535	143,382,535
JP Morgan	Real Estate Pool	Money Market	65,171,983	65,171,983
JP Morgan	Seizert Capital	Money Market	5,713,923	5,713,923
JP Morgan	Short Term Duration Fixed Income	Money Market	(594,443)	(594,443)
JP Morgan	SIC Tax Reclaims	Money Market	72,342	72,342

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)
JUNE 30, 2016

Exhibit 4 – Page 2 of 3

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
Fiduciary Funds				
<i>Cash and Cash Equivalents, continued</i>				
JP Morgan	SIC Unconstrained Pool	Money Market	\$ 11,274	\$ 11,274
JP Morgan	Transition Accounts	Money Market	126,026	126,026
JP Morgan	T. Rowe Price Int'l Core Equity	Money Market	540,150	540,150
JP Morgan	T. Rowe Price Lrg Cap. Active	Money Market	2,572,089	2,572,089
JP Morgan	Templeton Int'l Sm.Cap. Equity	Money Market	15,862,797	15,862,797
JP Morgan	Wellington Lrg. Cap. Active	Money Market	16,731,076	16,731,076
JP Morgan	William Blair	Money Market	3,235,920	3,235,920
<i>Total Cash and Cash Equivalents</i>			1,064,742,869	1,064,742,869
Fiduciary Funds				
<i>Investments on Deposit</i>				
JP Morgan	Alliance Bernstein Non-U.S. Developed Mkts. Index	Equity	442,272,077	442,272,077
JP Morgan	Alliance Bernstein Non-U.S. Emerging Mkts. Index	Equity	115,717,498	115,717,498
JP Morgan	Blackrock Sm./Mid. Enhanced	Equity	161,236,755	161,236,755
JP Morgan	Blackrock Emerging Mkts.Opportunity Fund	Equity	273,659,829	273,659,829
JP Morgan	Blackrock (Core Bonds Pool)	Core Bonds	851,283,236	851,283,236
JP Morgan	Blackrock MSCI Sector Neutral Quality Index	Equity	150,989,270	150,989,270
JP Morgan	Blackrock FTSE Developed Ex-US Min Variance	Equity	185,753,692	185,753,692
JP Morgan	Blackrock EAFE IMI Momentum Index	Equity	157,595,160	157,595,160
JP Morgan	Blackrock EAFE IMI Enhanced Value	Equity	140,917,438	140,917,438
JP Morgan	Brown Brothers Harriman	Equity	476,227,778	476,227,778
JP Morgan	Cortina Asset Management	Equity	118,052,167	118,052,167
JP Morgan	Credit Suisse (Real Asset Pool)	Floating Rate	134,731,656	134,731,656
JP Morgan	Donald Smith Co.	Equity	98,082,110	98,082,110
JP Morgan	GAM (Unconstrained)	Fixed Income	269,879,169	269,879,169
JP Morgan	Harvest MLP (Real Asset Pool)	MLP	382,120,537	382,120,537
JP Morgan	ING (Real Asset Pool)	Floating Rate	157,416,755	157,416,755
JP Morgan	JP Morgan Asset Management	Equity	210,411,218	210,411,218
JP Morgan	JP Morgan Asset Management	Short Term Duration	377,871,491	377,871,491
JP Morgan	Loomis Sayles (Core Plus Bond Fund)	Core Plus Bonds	537,105,369	537,105,369
JP Morgan	Loomis Sayles Unconstrained	Fixed Income	198,618,678	198,618,678
JP Morgan	LSV Int'l Lrg.Cap. Value Equity	Equity	356,869,039	356,869,039
JP Morgan	MFS Int'l Growth Equity	Equity	274,981,716	274,981,716
JP Morgan	Neuberger Berman	Equity	149,972,774	149,972,774
JP Morgan	NT Russell 1000 Index	Equity	57,792,975	57,792,975
JP Morgan	NT 2000 Small Mid Index	Equity	29,815,991	29,815,991
JP Morgan	Northern Trust S&P 500 Index	Equity	2,152,089,495	2,152,089,495
JP Morgan	NT Russell Fundamental (Alt Weighted Index)	Equity	781,174,052	781,174,052
JP Morgan	NT Russell Top 200	Equity	58,493,117	58,493,117
JP Morgan	NT FTSE RAFI (Alt Weighted Index)	Equity	311,812,481	311,812,481
JP Morgan	PIMCO (Core Plus Bond Fund)	Core Plus Bonds	1,037,289,835	1,037,289,835
JP Morgan	PIMCO Unconstrained Pool	Fixed Income	204,254,859	204,254,859
JP Morgan	Prudential (Core Plus Bond Fund)	Core Plus Bonds	515,151,153	515,151,153
JP Morgan	Seizert Capital	Equity	113,813,594	113,813,594
JP Morgan	SIC Tax Reclaims	Equity	111	111
JP Morgan	T. Rowe Price Int'l Core Equity	Equity	377,062,155	377,062,155
JP Morgan	T. Rowe Price Lrg Cap. Active	Equity	502,565,898	502,565,898
JP Morgan	Templeton Int'l Sm.Cap. Equity	Equity	300,919,997	300,919,997
JP Morgan	Wellington Lrg. Cap. Active	Equity	497,274,157	497,274,157
JP Morgan	William Blair	Equity	150,863,458	150,863,458
<i>Total Investments on Deposit</i>			13,312,138,741	13,312,138,741

