

REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO  
INVESTMENT COUNCIL-INVESTMENT OFFICE  
A DEPARTMENT OF THE STATE OF NEW MEXICO

June 30, 2018



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**STATE OF NEW MEXICO INVESTMENT COUNCIL – INVESTMENT OFFICE  
OFFICIAL ROSTER  
JUNE 30, 2018**

**GOVERNING BOARD**

The Hon. Susana Martinez, Governor	Ex Officio Member, Chair
Duffy Rodriguez, DFA Cabinet Secretary	Ex Officio Member
The Hon. Tim Eichenberg, State Treasurer	Ex Officio Member
The Hon. Aubrey Dunn, State Land Commissioner	Ex Officio 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

## **Report of Independent Auditors**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparison for the general fund, and the aggregate remaining fund information of 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, 2018, and the related notes to the financial statements, which collectively comprise the Office’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.

### ***Auditor’s 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. 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 auditor’s 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.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the budgetary comparison for the general fund, and the aggregate remaining fund information of the Office as of June 30, 2018, and the respective changes in financial position thereof 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, each major 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, 2018, 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 to 14 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 who 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.

### ***Supplementary 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 fund held for beneficiaries, detail of interagency transfers, external investment trust funds, schedule of deposit and investment accounts, and schedule of investment management fees (collectively, the supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 20, 2018

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# State of New Mexico Investment Council – Investment Office

## Management’s Discussion and Analysis

### June 30, 2018

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This discussion and analysis of State of New Mexico Investment Council – Investment Office (the Office) provides a summary of the financial position and results of operations as of and for the year ended June 30, 2018, with highlights and comparisons. The reader should review the actual financial statements, including the notes and supplementary information, for a more complete picture of the Office's financial activities.

#### Financial Position

##### Statement of Net Position

All expenses of the General Administrative Fund are related to investment management of the permanent funds and of external, governmental clients. As a result, these amounts are allocated to the funds and clients based on relative market values managed. The Office’s statement of net position is summarized as follows as of June 30, 2018:

	June 30,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 842,529,821	\$ 1,048,375,918
Investment in State Treasurer General Fund		
Investment Pool	272,979,847	104,763,778
Due from brokers	336,198,586	469,325,275
Other receivables	380,867	312,448
Due from other state entities	143,237,414	76,448,386
Accrued investment income	58,357,554	43,734,789
Accrued tobacco settlement income	16,712,783	18,696,822
Capital assets, net	-	996
Investments	<u>22,296,698,274</u>	<u>21,338,088,529</u>
 Total assets	 <u>\$ 23,967,095,146</u>	 <u>\$ 23,099,746,941</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 11,892,946	\$ 11,284,068
Accrued payroll	129,190	438,871
Due to brokers	596,513,968	1,429,909,566
Receipts held for the benefit of others	16,712,783	18,696,822
Distributions payable to beneficiaries	-	69,876,399
Accrued vacation and sick pay	170,306	160,029
Total liabilities	<u>625,419,193</u>	<u>1,530,365,755</u>
<b>NET POSITION</b>		
Net investment in capital assets	-	996
Unrestricted deficit	(170,306)	(160,029)
Restricted	<u>23,341,846,259</u>	<u>21,569,540,219</u>
Total net position	<u>23,341,675,953</u>	<u>21,569,381,186</u>
 Total liabilities and net position	 <u>\$ 23,967,095,146</u>	 <u>\$ 23,099,746,941</u>



**State of New Mexico Investment Council – Investment Office**  
**Management’s Discussion and Analysis (continued)**  
**June 30, 2018**

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The increase in the Investment in State Treasurer General Fund Investment Pool is due to increased monthly distributions from the State Land Office, and due to the contribution from the Severance Tax Bonding Fund in June 2018.

The increase in the Due from other State Entities is due to increased distributions from the State Land Office that are impacted by both volume and price increases over the prior fiscal year.

Due from Brokers and Due to Brokers have decreased due to a reduction in rebalancing activity at the end of the year.

The increase in Other Receivables is attributed to additional allocated investment management fees that have resulted from increased investment balances, primarily from the external investment trust funds.

The increase in Investments is due to investment performance in the current fiscal year offset by distributions exceeding contributions.

The increase in accounts payable is attributed to increased external investment management expenses.

Accrued payroll has declined given the timing of the last payroll period of the fiscal year.

Distributions payable to beneficiaries have declined from the prior year due to process changes in the timing of the monthly distributions.

The unrestricted net position includes 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. The Net Investment in Capital Assets is zero as of June 30, 2018 due to all furniture and equipment being fully depreciated.

**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2018**

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**Statement of Activities**

The Statement of Activities focuses on the cost of various activities, which are funded by the Office's general and program revenues. This is intended to summarize and simplify the users' analysis of the cost of services.

	Year Ended June 30,	
	2018	2017
<b>EXPENSES</b>		
General government	\$ 51,760,957	\$ 47,726,785
<b>REVENUES</b>		
Program revenues		
Fees from external investment trust participants and water trust fund	1,454,270	1,178,301
Royalties and land sales (state land office)	690,428,234	468,471,035
Tobacco settlement proceeds	33,688,705	54,301,369
Federal revenue (Taylor Grazing Act)	78,200	84,079
Total program revenues	<u>725,649,409</u>	<u>524,034,784</u>
General revenues		
Interest and dividends	521,671,062	493,783,955
Net increase in fair value of investments	1,392,965,499	2,028,959,116
Severance tax bonding fund	117,026,825	32
Tobacco reversion revenue	-	20,039
Distributions to beneficiaries	<u>(933,257,071)</u>	<u>(875,566,663)</u>
Total general revenues	<u>1,098,406,315</u>	<u>1,647,196,479</u>
<b>CHANGE IN NET POSITION</b>	1,772,294,767	2,123,504,478
<b>NET POSITION</b>		
Beginning of year	<u>21,569,381,186</u>	<u>19,445,876,708</u>
End of year	<u>\$ 23,341,675,953</u>	<u>\$ 21,569,381,186</u>

*Increases in Expenses* – The increase in expenses for fiscal year 2018 has been in external investment management expenses. Expenses are allocated to the permanent funds and clients and increase as investment values increase.

*Increases in Revenues* – Fees from External Trust Fund Participants and Water Trust Fund have increased due to increasing investment balances. Royalties & Land Sales (State Land Office) have increased driven by both volume and price increases. In the prior fiscal year, Tobacco Settlement Proceeds included approximately \$14 million due to a court overruling a 2014 arbitration panel related to 2003 proceeds and is non-recurring. Annual settlement proceeds are impacted by declining tobacco sales. The net of the increase in Interest and Dividends and the Net Increase in Fair Value of Investment is impacted by declining investment performance over the prior fiscal year. Severance tax bond fund revenues have increased substantially in the current fiscal year due largely to year over year increases in severance tax collections in excess of amounts needed for the service of severance tax bonds.

**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2018**

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**Financial Highlights**

**General Administrative Fund**

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

	Year Ended June 30,		Increase
	2018	2017	
Revenues from external trust participants	\$ 1,454,270	\$ 1,178,301	23.4%
Expenditures			
Personnel services and benefits	\$ 3,600,490	\$ 3,566,295	1.0%
Contractual services and custody fees	47,559,241	43,600,174	9.1%
Other - operating expenses	601,226	567,862	5.9%
Total expenditures	\$ 51,760,957	\$ 47,734,331	8.4%

Revenues from external trust participants and Water Trust Fund increased due to increases in investment balances.

The Office’s expenditures for fiscal year 2018 increased in total due to increased external investment management expenses. Personnel costs increased over fiscal year 2017 due to reduced vacancies while the other operating expenses increased slightly. The Office budgeted, but did not spend, approximately \$5.10 million.

**Financial Highlights – Other Funds**

The primary governmental activity for the Office is the administration and management of four State of New Mexico permanent funds: Land Grant Permanent Fund (LGPF), Severance Tax Permanent Fund (STPF), Tobacco Settlement Permanent Fund (TSPF) and 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 (continued) June 30, 2018

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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 decreased to 5.5%.
- Beginning fiscal year 2017, distributions decreased 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 April 2004, the Governmental Accounting Standards Board (GASB) 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 \$16,712,790 and \$18,696,822 for the year ended June 30, 2018 and 2017, respectively.

*Land Grant Permanent Fund* - Beginning in the prior fiscal year, to align with statewide requirements, the State changed the revenue recognition method and is now recognizing all royalties earned for periods through the end of the fiscal year. This includes royalties received up to 55 days after fiscal year end and distributable up to 85 days after its fiscal year end. The related accounts receivable and contributions for these royalties have been recognized.