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)
JUNE 30, 2016**

Exhibit 4 – Page 3 of 3

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
Fiduciary Funds				
<i>Other Investments</i>				
JP Morgan	National Private Equity Pool	Private Equity	\$ 1,429,111,580	\$ 1,429,111,580
JP Morgan	International Private Equity	Private Equity	134,726,050	134,726,050
JP Morgan	Regional Private Equity	Private Equity	268,109,315	268,109,315
JP Morgan	Real Asset Pool Domestic	Real Asset Investments	916,150,209	916,150,209
JP Morgan	Real Asset Pool International	Real Asset Investments	107,755,193	107,755,193
JP Morgan	Real Estate Pool - National	Real Estate Investments	1,648,375,365	1,648,375,365
JP Morgan	International Real Estate	Real Estate Investments	74,136,411	74,136,411
JP Morgan	Economically Targeted Investments	Government Sponsored Entities	39,033,516	39,033,516
JP Morgan	Private Equity Stock Distribution - National	Direct Equity and Bond Investments	1,930,437	1,930,437
JP Morgan	Private Equity Stock Distribution - Regional	Direct Equity and Bond Investments	2,835,412	2,835,412
JP Morgan	NMSIC Rio Grande Fund LLC	Structured Credit	760,020,088	760,020,088
JP Morgan	Credit & Structured Finance Pool Equity LP Interests	Structured Credit	3,854,805	3,854,805
JP Morgan	NMSIC Enchantment A	Hedge Investments	238,721,531	238,721,531
JP Morgan	NMSIC Enchantment B	Hedge Investments	20,679,956	20,679,956
JP Morgan	Crestline Offshore Recovery	Hedge Investments	1,172,292	1,172,292
JP Morgan	NMSIC Matador	Hedge Investments	356,543,676	356,543,676
JP Morgan	CT Preferred LP	Hedge Investments	2,105,713	2,105,713
JP Morgan	NMSIC High Desert	Hedge Investments	391,550,229	391,550,229
	<i>Total Other Investments</i>		<u>6,396,811,779</u>	<u>6,396,811,779</u>
	Total Fiduciary Fund Investments		<u>19,708,950,520</u>	<u>19,708,950,520</u>
	Total Fiduciary Fund Cash and Investments		<u>\$ 20,773,693,389</u>	<u>\$ 20,773,693,389</u>