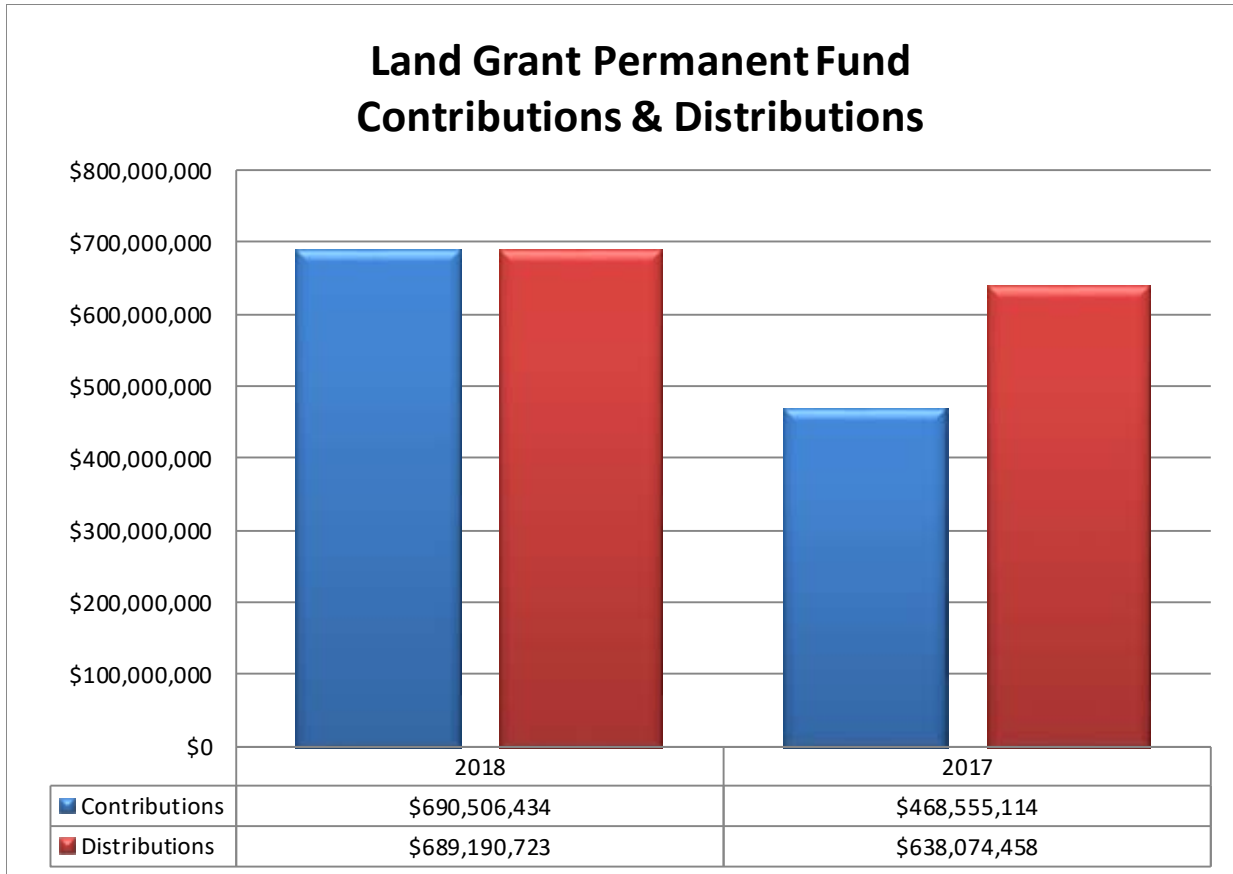
The above changes resulted in \$119,055,520 or three months, of additional contributions for the year ended June 30, 2017. Accordingly, the first three months of that fiscal year's contributions were added to the prior fiscal year's net position totaling \$94,561,104.

Land Grant Permanent Fund contributions from the State Land Office for fiscal year 2018 increased 47.4% from fiscal year 2017, impacted by both volume and price increases. The change is inclusive of a Federal Taylor Grazing Act transfer of \$78,200. Distributions to the beneficiaries of the fund increased 8.0% from the prior year due primarily to an increasing rolling five calendar year average asset base.

**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2018**

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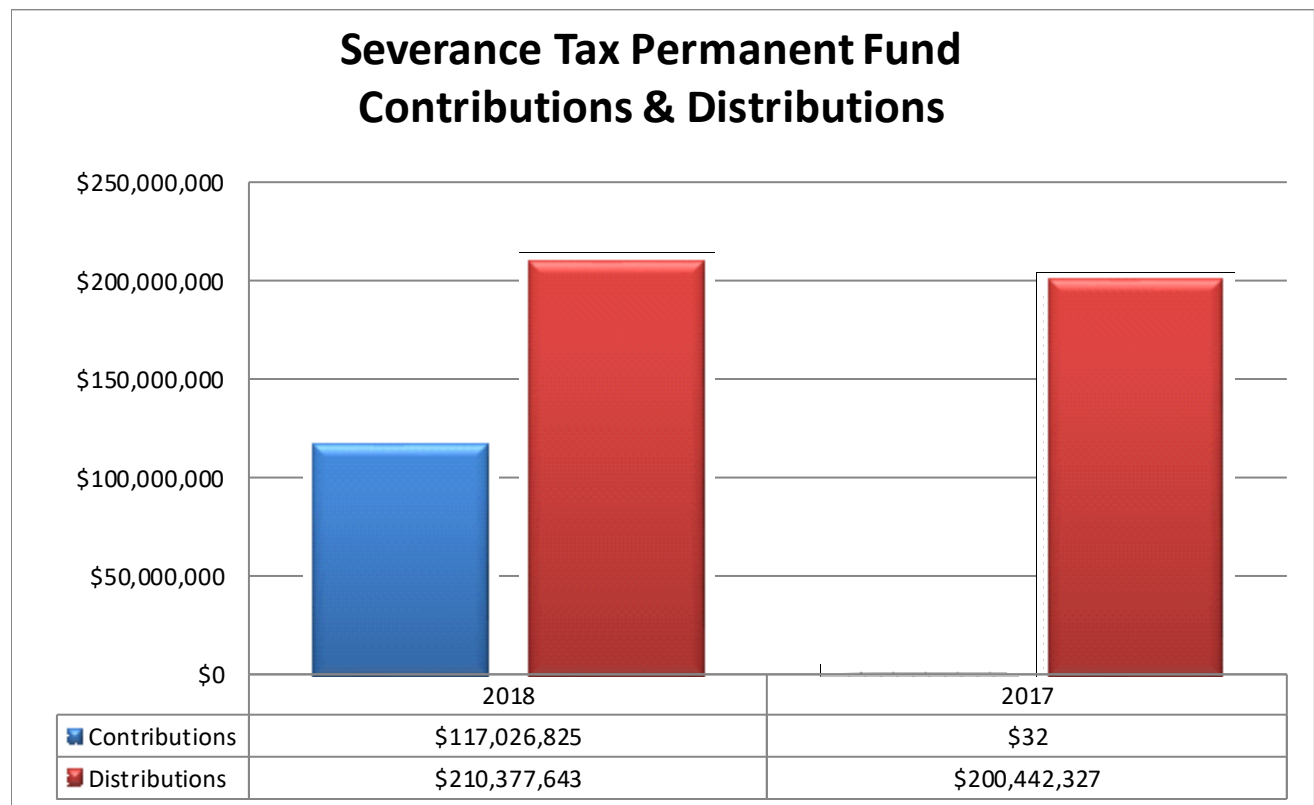
The chart below details the changes in contributions and distributions from the Land Grant Permanent Fund.



**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2018**

*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 \$32 in fiscal year 2017 to \$117 million in fiscal year 2018. 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 2018 increased 5% from the previous year.



**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2018**

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*Tobacco Settlement Permanent Fund* - The Tobacco Settlement Permanent Fund distribution was \$35.69 million to the State General Fund in fiscal year 2018, which was 100% of the amount of contributions recorded to the tobacco settlement trust funds in fiscal year 2018.

The amounts presented below are from the total contributions and distributions for fiscal year 2018 shown in the Statement of Net Position because of the presentation requirements of GASB Technical Bulletin 2004-1 and differ from the actual contributions and distributions.

	Year Ended June 30,	
	2018	2017
Contributions	\$ 33,688,705	\$ 54,301,369
Distributions	\$ 33,688,705	\$ 37,049,878

*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.

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

Fiduciary Funds Net Position	June 30,		Change
	2018	2017	
Water trust funds	\$ 45,708,902	\$ 45,509,092	0.4%
External client trust funds	1,064,128,382	969,157,347	9.8%
Total private purpose and external investment trust funds	\$ 1,109,837,284	\$ 1,014,666,439	9.4%

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.

# State of New Mexico Investment Council – Investment Office Management’s Discussion and Analysis (continued) June 30, 2018

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## Using the Annual Report

The Council 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.

### 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 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.



**State of New Mexico Investment Council – Investment Office**  
**Management’s Discussion and Analysis (continued)**  
**June 30, 2018**

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**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 Council approved two budget adjustments during the year to increase the personnel and contractual services to support increasing costs to each. The only significant budgetary variation was approximately \$5.1 million in contractual services that was not expended, inclusive of \$1.57 million in legal fees. The legal fees will be incurred as trial dates approach.

**Economic Outlook**

The Land Grant Permanent Fund finished fiscal year 2018 with a net return of 8.36%. The Severance Tax Permanent Fund finished at 8.43%.

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, 2018**

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**ASSETS**

	Governmental Activities
Cash and cash equivalents	\$ 842,529,821
Investment in State Treasurer General Fund Investment Pool	272,979,847
Investments	22,296,698,274
Due from brokers	336,198,586
Other receivables	380,867
Due from other state entities	143,237,414
Accrued investment income	58,357,554
Accrued tobacco settlement income	16,712,783
	<hr/>
Total assets	<u><u>\$ 23,967,095,146</u></u>

**LIABILITIES AND NET POSITION**

**LIABILITIES**

Accounts payable	\$ 11,892,946
Accrued payroll	129,190
Due to brokers	596,513,968
Receipts held for the benefit of others	16,712,783
Accrued vacation and sick pay, current	170,306
Total liabilities	<hr/> <u>625,419,193</u>

**NET POSITION (DEFICIT)**

Unrestricted	(170,306)
Restricted	23,341,846,259
Total net position	<hr/> <u>23,341,675,953</u>
	<hr/>
Total liabilities and net position	<u><u>\$ 23,967,095,146</u></u>

**State of New Mexico Investment Council – Investment Office**  
**Statement of Activities**  
**Year Ended June 30, 2018**

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	Governmental Activities
<b>EXPENSES</b>	
General government	\$ 51,760,957
<b>REVENUES</b>	
Program revenues	
Fees from external investment trust participants and water trust fund	1,454,270
Royalties and land sales (State Land Office)	690,428,234
Tobacco settlement proceeds	33,688,705
Federal revenues (Taylor Grazing Act)	78,200
Total program revenues	725,649,409
General revenues	
Investment earnings	
Interest and dividends	521,671,062
Net increase in fair value of investments	1,392,965,499
Severance tax bonding fund	117,026,825
Distributions to beneficiaries	(933,257,071)
Total general revenues	1,098,406,315
<b>CHANGE IN NET POSITION</b>	1,772,294,767
<b>NET POSITION</b>	
Beginning of year	21,569,381,186
End of year	\$ 23,341,675,953

**State of New Mexico Investment Council – Investment Office**  
**Balance Sheet – Governmental Funds**  
**June 30, 2018**

	Major Funds				Total Governmental Funds
	General Administrative Fund	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 653,635,962	\$ 186,258,672	\$ 2,635,187	\$ 842,529,821
Investment in State General Fund Investment Pool	12,022,136	142,625,176	118,332,535	-	272,979,847
Due from brokers	-	259,050,075	72,265,754	4,882,757	336,198,586
Other receivables	-	289,459	91,408	-	380,867
Due from other funds	-	28,196	8,904	-	37,100
Due from other state entities	-	143,237,414	-	-	143,237,414
Accrued investment income	-	45,479,519	12,438,808	439,227	58,357,554
Accrued tobacco settlement income	-	-	-	16,712,783	16,712,783
	<u>12,022,136</u>	<u>1,244,345,801</u>	<u>389,396,081</u>	<u>24,669,954</u>	<u>1,670,433,972</u>
<b>Investments</b>					
Government-Sponsored Enterprise and Agency Issues (GSE)	-	-	40,541,008	-	40,541,008
<b>Investment pools</b>					
Core Plus Bonds	-	1,055,168,778	268,210,466	34,619,375	1,357,998,619
U.S. Large Cap Active	-	841,314,360	243,298,269	-	1,084,612,629
U.S. Large Cap Index	-	1,009,631,499	243,898,293	81,344,873	1,334,874,665
U.S. Small/Mid Cap Active	-	324,781,448	79,247,747	3,954,174	407,983,369
Non-U.S. Developed Markets Active	-	487,151,633	184,031,585	1,270,320	672,453,538
Non-U.S. Emerging Markets Active	-	-	-	-	-
Non-U.S. Emerging Markets Index	-	1,699,798,367	508,090,432	-	2,207,888,799
Non-U.S. Developed Markets Index	-	664,014,939	208,133,432	2,151,367	874,299,738
Non-U.S. Developed Alternative Weighted Index	-	763,437,873	196,951,339	11,698,777	972,087,989
Unconstrained Fixed Income	-	697,276,310	234,309,895	-	931,586,205
Short-term Duration Fixed Income	-	496,204,000	49,880,661	-	546,084,661
Absolute Return	-	234,474,074	53,829,518	9,120,081	297,423,673
National Private Equity	-	1,896,359,224	234,643,433	-	2,131,002,657
Credit and Structured Finance	-	841,331,729	300,098,021	-	1,141,429,750
Real Estate	-	1,527,206,271	446,358,094	-	1,973,564,365
Real Return	-	1,794,348,800	493,282,165	-	2,287,630,965
Core Bonds	-	798,059,040	243,264,348	2,972,024	1,044,295,412
U.S. Large Cap Alternative Weighted Index	-	1,987,929,270	596,773,596	11,722,083	2,596,424,949
Common Stock - Public	-	-	1,841,914	-	1,841,914
Private Equity	-	-	392,673,369	-	392,673,369
Total investments	-	<u>17,118,487,615</u>	<u>5,019,357,585</u>	<u>158,853,074</u>	<u>22,296,698,274</u>
Total assets	<u>\$ 12,022,136</u>	<u>\$ 18,362,833,416</u>	<u>\$ 5,408,753,666</u>	<u>\$ 183,523,028</u>	<u>\$ 23,967,132,246</u>
<b>LIABILITIES AND RESTRICTED FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 11,892,946	\$ -	\$ -	\$ -	\$ 11,892,946
Accrued payroll	129,190	-	-	-	129,190
Due to brokers	-	460,261,361	128,155,090	8,097,517	596,513,968
Due to other funds	-	-	-	37,100	37,100
Receipts held for the benefit of others	-	-	-	16,712,783	16,712,783
Total liabilities	<u>12,022,136</u>	<u>460,261,361</u>	<u>128,155,090</u>	<u>24,847,400</u>	<u>625,285,987</u>
RESTRICTED FUND BALANCE	-	<u>17,902,572,055</u>	<u>5,280,598,576</u>	<u>158,675,628</u>	<u>23,341,846,259</u>
Total liabilities and restricted fund balance	<u>\$ 12,022,136</u>	<u>\$ 18,362,833,416</u>	<u>\$ 5,408,753,666</u>	<u>\$ 183,523,028</u>	<u>\$ 23,967,132,246</u>

**State of New Mexico Investment Council – Investment Office**  
**Reconciliation of Balance Sheet to**  
**Statement of Net Position – Governmental Funds**  
**June 30, 2018**

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**RESTRICTED FUND BALANCE - GOVERNMENTAL FUNDS** \$ 23,341,846,259  
**(Government Fund Balance Sheet)**

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 (170,306)

**TOTAL NET POSITION (Statement of Net Position)** \$ 23,341,675,953

**State of New Mexico Investment Council – Investment Office**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance – Governmental Funds**  
**Year Ended June 30, 2018**

	Major Funds				Total Governmental Funds
	General Administrative Fund	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund	
<b>REVENUES</b>					
Fees from external investment trust					
Participants and Water Trust Fund	\$ 1,454,270	\$ -	\$ -	\$ -	\$ 1,454,270
Royalties and land sales (State Land Office)	-	690,428,234	-	-	690,428,234
Tobacco settlement proceeds	-	-	-	33,688,705	33,688,705
Federal revenue (Taylor Grazing Act)	-	78,200	-	-	78,200
Investment earnings					
Interest and dividends	-	403,147,261	115,354,761	3,169,040	521,671,062
Net increase in fair value of investments	-	1,044,465,712	339,666,935	8,832,852	1,392,965,499
Total revenues	<u>1,454,270</u>	<u>2,138,119,407</u>	<u>455,021,696</u>	<u>45,690,597</u>	<u>2,640,285,970</u>
<b>EXPENDITURES</b>					
Personnel services and benefits	3,589,217	-	-	-	3,589,217
Contractual services and custody fees	47,559,241	-	-	-	47,559,241
Other - operating expenses	601,226	-	-	-	601,226
Total expenditures	<u>51,749,684</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,749,684</u>
<b>EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES</b>	(50,295,414)	2,138,119,407	455,021,696	45,690,597	2,588,536,286
<b>OTHER FINANCING SOURCES (USES)</b>					
Interagency transfers in (out)					
Distributions to beneficiaries of the Land Grant Permanent Fund	-	(689,190,723)	-	-	(689,190,723)
Distributions to state general fund by the Severance Tax Permanent Fund and the Tobacco Settlement Permanent Fund	-	-	(210,377,643)	(33,688,705)	(244,066,348)
Severance-Tax Bonding Fund	-	-	117,026,825	-	117,026,825
Interfund transfers in	50,295,414	-	-	-	50,295,414
Interfund transfers out	-	(38,078,342)	(12,072,166)	(144,906)	(50,295,414)
Total other financing sources (uses)	<u>50,295,414</u>	<u>(727,269,065)</u>	<u>(105,422,984)</u>	<u>(33,833,611)</u>	<u>(816,230,246)</u>
<b>CHANGE IN FUND BALANCE</b>	-	1,410,850,342	349,598,712	11,856,986	1,772,306,040
<b>FUND BALANCE</b>					
Beginning of year	-	16,491,721,713	4,930,999,864	146,818,642	21,569,540,219
End of year	<u>\$ -</u>	<u>\$ 17,902,572,055</u>	<u>\$ 5,280,598,576</u>	<u>\$ 158,675,628</u>	<u>\$ 23,341,846,259</u>

**State of New Mexico Investment Council – Investment Office**  
**Reconciliation of Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance to Statement of Activities – Governmental Funds**  
**Year Ended June 30, 2018**

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**CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS** \$ 1,772,306,040  
**(Statement of Revenues, Expenditures, and Changes in Fund Balances)**

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 (10,277)

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.