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES
EXCEEDING \$60,000 (EXCLUDING GRT) - UNAUDITED
JUNE 30, 2016

RFB#/RFP#	Type of Procurement	Vendor Name	Did Vendor win contract ?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of Vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for Veteran's Preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
16-337-0008	RFP	Aetos Alternatives Management, LLC	No			New York, NY	No	No	Hedge Fund Portfolio Consultant	N/A
16-337-0008	RFP	Aksia, LLC	Yes	\$600,000 Year 1, \$550,000 Year 2, \$500,000 Year 3		New York, NY	No	No	Hedge Fund Portfolio Consultant	N/A
16-337-0008	RFP	Albourne America, LLC	No			San Francisco, CA	No	No	Hedge Fund Portfolio Consultant	N/A
16-337-0008	RFP	Cambridge Associates, LLC	No			Boston, MA	No	No	Hedge Fund Portfolio Consultant	N/A
16-337-0008	RFP	Cliffwater, LLC	No			Del Rey, CA	No	No	Hedge Fund Portfolio Consultant	N/A
16-337-0008	RFP	J.P. Morgan Alternative Asset Management	No			New York, NY	No	No	Hedge Fund Portfolio Consultant	N/A
16-337-0008	RFP	Morgan Stanley Alternative Investment Partners	No			West Conshohocken, PA	No	No	Hedge Fund Portfolio Consultant	N/A
16-337-0007	RFP	Babson Capital Management, LLC	No			Springfield, MA	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Baird Advisors	No			Milwaukee, WI	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	BMO Global Asset Management	No			Chicago, IL	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Brown Brothers Harriman Investment Management	No			New York, NY	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Deutsche Asset Management	No			New York, NY	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Galliard Capital Management, Inc.	No			Minneapolis, MN	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	J.P. Morgan Asset Management	Yes	\$ 375,000		New York, NY	No	No	Short Duration Fixed Income Manager. Fees are estimated and are asset based.	N/A
16-337-0007	RFP	Logan Circle Partner	No			Philadelphia, PA	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Payden & Ryge	No			Los Angeles, CA	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	PFM Asset Management, LLC	No			Phoenix, AZ	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Reams Asset Management	No			Columbus, IN	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Sterling Capital Management, LLC	No			Charlotte, NC	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	T. Rowe Price Associates, Inc.	No			Baltimore, MD	No	No	Short Duration Fixed Income Manager	N/A
16-337-0007	RFP	Wells Capital Management, Inc.	No			San Francisco, CA	No	No	Short Duration Fixed Income Manager	N/A
15-337-004	RFP	Aberdeen Asset Management	No			Aberdeen, Scotland	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Delaware Investments	No			Philadelphia, PA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Driehaus Capital Management, LLC	No			Chicago, IL	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Harding Loevner, LP	No			Bridgewater, NJ	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	J.P. Morgan Investment Management, Inc.	No			New York, NY	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Lazard Asset Management, LLC	No			New York, NY	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	LMCG Investments, LLC	No			Boston, MA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Los Angeles Capital Management and Equity Research, Inc.	No			Los Angeles, CA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Martin Currie Investment Management, Ltd.	No			Edinburgh, Scotland	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	MFS Investment Management	No			Boston, MA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Morgan Stanley Investment Management	No			New York, NY	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Parametric Portfolio Associates	No			Seattle, WA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	PIMCO	No			Newport Beach, CA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Pyramis Global Advisors	No			Smithfield, RI	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Pzena Investment Management, LLC	No			New York, NY	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Quantitative Management Associates, LLC	No			Newark, NJ	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Robeco Institutional Asset Management	No			New York, NY	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Schroder Investment Management	No			London, England	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	T. Rowe Price Group, Inc.	No			Baltimore, MD	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Wells Capital Management, Incorporated	No			San Francisco, CA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	William Blair & Company, LLC	Yes	\$148,527,658		Chicago, IL	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Aberdeen Asset Management, PLC	No			Aberdeen, Scotland	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Acadian Asset Management, LLC	No			Boston, MA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Ashmore Group, PLC	No			London, England	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Driehaus Capital Management, LLC	No			Chicago, IL	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Franklin Resources, Inc.	No			San Mateo, CA	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Mondrian Investment Partners, Limited	No			London, England	No	No	Emerging Market Public Equity Manager	N/A
15-337-004	RFP	Acadian Asset Management, LLC	No			Boston, MA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Altrinsic Global Advisors, LLC	No			Greenwich, CT	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Barrow, Hanley, Mewhinney & Strauss, LLC	No			Dallas, TX	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Blackrock Institutional Trust Company, N.A	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Blackrock Institutional Trust Company, N.A	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Brandes Investment Partners, L.P	No			San Diego, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Brandes Investment Partners, L.P	No			San Diego, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Causeway Capital Management, LLC	No			Los Angeles, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	ClearBridge Investments, LLC	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Delaware Investment	No			Philadelphia, PA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	EARNEST Partners, LLC	No			Atlanta, GA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Edinburgh Partners, Limited	No			Edinburgh, Scotland	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Fiera Capital Corporation	No			Montreal, Quebec	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Franklin Resources, Inc.	No			San Mateo, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Franklin Resources, Inc.	No			San Mateo, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	GlobeFlex Capital, L.P.	No			San Diego, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Grantham, Mayo, Van Otterloo & Co., LLC	No			Boston, MA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Gryphon International Investment Corporation	No			Toronto, Ontario	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Harding Loevner, L.P.	No			Bridgewater, NJ	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Hexavest, Inc.	No			Montreal, Quebec	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	J.P. Morgan Investment Management, Inc.	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Jarislowsky, Fraser Limited	No			West Montreal, Quebec	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Kleinwort Benson Investors International, Ltd.	No			Dublin, Ireland	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Lazard Asset Management, LLC	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Manning & Napier Advisors, LLC	No			Fairport, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	McKinley Capital Management, LLC	No			Anchorage, AK	No	No	Non-US All-cap Public Equity Manager	N/A