Depreciation expense (996)

**CHANGE IN NET POSITION (Statement of Activities)** \$ 1,772,294,767

**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, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget
	Original	Final		
REVENUES FROM EXTERNAL INVESTMENT TRUST PARTICIPANTS AND OTHER REVENUE	\$ 829,800	\$ (558,610)	\$ 1,454,270	\$ (2,012,880)
EXPENDITURES				
Personnel services and benefits	3,843,400	4,092,400	3,590,213	502,187
Contractual services	47,746,400	50,108,990	47,559,241	2,549,749
Other - operating expenses	642,000	642,000	600,230	41,770
Total expenditures	<u>52,231,800</u>	<u>54,843,390</u>	<u>51,749,684</u>	<u>3,093,706</u>
EXPENDITURES IN EXCESS OF REVENUES	(51,402,000)	(55,402,000)	(50,295,414)	(5,106,586)
TRANSFERS				
Interfund transfers in	51,402,000	55,402,000	50,295,414	5,106,586
Total transfers	<u>51,402,000</u>	<u>55,402,000</u>	<u>50,295,414</u>	<u>5,106,586</u>
EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



**State of New Mexico Investment Council – Investment Office**  
**Statement of Net Position – Fiduciary Funds**  
**June 30, 2018**

	Water Trust Fund	External Investment Trust Funds	Total Fiduciary Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,343,332	\$ 17,519,910	\$ 18,863,242
Due from brokers	815,497	45,494,280	46,309,777
Accrued investment income	82,854	3,614,697	3,697,551
	<u>2,241,683</u>	<u>66,628,887</u>	<u>68,870,570</u>
<b>Investments</b>			
Investment pools			
Core Plus Bonds	6,067,795	354,856,641	360,924,436
U.S. Large Cap Active	-	39,980,201	39,980,201
U.S. Large Cap Index	9,132,370	255,640,804	264,773,174
U.S. Small/Mid Cap Active	-	54,747,431	54,747,431
Non-U.S. Developed Markets Index	3,922,487	109,177,953	113,100,440
Non-U.S. Emerging Markets Index	-	94,536,067	94,536,067
Non-U.S. Developed Markets Active	-	256,285	256,285
Non-U.S. Emerging Markets Active	2,943,193	2,263,799	5,206,992
Absolute Return	5,328,713	-	5,328,713
National Private Equity	7,529,544	66,885,116	74,414,660
Credit and Structured Finance	-	63,797,798	63,797,798
Real Estate	7,517,343	33,542,526	41,059,869
Real Return	2,448,513	-	2,448,513
Total investments	<u>44,889,958</u>	<u>1,075,684,621</u>	<u>1,120,574,579</u>
Total assets	<u>47,131,641</u>	<u>1,142,313,508</u>	<u>1,189,445,149</u>
<b>LIABILITIES</b>			
Due to brokers	1,413,104	77,813,894	79,226,998
Other payables	9,635	371,232	380,867
Total liabilities	<u>1,422,739</u>	<u>78,185,126</u>	<u>79,607,865</u>
<b>NET POSITION HELD IN TRUST</b>	<u>\$ 45,708,902</u>	<u>\$ 1,064,128,382</u>	<u>\$ 1,109,837,284</u>

**State of New Mexico Investment Council – Investment Office**  
**Statement of Changes in Net Position – Fiduciary Funds**  
**Year Ended June 30, 2018**

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	Water Trust Fund	External Investment Trust Funds	Total
<b>ADDITIONS</b>			
Investment income			
Interest and dividends	\$ 955,714	\$ 23,600,714	\$ 24,556,428
Net increase in fair value of investments	3,280,860	58,412,559	61,693,419
Contributions	-	104,085,374	104,085,374
Total additions	<u>4,236,574</u>	<u>186,098,647</u>	<u>190,335,221</u>
<b>DEDUCTIONS</b>			
Distribution to beneficiary of the Water Trust Fund	(4,000,000)	-	(4,000,000)
Distributions from external investment trust funds	-	(89,710,112)	(89,710,112)
Internal service fees	(36,764)	(1,417,500)	(1,454,264)
Total deductions	<u>(4,036,764)</u>	<u>(91,127,612)</u>	<u>(95,164,376)</u>
<b>CHANGE IN NET POSITION</b>	199,810	94,971,035	95,170,845
<b>NET POSITION</b>			
Beginning of year	<u>45,509,092</u>	<u>969,157,347</u>	<u>1,014,666,439</u>
End of year	<u>\$ 45,708,902</u>	<u>\$ 1,064,128,382</u>	<u>\$ 1,109,837,284</u>

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### **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 governmental and 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 whom 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 State of New Mexico law, the Council establishes policies for the investment of the governmental and trust funds. Policies established by the Council are carried out by personnel of the State Investment Office (the Office) under the direction of the State Investment Officer. The Office is a department of the State of New Mexico and its financial statement are included in the financial statements of the State as part of the general fund, special purpose revenue funds, and fiduciary funds. 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. As of June 30, 2018, the Office had \$143,237,414 due from the State Land Office (Business Unit: 53900; Fund: 26400).

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. The fund is classified as a governmental fund in the State of New Mexico comprehensive annual financial report and is classified as a governmental fund in the financial statements of the Office.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### 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. The fund is classified as a governmental fund in the State of New Mexico comprehensive annual financial report and is classified as a governmental fund in the financial statements of the Office.

#### 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, 2017, 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 fund is classified as a governmental fund in the State of New Mexico comprehensive annual financial report and is classified as a governmental fund in the financial statements of the Office. In order to avoid an unconstitutional deficit, the legislature may authorize a transfer from the Tobacco Settlement Permanent Fund to the State of New Mexico General Fund but only in an amount necessary to meet the General Fund appropriations as provided in Laws 2016 (2<sup>nd</sup> S.S.), Chapter 4, Section 2 and in Section 7 of the 2017 act.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### **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. The fund is classified as a private-purpose trust fund in the State of New Mexico comprehensive annual financial report and is classified as a private-purpose trust fund in the financial statements of the Office.

### **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**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 Office. Control by the Office 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

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### Note 2 – Summary of Significant Accounting Policies (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, royalties & land sales and tobacco settlement proceeds and other revenues include investment earnings.

#### **Governmental Fund Financial Statements**

The fund financial statements are similar to the government-wide financial statements. 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 Council'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 State, these funds are not incorporated into the government-wide financial statements.

#### **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 are recognized as soon as they are both measurable and available. 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 statements.

#### **Governmental Funds**

Governmental funds consist of General Administrative Fund and the State Permanent Funds as follows:

*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.

*Land Grant Permanent Fund, Severance Tax Permanent Fund, and Tobacco Settlement Permanent Fund* – These funds are accounted for under the modified accrual basis of accounting and use a current measurement focus. The funds are restricted and operate under legal constraints that specify distributions to ensure that an income stream will be available in future years to designated beneficiaries.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

#### **Fiduciary Funds**

Fiduciary funds consist of trust funds as follows:

*Water Trust Fund* – The fund is accounted for under the accrual basis of accounting and use an economic resource measurement focus. This means that all assets and liabilities associated with their activity are included on the statement of net position.

*External Investment Trust Funds* – Pursuant to New Mexico law Section 6-8-71 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 or legislation of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the State Investment Council intent to be used for specific purposes.

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; and 4) Unassigned, which includes all other spendable amounts. As of June 30, 2018, the Office's fund balance was all restricted.

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.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

#### **Budgetary Matters**

The Office is required to submit a budget request for the General Fund to DFA and the Legislative Finance Committee by September 1st 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 Governmental Accounting Standards Board (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.

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 Office has not included such reconciliation for fiscal year 2018 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.



## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 2 – Summary of Significant Accounting Policies (continued)

##### Investments

*Basis of Accounting* – Investments are stated at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application (GASB 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 governmental and fiduciary funds.

The governmental and fiduciary 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, 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 trust funds are participants in: U.S. Core Plus 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, Non-US Developed Markets Active Pool, and Non-US Emerging Markets Index Pool, Non-US Emerging Markets Active 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 two actively managed portfolios (1 growth, and 1 core). Both use fundamental, bottom-up analysis.
- *U.S. Large Cap Index Pool* – one passively managed portfolio.
- *U.S. Large Cap Alternative Weighted Index Pool* – four passively managed portfolios (2 fundamental, and 2 multi-factor).
- *U.S. Small/Mid Cap Active Pool* – three actively managed portfolios (1 small-cap value, 1 small-cap core, 1 mid-cap core). One strategy uses fundamental, bottom-up analysis; one strategy uses quantitative and fundamental bottom-up analysis; one strategy uses quantitative analysis.

##### *Fixed Income Pools*

- *U.S. Core Plus Bonds Pool* – 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 is to provide preservation of capital and income generation.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

- *Credit & Structured Finance Pool* – managed externally, investing in various classes of fixed income securities oriented toward credit. The role of this pool is to provide growth of capital and income generation.
- *Core Bonds Pool* – a passively managed portfolio benchmarked against the Barclays U.S. Aggregate Bond Index.
- *Unconstrained Fixed Income Pool* – managed externally by two 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* – managed externally by two managers and invests in U.S. Treasuries, U.S. Agency Mortgages, investment-grade and high yield 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*

- *Non-U.S. Developed Markets Index Pool* – one passively managed portfolio benchmarked against the MSCI World ex-US IM Index.
- *Non-U.S. Emerging Markets Index Pool* – one passively managed portfolio benchmarked against the MSCI Emerging Market Free Index.
- *Non-U.S. Developed Markets Active Pool* – five actively managed portfolios (1 all-cap growth, 1 large-cap value, 1 large-cap core, 1 large-cap growth, 1 small- cap value). Four strategies use fundamental, bottom-up analysis, and one strategy uses quantitative analysis.
- *Non-U.S. Emerging Markets Active Pool* – two actively managed portfolios. One strategy uses quantitative analysis, and one strategy uses fundamental bottom-up analysis.
- *Non-U.S. Developed Alternative-Weighted Index Pool* – two passively managed portfolios (multi-factor and minimum variance).

#### *Alternative Asset Pools*

- *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

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### Note 2 – Summary of Significant Accounting Policies (continued)

- *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.
- *Real Return Pool* – contains a diversified mix of assets which are held to meet or exceed their custom index. 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.
- *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 Cambridge U.S. 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.

#### **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 expected to be paid by the General Administrative Fund.

#### **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, 2018, \$28,196 was due to the LGPF from the TSPF, and \$8,904 was due to the STPF from the TSPF.

#### **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.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

#### 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, 2018.

#### 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:

- Name of participant;
- Date of all unit purchases and sales;
- Number of units purchased or sold;
- Valuation of each unit owned; and
- 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.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

*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.

*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 and inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources and expense until then. Deferred inflows of resources represent future inflows of resources and revenues that will be recognized in future periods. The Office did not have any items that qualified for reporting in this category as of June 30, 2018.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

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, 2018.

*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.
- *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. All amounts are restricted by enabling legislation.
- *Unrestricted net position* – This category reflects net position of the Office not restricted for any project or other purpose.

*Pensions* – 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.

### 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.

The comprehensive cash reconciliation model, which compares aggregated agency claims on the State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is now in its fourth year. This process has been reviewed multiple times by the IPAs during the audits of the General Fund, the Department of Finance and Administration and the State of New Mexico's

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 3 – Cash and Cash Equivalents (continued)

Comprehensive Annual Financial Report. The reviews have deemed the process to be sound and the Department fully compliant with the requirements of the monthly process. As of June 30, 2018, the Department of Finance and Administration provides the following assertions:

- 1) Resources held in the pool were equivalent to the corresponding business unit claims on those resources.
- 2) All claims as recorded in SHARE shall 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.

#### 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, 2018, the Office had the following invested in the General Fund Investment Pool:

General Fund Investment Pool	
General Administrative Fund	\$ 12,022,136
Land Grant Permanent Fund	\$ 142,625,176
Severance Tax Permanent Fund	\$ 118,332,535

*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 No. 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 year ended June 30, 2018.

#### Deposits

Cash and cash equivalents totaling \$861,393,064 are held by the custodian, J.P. Morgan. The Office's cash held by J.P. Morgan is invested in a short-term investment fund. This J.P. Morgan U.S. Government Money Market Fund consists primarily of short term securities issued or guaranteed by the U.S. Government or by U.S. Government agencies or instrumentalities and repurchase agreements collateralized by such obligations. The security ratings are primarily AAA and AA with an average maturity of less than 30 days.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

### Note 3 – Cash and Cash Equivalents (continued)

#### 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. Investments are held in the name of State of New Mexico Investment Council, and the Council does not have a policy to address custodial credit risk.

Investments in the State Treasurer Investment Pool (STIP) and cash and cash equivalents balances are as follows:

	Share Fund	State Treasurer's Office Funds	J.P. Morgan	Total June 30, 2018
General Administrative Fund	17300	\$ 12,022,136	\$ -	\$ 12,022,136
Land Grant Permanent Fund	60100	142,625,176	181,649,591	324,274,767
Severance Tax Permanent Fund	60200	118,332,535	67,998,582	186,331,117
Tobacco Settlement Permanent Fund	95200	-	398,928	398,928
Water Trust Fund	10120	-	388,397	388,397
Large Cap Active Pool	9400	-	49,718,355	49,718,355
Large Cap Index Pool	62800	-	17,115,839	17,115,839
Large Cap Alternative Weighted Index Pool	35150	-	115,288,416	115,288,416
Core Bonds Pool	30870	-	15,363,270	15,363,270
Core Plus Bonds Pool	35150	-	19,807,944	19,807,944
Short Term Duration Fixed Income Pool	50360	-	10,702,975	10,702,975
Small/Mid Cap Active Pool	22000	-	23,833,652	23,833,652
Non-U.S. Developed Markets Index Pool	21800	-	1,527,343	1,527,343
Non-U.S. Developed Markets Active Pool	11950	-	38,217,476	38,217,476
Non-U.S. Emerging Markets Index Pool	61100	-	312,016	312,016
Non-U.S. Emerging Markets Active Pool	11930	-	14,370,902	14,370,902
Non-U.S. Developed Weighted Index Pool	50320	-	8,407,273	8,407,273
Private Equity Pool	11380	-	122,381,334	122,381,334
Real Estate Pool	11390	-	54,631,678	54,631,678
Real Asset Pool	11540	-	69,858,207	69,858,207
Unconstrained Pool	11940	-	30,017,096	30,017,096
Absolute Return Pool	72100	-	2,000,743	2,000,743
Credit and Structured Finance Pool	20140	-	17,403,046	17,403,046
Total		<u>\$ 272,979,847</u>	<u>\$ 861,393,063</u>	<u>\$ 1,134,372,910</u>

### 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, certificates of deposit, film projects and various other loan guarantees.

Numerous restrictions, either statutorily or policy in origin, define various elements of the 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).



## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 4 – Investments (continued)

##### 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 Council does not have a policy 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 are as follows:

Investments Subject to Credit Risk - S&P Ratings	Rating	Fair Value June 30, 2018
Asset Backed	AAA	\$ 76,417,796
CMO/REMIC	AAA	412,194
Commercial Mortgage Backed Securities	AAA	18,812,446
Corporate Bonds	AAA	5,357,466
Government Bonds	AAA	30,156,306
Municipal Bonds	AAA	249,453
Cdo/Collateralized Debt Obligation	AAA	37,110,241
Asset Backed	AA+	6,671,678
CMO/REMIC	AA+	25,246,844
Commercial Mortgage Backed Securities	AA+	21,251,046
Corporate Bonds	AA+	3,965,968
Government Bonds	AA+	21,928,778
Mortgage Backed Securities	AA+	211,174,817
Asset Backed	AA	2,674,985
Cdo/Collateralized Debt Obligation	AA	3,401,860
CMO/REMIC	AA	425,556
Corporate Bonds	AA	8,217,060
Government Bonds	AA	17,678,243
Municipal Bonds	AA	9,975,357
Asset Backed	AA-	1,062,702
Corporate Bonds	AA-	34,467,640
Government Bonds	AA-	8,997,659
Municipal Bonds	AA-	2,574,903
Asset Backed	A+	3,859,486
CMO/REMIC	A+	463,123
Commercial Mortgage Backed Securities	A+	140,833
Corporate Bonds	A+	54,417,090
Government Bonds	A+	14,213,840
Municipal Bonds	A+	2,181,495

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 4 – Investments (continued)

Investments Subject to Credit Risk - S&P Ratings	Rating	Fair Value June 30, 2018
Asset Backed	A	\$ 7,964,718
CMO/REMIC	A	1,707,135
Corporate Bonds	A	73,225,004
Municipal Bonds	A	4,312,542
Asset Backed	A-	3,778,921
CMO/REMIC	A-	77,694
Commercial Mortgage Backed Securities	A-	696,089
Corporate Bonds	A-	123,422,640
Government Bonds	A-	20,511,036
Certificate Of Deposit	A-2	699,607
Commercial Paper (Interest Bearing)	A-2	4,000,866
Asset Backed	BBB+	3,699,787
CMO/REMIC	BBB+	355,349
Commercial Mortgage Backed Securities	BBB+	303,710
Corporate Bonds	BBB+	178,356,382
Government Bonds	BBB+	12,413,528
Municipal Bonds	BBB+	3,834,127
Asset Backed	BBB	5,136,886
CMO/REMIC	BBB	700,045
Corporate Bonds	BBB	174,484,866
Government Bonds	BBB	3,613,656
Preferred Stock	BBB	261,200
Asset Backed	BBB-	2,065,159
Commercial Mortgage Backed Securities	BBB-	1,329,478
Corporate Bonds	BBB-	228,320,861
Government Bonds	BBB-	17,157,785
Municipal Bonds	BBB-	1,628,150
Asset Backed	BB+	11,407,959
CMO/REMIC	BB+	76,355
Commercial Mortgage Backed Securities	BB+	144,500
Corporate Bonds	BB+	131,707,873
Government Bonds	BB+	5,124,752
Preferred Stock	BB+	645,840

**State of New Mexico Investment Council – Investment Office**  
**Notes to Financial Statements**

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**Note 4 – Investments (continued)**

Investments Subject to Credit Risk - S&P Ratings	Rating	Fair Value June 30, 2018
Asset Backed	BB	\$ 444,305
CMO/REMIC	BB	1,253,250
Corporate Bonds	BB	91,161,421
Government Bonds	BB	7,570,441
Asset Backed	BB-	928,869
CMO/REMIC	BB-	769,531
Commercial Mortgage Backed Securities	BB-	718,812
Corporate Bonds	BB-	142,074,418
Government Bonds	BB-	4,313,900
Asset Backed	B+	71,975
Corporate Bonds	B+	119,473,414
Government Bonds	B+	18,409,870
CMO/REMIC	B	130,237
Corporate Bonds	B	142,892,644
Government Bonds	B	939,225
Asset Backed	B-	2,263,914
CMO/REMIC	B-	2,329,548
Corporate Bonds	B-	53,204,120
Government Bonds	B-	4,331,051
Corporate Bonds	CCC+	19,181,410
Asset Backed	CCC	15,943,619
CMO/REMIC	CCC	5,758,965
Corporate Bonds	CCC	2,243,445
Preferred Stock	CCC	200,495
Corporate Bonds	CCC-	276,000
Asset Backed	CC	7,560,041
Asset Backed	D	1,580,751
CMO/REMIC	D	3,293,926
Total Investments subject to Credit Risk - S&P Ratings:		<u>\$ 2,295,990,962</u>

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 4 – Investments (continued)