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES
EXCEEDING \$60,000 (EXCLUDING GRT) - UNAUDITED
JUNE 30, 2016

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Vendor Name</i>	<i>Did Vendor win contract ?</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Physical address of Vendor (City, State)</i>	<i>Did the Vendor provide documentation of eligibility for in-state preference?</i>	<i>Did the Vendor provide documentation of eligibility for Veteran's Preference?</i>	<i>Brief Description of the Scope of Work</i>	<i>If the procurement is attributable to a Component Unit, Name of Component Unit</i>
15-337-004	RFP	Morgan Stanley Investment Management	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Neuberger Berman	Yes	\$152,475,861		New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Newton	No			London, England	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	OFI Global Asset Management, (Oppenheimer Funds, Inc.)	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	OFI Global Asset Management, (Oppenheimer Funds, Inc.)	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Pictet Asset Management, Ltd.	No			London, England	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	PIMCO	No			Newport Beach, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Principal Global Equities	No			Des Moines, IA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Putnam Investments	No			Boston, MA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Pyramis Global Advisors	No			Smithfield, RI	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Pzena Investment Management, LLC	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Schroder Investment Management	No			London, England	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	The Boston Company Asset Management, LLC	No			Boston, MA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Thompson, Siegel & Wamsley, LLC	No			Richmond, VA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Thornburg Investment Management, Inc.	No			Santa Fe, NM	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Vontobel Asset Management, Inc.	No			New York, NY	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	WCM Investment Management	No			Laguna Beach, CA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Wellington Management Company, LLP	No			Boston, MA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	Wellington Management Company, LLP	No			Boston, MA	No	No	Non-US All-cap Public Equity Manager	N/A
15-337-004	RFP	William Blair & Company, LLC	No			Chicago, IL	No	No	Non-US All-cap Public Equity Manager	N/A
	ITB	MSCI, Inc.	Yes	\$155,296,919		New York, NY	No	No	Alternative Weighted Value Index	N/A
	ITB	MSCI, Inc.	Yes	\$155,912,910		New York, NY	No	No	Alternative Weighted Quality Index	N/A
	ITB	MSCI, Inc.	Yes	\$155,235,348		New York, NY	No	No	Alternative Weighted Momentum Index	N/A
	ITB	FTSE International Limited and Russell Indexes	No			Seattle, WA	No	No	Alternative Weighted Value Index	N/A
	ITB	FTSE International Limited and Russell Indexes	No			Seattle, WA	No	No	Alternative Weighted Quality Index	N/A
	ITB	FTSE International Limited and Russell Indexes	No			Seattle, WA	No	No	Alternative Weighted Momentum Index	N/A
	ITB	FTSE International Limited and Russell Indexes	Yes	\$164,553,967		Seattle, WA	No	No	Alternative Weighted Minimum Variance Index	N/A
	ITB	MSCI, Inc.	No			New York, NY	No	No	Alternative Weighted Minimum Variance Index	N/A
	ITB	Blackrock Institutional Trust Company, N.A.	Yes	Fee based on assets		San Francisco, CA	No	No	Alternative Weighted Index Implementation Manager	N/A
	ITB	Northern Trust Asset Management	No			Chicago, IL	No	No	Alternative Weighted Index Implementation Manager	N/A
	ITB	AllianceBernstein, L.P.	No			New York, NY	No	No	Alternative Weighted Index Implementation Manager	N/A

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS - UNAUDITED
JUNE 30, 2016

Consultant	Location	Description of Investments Subject to the Agreement	Fees
Aksia	Out-of-State	Hedge, Credit & Structured	\$ 150,000
LP Capital	Out-of-State	Private Equity	911,459
RVK	Out-of-State	General Consultant	458,945
Sun Mountain Capital	In-State	NM Private Equity	195,000
Townsend	Out-of-State	Real Estate, Real Return	520,109
Total			<u>\$ 2,235,513</u>

Name of Investment/ Asset Class	Value of the Investment	Management Fees	Carried Interest
Domestic Equity	5,571,677,205	\$ 12,497,587	\$ -
International Equity	3,077,574,213	11,155,872	-
Fixed Income	4,030,487,302	6,937,671	-
Private Equity	1,833,877,382	32,480,682	21,507,198
Real Estate	1,722,511,776	18,443,934	14,596,473
Real Return	1,698,174,352	19,003,682	1,730,786
Hedge Funds	1,010,773,398	26,783,230	9,829,648
Credit & Structured	763,874,892	10,138,555	3,958,640
Total		<u>\$ 137,441,213</u>	<u>\$ 51,622,745</u>

Note 1: There are no costs for third-party marketers.

Note 2: Above asset classes include investments in private asset classes where the fund's management fees do not go through the normal disbursement process. This is attributed to the accounting processes required for partnership accounting, in which the management fees and carried interest are reflected in the fund's return.