Investments Subject to Credit Risk - Not Rated	June 30, 2018
Asset Backed	\$ 110,840,375
CDO/Collateralized Debt Obligation	62,310,301
CMO/REMIC	36,758,805
Commercial Mortgage Backed Securities	68,897,522
Commercial Paper (Interest Bearing)	898,905
Corporate Bonds	308,457,851
Discounted Notes	23,123,352
Government Bonds	2,899,812
Preferred Stock	36,261,112
Royalty Trust	14,905
Total investments subject to credit risk - not rated	650,462,940
Investments Not Subject to Ratings	
Absolute Return Pool	302,752,386
Credit & Structured Finance Pool	1,205,227,548
Real Estate Pool	2,014,624,234
Real Asset Pool	1,558,887,783
Private Equity	2,204,646,338
Equity Securities, MLPs, Bank Loans, other excluded investments	12,751,466,285
NM Private Equity	392,673,369
Government-Sponsored Enterprise & Agency Issues (GSEs)	40,541,008
Total investments not subject to ratings	20,470,818,951
Total investments	\$ 23,417,272,853

#### 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.

## State of New Mexico Investment Council – Investment Office Notes to Financial Statements

### Note 4 – Investments (continued)

A summary of the investments and their exposure to interest rate risk are as follows:

Investment	Fair Value June 30, 2018	Life Not Available	Less than 1 Year	1-5 Years	6-10 Years	Greater Than 10 Years
Asset Backed	\$ 264,590,698	\$ 488,200	\$ 152,966,166	\$ 53,772,076	\$ 31,032,607	\$ 26,331,649
Cash Collateral	12,159,202	12,547,724	-	-	-	(388,522)
CDO/Collateralized Debt Obligation	102,822,402	-	102,822,402	-	-	-
Certificate of Deposit	699,607	-	699,607	-	-	-
CMO/REMIC	100,558,810	-	81,033,550	108,712	159,028	19,257,520
Commercial Mortgage Backed						
Securities	119,427,149	-	31,896,207	-	6,039,865	81,491,077
Commercial Paper (interest bearing)	8,743,262	-	8,743,262	-	-	-
Corporate Bonds	1,935,356,172	-	303,446,054	854,720,721	640,227,032	136,962,365
Discounted Notes	24,970,716	21,945,000	3,025,716	-	-	-
Futures	3,715,893	-	3,762,746	(46,853)	-	-
Government Bonds	1,657,595,377	-	276,478,715	694,995,696	385,453,902	300,667,064
Mortgage Backed Securities	243,637,911	-	27,931,413	2,279,147	19,594,201	193,833,150
Municipal Bonds	24,756,026	-	-	1,628,150	8,233,050	14,894,826
Options	(11,219)	-	(11,219)	-	-	-
Preferred Stock	37,368,647	37,368,647	-	-	-	-
Swaps	8,828,652	-	953,267	157,074	7,411,186	307,125
Swaptions	652,893	-	1,240,783	(587,890)	-	-
Treasury Bills	74,647,977	-	74,647,977	-	-	-
Total	<u>4,620,520,175</u>	<u>\$ 72,349,571</u>	<u>\$ 1,069,636,646</u>	<u>\$ 1,607,026,833</u>	<u>\$ 1,098,150,871</u>	<u>\$ 773,356,254</u>
Investments not subject to interest rate risk						
Securities, Equity and Real Estate Investments	<u>18,796,752,678</u>					
Total investments	<u>\$ 23,417,272,853</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, 2018, the Council was not exposed to concentration of credit risk as no single issuer represented 5% of total investments.

### 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 by adhering to the Council'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.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 4 – Investments (continued)

A summary of the investments and cash and cash equivalents and their exposure to foreign currency risk are as follows:

Foreign Currency Risk - Investments	Foreign Currency	Balance June 30, 2018	% of Total Investments
Cash Collateral	Australian Dollar	\$ (1,366)	0.00%
Cash Collateral	Canadian Dollar	67,657	0.00%
Cash Collateral	Euro	(825,663)	0.00%
Cash Collateral	Hong Kong Dollar	(452,643)	0.00%
Cash Collateral	Japanese Yen	(116,939)	0.00%
Cash Collateral	Pound Sterling	65,486	0.00%
CMO/REMIC	Euro	354,422	0.00%
CMO/REMIC	Pound Sterling	1,283,143	0.01%
Common Stock	Australian Dollar	156,388,846	0.64%
Common Stock	Brazilian Real	43,849,912	0.18%
Common Stock	Canadian Dollar	222,703,248	0.91%
Common Stock	Chilean Peso	2,604,757	0.01%
Common Stock	Czech Koruna	1,345,067	0.01%
Common Stock	Danish Krone	57,154,913	0.23%
Common Stock	Egyptian Pound	117,583	0.00%
Common Stock	Euro	1,023,889,236	4.17%
Common Stock	Hong Kong Dollar	452,778,299	1.84%
Common Stock	Hungarian Forint	12,416,533	0.05%
Common Stock	Indonesian Rupiah	21,204,084	0.09%
Common Stock	Israel Shekel	2,518,408	0.01%
Common Stock	Israeli Shekel	15,312,318	0.06%
Common Stock	Japanese Yen	855,297,487	3.48%
Common Stock	Malaysian Ringgit	8,522,576	0.03%
Common Stock	Mexican Peso	38,438,505	0.16%
Common Stock	New Taiwan Dollar	123,890,833	0.50%
Common Stock	New Turkish Lira	26,153,461	0.11%
Common Stock	New Zealand Dollar	8,050,694	0.03%
Common Stock	Norwegian Krone	44,164,654	0.18%
Common Stock	Philippine Peso	7,396,248	0.03%
Common Stock	Polish Zloty	11,508,206	0.05%
Common Stock	Pound Sterling	499,929,984	2.04%
Common Stock	Qatari Rial	3,764,152	0.02%
Common Stock	Singapore Dollar	45,706,127	0.19%
Common Stock	South African Rand	73,330,948	0.30%
Common Stock	South Korean Won	151,495,831	0.62%

**State of New Mexico Investment Council – Investment Office**  
**Notes to Financial Statements**

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**Note 4 – Investments (continued)**

Foreign Currency Rick - Investments	Foreign Currency	Amount	% of Total Investments
Common Stock	Swedish Krona	\$ 89,733,181	0.37%
Common Stock	Swiss Franc	256,788,008	1.05%
Common Stock	Thai Baht	20,069,753	0.08%
Common Stock	Uae Dirham	2,292,763	0.01%
Common Stock	United Kingdom Pound	8,576,690	0.03%
Common Stock	Yuan Renminbi	6,418,484	0.03%
Corporate Bonds	Argentine Peso	945,952	0.00%
Corporate Bonds	Australian Dollar	15,317,017	0.06%
Corporate Bonds	Euro	13,918,618	0.06%
Corporate Bonds	Hong Kong Dollar	840,551	0.00%
Corporate Bonds	Japanese Yen	2,505,846	0.01%
Corporate Bonds	Mexican Peso	166,542	0.00%
Corporate Bonds	Pound Sterling	4,716,581	0.02%
Corporate Bonds	Singapore Dollar	393,942	0.00%
Corporate Bonds	Swiss Franc	2,081,922	0.01%
Corporate Bonds	United Kingdom Pound	3,090,977	0.01%
Currencies	Argentine Peso	285,743	0.00%
Currencies	Australian Dollar	753,530	0.00%
Currencies	Brazilian Real	458,865	0.00%
Currencies	Canadian Dollar	810,036	0.00%
Currencies	Chilean Peso	170,731	0.00%
Currencies	Chinese Yuan Renminbi	(368)	0.00%
Currencies	Czech Koruna	93,472	0.00%
Currencies	Danish Krone	142,697	0.00%
Currencies	Euro	8,094,456	0.03%
Currencies	Hong Kong Dollar	2,601,982	0.01%
Currencies	Hungarian Forint	330,933	0.00%
Currencies	Israeli Shekel	84,279	0.00%
Currencies	Japanese Yen	5,539,157	0.02%
Currencies	Malaysian Ringgit	196,815	0.00%
Currencies	Mexican Peso	2,014,227	0.01%
Currencies	New Taiwan Dollar	1,209,746	0.00%

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 4 – Investments (continued)

Foreign Currency Risk - Investments	Foreign Currency	Amount	% of Total Investments
Currencies	New Turkish Lira	\$ 206,510	0.00%
Currencies	New Zealand Dollar	62,359	0.00%
Currencies	Norwegian Krone	274,296	0.00%
Currencies	Philippine Peso	1,550	0.00%
Currencies	Polish Zloty	3,631	0.00%
Currencies	Pound Sterling	2,165,332	0.01%
Currencies	Russian Ruble	(293)	0.00%
Currencies	Singapore Dollar	217,908	0.00%
Currencies	South African Rand	1,462,620	0.01%
Currencies	South Korean Won	811,734	0.00%
Currencies	Swedish Krona	89,042	0.00%
Currencies	Swiss Franc	903,479	0.00%
Currencies	Thai Baht	1,140	0.00%
Currencies	Yuan Renminbi	333,014	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Argentine Peso	(89,297)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Australian Dollar	872,335	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Brazilian Real	(345,265)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Canadian Dollar	(23,049)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Chilean Peso	60,538	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Colombian Peso	(68,049)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Czech Koruna	18,723	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Danish Krone	(337)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Egyptian Pound	(5,605)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Euro	6,825,181	0.03%
Derivatives (Forwards, Futures, Options, Swaps)	Hong Kong Dollar	29,961	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Hungarian Forint	176,322	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Indian Rupee	5,534	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Indonesian Rupiah	(214,632)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Israel Shekel	94	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Japanese Yen	97,395	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Malaysian Ringgit	(2,574)	0.00%