Note 3: For private equity above, Sun Mountain Capital manages the NM Private Equity Program. Per page 21, assets total \$268,109,315. Management fees for the year ended June 30, 2016 total \$3,341,367 and carried interest totals \$2,664,390. LP Capital is the consultant on the National Private Equity Program.

Note 4: Townsend is the consultant for Real Estate and Real Return. This excludes MLP's and bank loans. Aksia is the consultant for Hedge Funds and Credit & Structured (effective April 1, 2016).

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS – UNAUDITED (CONTINUED)
JUNE 30, 2016**

Asset Class/Name of Investment	Management Fees	Carried Interest
Domestic Equity	\$ 12,497,587	\$ -
International Equity	\$ 11,155,872	\$ -
Fixed Income	\$ 6,937,671	\$ -
Private Equity	\$ 32,480,682	\$ 21,507,198
3i Euro Vb	146,883	-
Affinity AP IV	1,297,697	-
Alta Comm VIII	-	-
Alta IX	68,256	-
Ampersand 2001	-	67,825
Apax VI	96,131	-
Apax VII	68,562	-
Apex IV	-	-
Apex V	-	-
Arch IV	-	-
Arch IV A	-	-
Arch V	-	-
Ares COF III	241,835	1,458,371
Ares COF IV	1,065,116	1,348,681
Ares SSF	-	(33,266)
Ares SSF III	525,374	(1,519,823)
Ares SSF IV	239,812	-
Asia Alternatives III	155,493	284,507
Aurora III	-	159,806
BCI Growth V	2,778	-
Blackstone Comm I	-	-
Bridgepoint III	79,449	-
Bridgepoint IV	201,449	-
Bridgepoint V	786,627	-
C/R E&P III	93,011	(627,593)
C/R Renew I	-	-
Camden III	-	223,260
Candover 2001	(749)	13,057
Capital Point Ptrs	197,785	-
Carlyle Mexico	93,840	504,816
Carlyle Mezz	32,659	-
Carlyle Mezz II	93,203	(1,272,803)
Carpenter BancFund I	193,821	4,302,094
Catterton VI	220,065	-
CCMP III	2,419,708	-
Charterhouse VII	-	(251,224)
CHL Medical II	6,335	(188,084)
Cinven III	3,961	-
Cinven IV	249,602	-
Clarity Partners	23,858	-
Clayton VII	-	-
Clayton VIII	-	-

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS – UNAUDITED (CONTINUED)
JUNE 30, 2016**

Asset Class/Name of Investment	Management Fees	Carried Interest
<i>Private Equity Continued</i>		
Coller Intl IV	\$ -	\$ 453
Coller Intl VI	1,010,920	712,716
Craton I	152,977	-
CVC Europe III	-	(39)
Cypress MB II	5,215	-
Falcon Mezz II	55,727	-
Falcon Strategic III	157,039	-
FS Equity VII	1,077,503	-
GF Capital PEF	-	406,016
Gleacher Mezz II	(2,635)	-
Green IV	-	-
Green V	-	-
Green VI	497,292	-
GSC Recovery III	82,650	-
GTCR VII	-	-
GTCR VII A	-	31
Halyard II	140,541	-
Harvest IV	-	-
HM SPF	-	-
Illinois PEFFund	30,206	-
InterMedia VII	358,130	-
JMI Equity VIII	365,000	-
KPS II	-	-
KPS IV	442,857	-
Landmark XI	22,478	21,461
Landmark XV	944,419	172,783
Leeds IV	-	-
Lightyear II	-	-
Lightyear III	507,377	-
LLCP DV	-	-
LLCP III	-	-
LLCP IV	216,892	-
Newstone	88,483	1,246,491
NGN Biomed I	120,000	-
NGP Tech II	377,108	-
NM Asia	-	-
Nordic V	-	(53,726)
Nordic VIII	742,500	-
Oak Hill Capital	-	-
Oak IX	202	-
Oak X	-	-
Pharos II	463,235	-
Pine Brook II	1,164,040	-
Platinum II	-	397,732
Platinum III	2,280,593	-
Prism IV	93,012	-
Quadrangle II	56,122	-

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS – UNAUDITED (CONTINUED)
JUNE 30, 2016**

Asset Class/Name of Investment	Management Fees	Carried Interest
<i>Private Equity Continued</i>		
Quaker II	\$ 527,926	\$ -
RC/Fontis	79,361	-
RedShift II	-	-
Sequel II	-	-
Sequel III	9,453	-
Silver Creek II	136,542	-
Sorenson III	4,870	-
St. Cloud II	194,835	-
Sterling Capital	25,824	(84,232)
Summit VI-B	606,224	-
TA IX	-	40,327
TA Sub Debt	-	5,841
TA VIII	-	(788)
TD II	114,161	-
TDR III	776,390	1,784,172
TH Lee V	-	(4,368)
TH Lee VI	325,785	-
Thomas McNerney	7,615	-
TPG Asia VI	1,461,086	-
TPG Growth II	459,311	9,506,422
TPG Growth III(A)	1,418,010	-
TPG Opportunities III(A)	1,298,909	-
Trilantic III	12,586	(185,857)
Trilantic IV	63,244	(551,797)
Vestar III	-	-
Vestar IV	-	-
Vicente Growth	172,722	305,404
Vista V	975,982	-
VMG	-	-
VSS Comm III	-	162,772
VSS Comm IV	77,915	-
Warburg PEP	-	19,556
Warburg VIII	-	(164,164)
Wayzata	-	(619,685)
WCAS IX	-	411,848
WCAS VIII	-	-
WCAS X	4,554	278,990
WCAS XI	225,790	553,069
Wellspring III	-	11,759
Williams	64,625	-
Willis Stein III	-	-
YAAF	43,151	-
Altira IV	-	(28,516)
Arch III	-	-
Blue Sage Cap	(712,167)	-
Epic IV	165,579	-
Flywheel I	225,000	-

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS – UNAUDITED (CONTINUED)
JUNE 30, 2016**

Asset Class/Name of Investment	Management Fees	Carried Interest
<i>Private Equity Continued</i>		
Intl VF I	\$ -	\$ -
ITU West I	94,386	-
Murphree V	-	-
NM C-I 2013 Tranche	296,759	-
NM C-I 2014 Tranche	800,000	-
NM C-I Classic	361,386	-
NM C-I Focused	916,270	-
NM Co-Invest	242,960	-
Psilos IIIB	143,271	-
Red River	6,111	-
TD II	57,081	-
TD III	42,727	-
Valley III	8,659	-
Verge I	94,274	-
Village II-B	296,917	2,692,906
Vspring II	-	-
vSpring III	180,906	-
Wasatch III	-	-
Wasatch NM	121,249	-
Real Estate	\$ 18,443,934	\$ 14,596,473
AG Core Plus Realty Fund	-	(27,453)
AG Core Plus Realty Fund II	62,852	147,433
AG Core Plus Realty Fund III	825,818	4,073,488
AG Core Plus Realty Fund IV	674,601	-
AG Realty Fund VII	204,928	(116,399)
Almanac Realty Securities IV, LP	-	-
Almanac Realty Securities VI	152,893	-
Almanac Realty Securities VII	621,370	-
American Value Partners Fund I	333,889	-
ARES European Real Estate Fund IV	1,126,549	-
Berkshire Multifamily Income Realty Fund	380,991	301,759
Berkshire Multifamily Value Plus Fund III	418,493	2,030,825
Blackstone Real Estate Partners Asia	750,000	739,818
Blackstone Real Estate Partners VII	856,039	1,574,637
Blackstone Real Estate Partners VIII	718,750	641,480
Brookfield Real Estate Financial IV	424,691	989,506
CIM Real Estate Fund III	763,011	-
Cypress Acquisition Partners Retail Fund	332,319	(172,952)
Exeter Industrial Value Fund III	366,310	859,793
Harrison Street Real Estate Partners IV	630,697	-
Heitman HART	867,282	-
Invesco Real Estate Asia Fund	-	-
Jamestown Premier Property Fund	675,123	1,491,481
JER Fund III	-	-
JER Fund IV	-	-

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS – UNAUDITED (CONTINUED)
JUNE 30, 2016