**State of New Mexico Investment Council – Investment Office**  
**Notes to Financial Statements**

**Note 4 – Investments (continued)**

Foreign Currency Rick - Investments	Foreign Currency	Amount	% of Total Investments
Derivatives (Forwards, Futures, Options, Swaps)	Mexican Peso	\$ (549,997)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	New Romanian Leu	(8,799)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	New Taiwan Dollar	14,229	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	New Turkish Lira	5,101	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	New Zealand Dollar	(25,509)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Norwegian Krone	12,321	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Peruvian Nuevo Sol	212	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Peso Uruguayo	(181)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Philippine Peso	(5,034)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Polish Zloty	244,528	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Pound Sterling	1,128,780	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Russian Ruble	(8,339)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Singapore Dollar	40,082	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	South African Rand	(249,464)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	South Korean Won	(9,552)	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Swedish Krona	43,486	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Swiss Franc	116,821	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Thai Baht	3,883	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	United Kingdom Pound	967,944	0.00%
Derivatives (Forwards, Futures, Options, Swaps)	Yuan Renminbi	17,469	0.00%
GDR	Australian Dollar	563,392	0.00%
GDR	Euro	13,511,918	0.06%
GDR	Swedish Krona	3,481,062	0.01%
GDR	Thai Baht	18,882,948	0.08%
Government Bonds	Argentine Peso	2,005,467	0.01%
Government Bonds	Colombia Peso	1,631,983	0.01%
Government Bonds	Euro	13,898,460	0.06%
Government Bonds	Mexican Peso	2,114,686	0.01%
Government Bonds	Polish Zloty	6,502,405	0.03%
Government Bonds	South African Rand	5,124,752	0.02%
Government Bonds	Swiss Franc	301,576	0.00%
Limited Partnership	Canadian Dollar	1	0.00%
Limited Partnership	Euro	319,637,625	1.30%
Limited Partnership	Pound Sterling	41,989,228	0.17%
Mutual Funds	Pound Sterling	34,722	0.00%
Preferred Stock	Brazilian Real	20,024,105	0.08%
Preferred Stock	Chilean Peso	137,826	0.00%
Preferred Stock	Euro	11,943,933	0.05%
Preferred Stock	Pound Sterling	38,780	0.00%
Preferred Stock	South Korean Won	2,298,570	0.01%
REIT	Australian Dollar	11,543,175	0.05%

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 4 – Investments (continued)

REIT	Canadian Dollar	\$ 1,688,108	0.01%
REIT	Euro	3,604,978	0.01%
REIT	Hong Kong Dollar	3,606,149	0.01%
REIT	Israeli Shekel	59,489	0.00%
REIT	Japanese Yen	5,058,447	0.02%
REIT	Mexican Peso	1,380,891	0.01%
REIT	New Turkish Lira	21,405	0.00%
REIT	New Zealand Dollar	608,964	0.00%
REIT	Pound Sterling	5,334,596	0.02%
REIT	Singapore Dollar	3,850,376	0.02%
REIT	South African Rand	253,411	0.00%
Rights	Euro	236,440	0.00%
Rights	Pound Sterling	12,343	0.00%
Rights	United Kingdom Pound	15,581	0.00%
Treasury Bills	Argentine Peso	500,968	0.00%
Warrants	Swiss Franc	8,319	0.00%
Warrants	Thai Baht	392,377	0.00%
Warrants	United Kingdom Pound	50,052	0.00%
Foreign currency investments and cash and cash equivalents		4,878,907,221	19.87%
Non-foreign currency investments and cash and cash equivalents		19,672,738,542	80.13%
Total investments and cash and cash equivalents		\$ 24,551,645,763	
Reconciliation to Financial Statements			
Governmental activities			
	Investment in State General Fund Investment Pool	\$ 272,979,847	
	Cash and cash equivalents	842,529,821	
	Investments	22,296,698,274	
	Total governmental activities	23,412,207,942	
Fiduciary funds			
	Cash and cash equivalents	18,863,242	
	Investments	1,120,574,579	
	Total fiduciary funds	1,139,437,821	
Total investments and cash and cash equivalents		\$ 24,551,645,763	

### Note 5 – Fair Value Measurements

Investments are recorded at fair value in accordance with GASB No. 72. 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. Investments measured at the net asset value (NAV) are those whose underlying positions are not evident and thus the market value of the investment is priced at a price per share in a fund or by another pricing methodology.

The Council utilizes its custody bank, J.P. Morgan, to assist with leveling of its investments per the fair value hierarchy.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

#### Note 5 – Fair Value Measurements (continued)

The Office has the following recurring fair value measurements:

Investments by Fair Value Level	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value June 30, 2018
<b>Debt and equity securities</b>				
Agency bonds	\$ -	\$ 28,988,823	\$ -	\$ 28,988,823
Corporate bonds	-	1,550,808,457	-	1,550,808,457
Government bonds	-	133,075,088	-	133,075,088
Municipal bonds	-	24,756,025	-	24,756,025
Certificates of deposit	-	699,607	-	699,607
CLO	-	102,822,402	-	102,822,402
Commercial paper	-	8,743,262	-	8,743,262
Treasuries	-	1,461,624,090	-	1,461,624,090
Discounted notes	-	24,970,916	-	24,970,916
Treasury bills	-	74,647,977	-	74,647,977
Asset backed securities	-	263,961,700	629,000	264,590,700
Mortgage backed securities	-	463,623,870	-	463,623,870
Pooled funds - mutual funds	-	2,346,919	-	2,346,919
Equities	10,783,214,655	203,364	4,338,699	10,787,756,718
Bank loans	-	384,640,126	-	384,640,126
Sovereign debt	-	33,600,159	-	33,600,159
Spot currency contracts	45,307,364	-	-	45,307,364
Total debt and equity securities	<u>10,828,522,019</u>	<u>4,559,512,785</u>	<u>4,967,699</u>	<u>15,393,002,503</u>
<b>Alternative investments</b>				
Master limited partnerships	342,127,286	-	-	342,127,286
Total alternative investments	<u>342,127,286</u>	<u>-</u>	<u>-</u>	<u>342,127,286</u>
<b>Investment in derivative instruments</b>				
Derivatives - credit	-	(102,599)	-	(102,599)
Derivatives - equity	(5,314,567)	(9,628)	-	(5,324,195)
Derivatives - foreign exchange	-	687,402	-	687,402
Derivatives - interest rate	3,704,674	9,481,545	-	13,186,219
Derivatives - other	-	148,414	-	148,414
Total derivative instruments	<u>(1,609,893)</u>	<u>10,205,134</u>	<u>-</u>	<u>8,595,241</u>
Total investments by fair value level	<u>\$ 11,169,039,412</u>	<u>\$ 4,569,717,919</u>	<u>\$ 4,967,699</u>	<u>\$ 15,743,725,030</u>
				Fair Value
<b>Investment Measured at NAV</b>				June 30, 2018
Private equity partnerships				2,199,382,501
Regional private equity partnerships				392,673,369
Real estate partnerships				783,791,230
Open-ended real estate partnerships				1,230,833,004
Real asset funds				1,558,887,784
Absolute return (hedge) funds				302,752,386
Credit & structured finance pool				1,205,227,549
Total investments measured at NAV				<u>7,673,547,823</u>
Total investments measured at fair value level				<u>15,743,725,030</u>
Total investments				<u>\$ 23,417,272,853</u>

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 5 – Fair Value Measurements (continued)

Valuation and liquidity information for investments measured at the net asset value (NAV) per share, or equivalent, is presented below:

Investment Type	Fair Value June 30, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity partnerships	\$ 2,199,382,501	\$ 1,567,466,693	Illiquid	Illiquid
Regional private equity partnerships	392,673,369	73,102,508	Illiquid	Illiquid
Real estate partnerships	783,791,230	711,513,759	Illiquid	Illiquid
Open-ended real estate partnerships	1,230,833,004	155,227,170	Quarterly	45-90 days
Real asset funds	1,558,887,784	810,427,217	Illiquid	Illiquid
Absolute return (hedge) funds	302,752,386	-	Quarterly	30-65 days
Credit & structured finance pool	1,205,227,549	336,552,517	Illiquid	Illiquid
Total investments measured at NAV	<u>\$ 7,673,547,823</u>	<u>\$ 3,654,289,864</u>		

### Note 6 – Pension Plan - New Mexico 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 New Mexico 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](http://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, 2018, 2017 and 2016 were \$454,978, \$453,732, and \$424,041, 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.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### **Note 7 – Post-Employment Benefits-State Retiree Health Care Plan**

##### **Plan Description**

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 postemployment health care plan that provides comprehensive group health insurance for persons who have retired from certain public service positions in New Mexico. The other postemployment benefits (OPEB) Plan is administered by the Retiree Health Care Authority of the State of New Mexico (RHCA). Overall, total OPEB liability exceeds OPEB Plan net position resulting in a net OPEB liability. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability 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 liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2018 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

##### **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](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to 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.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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### Note 7 – Post-Employment Benefits-State Retiree Health Care Plan (continued)

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, 2018, 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, 2018, 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, 2018, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office's contributions to RHCA for the years ended June 30, 2018, 2017, and 2016 were \$53,558, \$53,433 and \$49,916, 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:

Capital Assets	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Furniture and equipment	\$ 130,953	\$ -	\$ (46,216)	\$ 84,737
Accumulated depreciation	(129,957)	(996)	46,216	(84,737)
Total capital assets	\$ 996	\$ (996)	\$ -	\$ -

Depreciation expense recorded by the Office in fiscal year 2018 was \$996. This amount was recognized as an expense in the general government function in the 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, 2017	\$ 160,029
Additions	215,528
Deletions	(205,251)
Balance, at June 30, 2018	\$ 170,306

The balance outstanding at June 30, 2018 is estimated to be due within one year of the statement date.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### 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, 2018, the Office was an investor in approximately 175 private equity limited partnerships and various real estate / real asset investments. When making an investment in a limited partnership, the Office commits 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, 2018, unfunded commitments to private equity partnerships were approximately \$1.64 billion, and unfunded commitments to real estate and real asset investments were approximately \$1.68 billion and unfunded commitment to the Credit & Structure Finance Pool was \$337 million. Due to the nature of these investments, the Office cannot predict when these capital contributions will be called. Subsequent to June 30, 2018, the Office approved an additional \$487 million of commitments to private equity, real estate, and real asset partnerships and \$100 million to a fixed income investment.