<u>Asset Class/Name of Investment</u>	<u>Management Fees</u>	<u>Carried Interest</u>
<i>Real Estate Continued</i>		
Landmark Real Estate Fund V	\$ 40,244	\$ -
Lion Industrial Trust - 2007	1,135,589	-
M&G Real Estate Debt Fund II	148,491	-
M&G Real Estate Debt Fund III	64,044	-
Paladin Realty Latin America Investors II	233,420	-
Perella Weinberg Real Estate Fund II LP	574,978	1,045,954
Place / BV Student Housing Fund	768,850	-
Pramerica Real Estate Capital VI (PRECap VI)	-	-
PRISA LP	1,895,318	-
Rockpoint Real Estate Fund IV	393,661	-
SIC/LEED, LLC (Civic Plaza + 1015 Santa Ana)	-	-
Strategic Partners Value Enhancement Fund	45,817	-
Trammell Crow Investment Fund I	11,990	-
Trammell Crow Investment Fund II	7,925	-
UBS Trumbull Property Fund	1,310,328	433,747
USAA Eagle Real Estate Fund	626,673	583,357
Real Return	\$ 19,003,682	\$ 1,730,786
Alterna Core Capital Assets Fund II	384,917	-
Blackstone Energy Partners II	-	-
Brookfield Brazil Agriculture Fund II	-	-
Brookfield Capital Partners	-	(821,667)
Brookfield Infrastructure Fund II	1,149,701	2,892,648
Brookfield Infrastructure Fund III	185,055	-
Brookfield Timberlands Fund V	189,708	(558,666)
Carlyle Power Partners II	3,103,105	-
EIG Energy Fund XV	473,923	-
EIG Energy Fund XVI	1,017,722	-
EnCap Energy Capital Fund IX	398,263	-
EnCap Flatrock Midstream Fund III	375,000	-
FIA Timber Growth and Value Partners	176,773	-
First Reserve Energy Infrastructure Fund II	869,719	-
Global Infrastructure Partners II	1,181,931	-
Hancock Timberland XII	145,875	-
IFM Global Infrastructure Partners II	1,004,890	-
JP Morgan Infrastructure Investments Fund	665,163	17,670
Macquarie Asia Infrastructure Fund	323,519	-
NGP Agriculture Fund	204,329	38,241
NGP Natural Resources X	851,475	-
NGP XI	379,729	162,560
RMS Evergreen	315,143	-
TIAA-CREF Global Agriculture II	2,400,000	-
<i>MLPs</i>	2,038,921	-
<i>Bank Loans</i>	1,168,820	-

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS – UNAUDITED (CONTINUED)
JUNE 30, 2016

Asset Class/Name of Investment	Management Fees	Carried Interest
Hedge Funds #	\$ 26,783,230	\$ 9,829,648
Aetos Alternatives Management LLC	2,078,515	-
Crestline Management LP	3,043,730	-
Mariner Investment Group LLC	3,607,572	-
AG Mortgage Value Partners LP	47,179	67,123
Anchorage Capital Partners LP	329,680	86,409
Archer Crossbow Fund LP	205,393	-
Argentiere Fund LP	144,104	-
Blue Mountain Credit Alternatives Fund LP	68,092	53,809
Cadian Fund LP	503,026	-
Cerberus Levered Loan Opportunities Fund II LP	218,155	315,302
Claren Road Credit Opportunities Partners LP	465,246	-
Conatus Capital Partners LP	541,696	716,896
Davidson Kempner Distressed Opportunities Fund LP	270,527	-
Davidson Kempner Partners	201,292	102,657
Drawbridge Special Opportunities Fund LP	1,019,198	717,677
Egerton Capital Partners LP	244,888	307,709
Eminence Partners LP	251,427	822,708
Empyrean Capital Fund LP	274,972	-
Eton Park Fund LP	428,700	354,143
FFIP LP	269,088	137,698
Good Hill Partners Fund II LP	549,053	194,803
Highbridge Principal Strategies - Specialty Loan Fund III-L LP	323,589	301,158
Highfields Capital IV LP	443,119	158,697
JANA Nirvana Fund LP	205,994	100,077
JANA Partners Qualified Fund LP	527,270	-
Jet Capital Concentrated Fund LP	301,343	-
JPS Credit Opportunities Fund (Cayman) Ltd	507,636	409,337
King Street Europe LP	947,262	-
King Street Europe LP	185,864	-
Lansdowne Developed Markets Fund LP	75,586	41,476
Long Pond Capital QP Fund LP	157,768	-
Luxor Capital Partners LP	248,949	-
Marblegate Special Opportunities Fund LP	274,756	128,351
Millennium USA LP	94,999	269,743
Mudrick Distressed Opportunity Fund LP	204,366	-
MW TOPS (US) Fund	756,123	846,179
North River Partners LP	388,646	1,191,685
Oceanic CL Fund LP	45,505	-
Oceanwood Opportunities Fund LP	82,648	349,331
OHA Newbury Partners LP	141,317	129,581
Orange Capital Domestic I LP	514,834	17,413
Panning Domestic Fund LLC	507,186	-
Parallax Fund LP	459,893	595,988
Parsec Trading Corp	6,220	6,352
Perry Partners LP	240,202	-
Perry Partners LP	455,416	-

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF ASSET MANAGEMENT COSTS – UNAUDITED (CONTINUED)
JUNE 30, 2016**

<u>Asset Class/Name of Investment</u>	<u>Management Fees</u>	<u>Carried Interest</u>
<i>Hedge Funds Continued</i>		
Pershing Square LP	\$ 142,114	\$ -
Polar Multi-Strategy Fund (US) LP	530,780	464,880
Premium Point Mortgage Credit Fund LP	409,488	-
Sciens Aviation Special Opportunities Investment Fund II LP	63,038	-
Silver Point Capital Fund LP	813,102	86,645
Taconic Opportunity Fund LP	402,119	10,367
The Children's Investment Fund LP	268,494	29,100
Tiger Consumer Partners LP	69,480	76,645
Turiya Fund LP	244,418	30,719
Viking Global Equities LP	539,700	706,933
Watershed Capital Institutional Partners LP	32,244	2,057
Whitebox Multi-Strategy Fund LP	410,229	-
Credit & Structured #	\$ 10,138,555	\$ 3,958,640
Aetos Alternatives Management LLC	3,129,008	-
Angelo Gordon Rio Grande FMC, LP	658,494	-
Anchorage Illiquid Opportunities IV, LP	80,912	79,694
Centerbridge Credit Partners, LP	4,605	45,213
DW Value Onshore, LP	999,688	-
Great Lakes LLC	17,766	-
Great Lakes II LLC	5,386	488,356
Highbridge Principal Strategies - Specialty Loan Fund III-L, LP	1,347,131	1,003,861
Knighthead Domestic Fund, LP	36,760	-
LibreMax SL Fund, LP	41,063	(144,653)
MTP Energy CM LLC	-	-
Mount Kellett Capital Partners III, LP	872,091	-
Orchard Centar Limited	18,824	-
PIMCO BRAVO Fund II, LP	931,562	1,792,641
PIMCO DISCO Fund II, LP	747,004	842,670
Sankaty Credit Opportunities Fund II, LP	713,896	(384,837)
Sankaty Rio Grande FMC, LP	501,094	-
Taconic European Credit Dislocation Fund, LP	33,271	235,695

Fee information on calendar year basis consistent with fund's audit.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Susana Martinez, Chair and
State of New Mexico Investment Council - Investment Office and
Mr. Timothy Keller, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the general fund, each fiduciary fund, and the budgetary comparison for the general fund of the State of New Mexico Investment Council - Investment Office (the Office), a department of the State of New Mexico, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Honorable Susana Martinez, Chair and
State of New Mexico Investment Council – Investment Office and
Mr. Timothy Keller, New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters, finding 2016-001, which is required to be reported under *Government Auditing Standards*. Management is in agreement with the finding and requested and received reimbursement and has reviewed controls governing reimbursements made under the Per Diem and Mileage Act.

The State of New Mexico Investment Council - Investment Office's Response to Findings

The State of New Mexico Investment Council - Investment Office's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The State of New Mexico Investment Council - Investment Office's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 30, 2016

STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2016-001 - Per Diem and Mileage Act (Compliance and Other Matters)

Condition: Test work performed for the purpose of assessing compliance with the Per Diem and Mileage Act (NMAC 2.42.2) revealed one instance, out of 22 per diem disbursements tested, in which a mileage reimbursement was calculated on an incorrect number of miles travelled, resulting in an overpayment in the amount of \$54.

Criteria: The Per Diem and Mileage Act, NMAC 2.42.2.11 (G), “if official business is transacted while commuting from home to post of duty or post of duty to home, mileage shall not be paid for the number of miles between post of duty and home”.

Cause: The reviewer and approver of the disbursement failed to identify that the reported mileage was not reflective of the appropriate commute distance and excess miles were included in the reimbursement.

Effect: One employee was inappropriately paid \$54 as reimbursement for a portion of a work related commute.

Recommendation: We recommend that the individual designated to review and approve per diem payments be aware of this and all requirements for such payments, as set forth in the Per Diem and Mileage Act.

Management’s Response: Management agrees. The Agency requested and received reimbursement from the overpaid employee and has reviewed procedures and controls governing reimbursements made under the Per Diem and Mileage Act. Further, additional training for the administrative assistant by external providers will be considered, if available.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2016`**

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings for the year ended June 30, 2015.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE
EXIT CONFERENCE
JUNE 30, 2016**

An exit conference was held with the Office on November 21, 2016. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

NEW MEXICO STATE INVESTMENT COUNCIL

Peter B. Frank, Audit Committee Chairman
Jim Goodwin, Audit Committee Member
Duffy Rodriguez, DFA Cabinet Secretary Designate (by phone)
Steven K. Moise, State Investment Officer
Robert "Vince" Smith, Deputy State Investment Officer
Brent H. Shipp, CFO
Kerri Segell, Executive Assistant

CLIFTONLARSONALLEN LLP

Bill Petri, CPA, CGFM, Principal
Kimberly Clay, CPA, CGMA, Manager
Christopher Gregory, CPA, Senior Associate

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been jointly prepared by the independent auditors and the accounting staff. The responsibility of the financial statements is the management's, as addressed in the Independent Auditors' Report.