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, 2018 was \$308,814. Minimum annual lease payments under these leases are as follows:

Year Ending June 30,	Lease Expense
2019	\$ 290,648
2020	293,914
2021	298,690
2022	299,716
2023	303,085
	<u>\$ 1,486,053</u>

#### 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, 2018, 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, 2018, the NMRHCA had total net assets held in trust of \$632,184,856.
- 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, 2018, the NMIMT had total net assets held in trust of \$85,156,317.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### 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, 2018, the NMSBVI had total net assets held in trust of \$10,225,987.
- 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, 2018, the Commissioner had total net assets held in trust of \$15,080,842.
- 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, 2018, the Commission had total net assets held in trust of \$59,926,527.
- 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, 2018, the NMMI had total net assets held in trust of \$46,029,392.
- 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, 2018, the NMDGF had total net assets held in trust of \$0.
- 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, 2018, the ENMU had total net assets held in trust of \$14,201,475.
- 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, 2018, the SMSD had total net assets held in trust of \$207,769.
- 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, 2018, the Agency had total net assets held in trust of \$35,147,374.



## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 11 – Joint Powers Agreements (continued)

- 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, 2018, the County had total net assets held in trust of \$42,794,793.
- 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, 2018, the NMPSIA had total net assets held in trust of \$27,234,943.
- 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, 2018, the NMHU had total net assets held in trust of \$4,595,902.
- 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, 2018, the CYFD had total net assets held in trust of \$6,439,263.
- 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, 2018, the NMMFA had total net assets held in trust of \$34,980,746.
- 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, 2018, the NMHED had total net assets held in trust of \$91,115.
- 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, 2018, the Client had total net assets held in trust of \$19,591,684.
- 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 investment policy. At June 30, 2018, the Client had total net assets held in trust of \$11,747,430.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 11 – Joint Powers Agreements (continued)

- 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, 2018, the Client had total net assets held in trust of \$605,052.
- 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, 2018, the Client had total net assets held in trust of \$2,979,012.
- 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, 2018, the Client had total net assets held in trust of \$8,357,763.
- v. *Central New Mexico Community College* (CNMCC) dated March 30, 2018, 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, 2018, the Client had total net assets held in trust of \$1,819,026.

#### 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:

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

As of June 30, 2018, 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. There were no significant reductions in insurance coverage from prior year and there were no settlements that exceeded insurance coverage for each of the past 3 years.

**State of New Mexico Investment Council – Investment Office**  
**Notes to Financial Statements**

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**Note 13 – Non-Reverting Fund**

Section 6-8-5(B), NMSA 1978, authorizes the Office 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. The following represents the interfund transfers that occurred during the year:

	General Administrative Fund From (To)	Land Grant Permanent Fund From (To)	Severance tax Permanent Fund From (To)	Tobacco Settlement Permanent Fund From (To)
	<u>From (To)</u>	<u>From (To)</u>	<u>From (To)</u>	<u>From (To)</u>
Administration appropriation	<u>\$ 50,295,414</u>	<u>\$ (38,078,342)</u>	<u>\$ (12,072,166)</u>	<u>\$ (144,906)</u>

**Note 14 – Upcoming Accounting Pronouncements**

The GASB has issued the following statements that are effective in future years. Management is currently considering the impact of these upcoming pronouncements on the financial statements of the Office.

**GASB Statement No. 84, Fiduciary Activities**

*Effective Date* – The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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#### Note 14 – Upcoming Accounting Pronouncements (continued)

##### **GASB Statement No. 87, Leases**

*Effective Date* – The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

## **Supplementary Information**

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**State of New Mexico Investment Council – Investment Office  
Changes in Land Grant Permanent Fund Held for Beneficiaries – Exhibit 1  
Year Ended June 30, 2018**

Beneficiary	Balance June 30, 2017	State Land Office Transfers	Distributions to Beneficiaries	Other Increases In Capital Accounts, Net	Balance June 30, 2018	Participation Percentage June 30, 2018
Carrie Tingley Hospital	\$ 221,029	\$ -	\$ (9,232)	\$ 18,247	\$ 230,044	0.00130%
Charitable, Penal and Reform	126,337,800	1,069,962	(5,295,140)	10,450,950	132,563,572	0.75112%
Public Schools	13,851,968,503	635,925,443	(586,560,649)	1,152,149,085	15,053,482,382	85.29475%
Eastern New Mexico University	12,468,386	92,286	(522,694)	1,031,589	13,069,567	0.07405%
Improvements to the Rio Grande	35,597,443	207,760	(1,490,234)	2,942,569	37,257,538	0.21111%
Miners' Colfax Medical Center	142,310,603	1,269,501	(5,965,502)	11,777,388	149,391,990	0.84647%
New Mexico Boys School	876,613	-	(36,615)	72,367	912,365	0.00517%
New Mexico Highlands University	3,976,165	41,500	(166,782)	329,092	4,179,975	0.02368%
New Mexico Institute of Mining and Technology	30,530,688	380,593	(1,280,671)	2,525,998	32,156,608	0.18220%
New Mexico Military Institute	495,662,730	17,536,613	(20,876,844)	41,064,347	533,386,846	3.02223%
New Mexico School for the Deaf	302,233,767	5,766,188	(12,699,833)	25,029,970	320,330,092	1.81503%
New Mexico School for the Blind and Visually Impaired	301,601,181	5,769,371	(12,673,476)	24,977,828	319,674,904	1.81131%
New Mexico State Hospital	54,197,407	2,541,170	(2,302,494)	4,517,709	58,953,792	0.33404%
New Mexico State University	68,119,571	410,723	(2,852,238)	5,631,755	71,309,811	0.40405%
Northern New Mexico Community College	3,227,485	41,630	(135,513)	267,288	3,400,890	0.01927%
Penitentiary of New Mexico	305,188,889	5,889,171	(12,842,777)	25,309,697	323,544,980	1.83324%
Public Buildings - Capitol	172,951,965	8,720,203	(7,306,251)	14,343,593	188,709,510	1.06925%
The University of New Mexico	215,205,016	3,390,287	(9,029,525)	17,800,131	227,365,909	1.28828%
The University of New Mexico Saline Lands	7,388,021	201,942	(311,792)	613,038	7,891,209	0.04471%
Water Reservoirs	159,142,184	1,132,390	(6,664,822)	13,157,136	166,766,888	0.94492%
Western New Mexico University	3,996,675	41,501	(167,639)	330,784	4,201,321	0.02381%
Total Beneficiaries	16,293,202,121	690,428,234	(689,190,723)	1,354,340,561	17,648,780,193	100.00000%
Unallocated balance	198,519,592	-	-	55,272,270	253,791,862	
Total LGPF	\$ 16,491,721,713	\$ 690,428,234	\$ (689,190,723)	\$ 1,409,612,831	\$ 17,902,572,055	

**State of New Mexico Investment Council – Investment Office  
Detail of Interagency Transfers – Exhibit 2  
Year Ended June 30, 2018**

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<u>Agency Initiating Transfer/Fund</u>	<u>Transferring Cash Account</u>	<u>Agency Receiving Transfer/Fund</u>	<u>Receiving Cash Account</u>
<i>State Land Office</i>	53900/26400	<i>State Investment Office/ Land Grant Permanent Fund</i>	33700/60100
	53900/77700		33700/60100

A total of \$690,428,234 was received from the State Land Office for fiscal year 2018. Funds transferred are from royalties and principal from land sales generated by the State Land Office (see Note 1).

<i>State Treasurer's Office/ Severance Tax Bonding Fund</i>	39400/41000	<i>State Investment Council Severance Tax Permanent Fund</i>	33700/60200
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A total of \$117,026,825 was transferred from the Severance Tax Bonding Fund during 2018. Funds transferred are remaining severance tax revenues after paying Severance Tax Bonding debt service (see Note 1).

<i>State Investment Office/ Land Grant Permanent Fund</i>	33700/60100	<i>Land Grant Permanent Fund LGPF Beneficiaries</i>	Various
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A total of \$689,190,723 was distributed for fiscal year 2018 to the various beneficiaries of the Land Grant Permanent Fund (see Note 1).

<i>State Treasurer's Office/ Severance Tax Permanent Fund</i>	33700/60200	<i>Department of Finance and Administration/ Various</i>	34101/85300
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A total of \$210,377,643 was distributed for fiscal year 2018 to the various beneficiaries of the Severance Tax Permanent fund (see Note 1).

<i>New Mexico Attorney General Tobacco Settlement Proceeds</i>	Wire Received	<i>State Investment Office/ Tobacco Settlement Permanent Fund</i>	33700/95200
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A total of \$35,672,743 was received in fiscal year 2018 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 Revenues, Expenditures and Changes in Fund Balance is due to accrued amounts recorded as receivables at June 30, 2018.

<i>State Investment Office/ Tobacco Settlement Permanent Fund</i>	33700/95200	<i>Department of Finance and Administration Tobacco Settlement Program Fund</i>	34100/69700
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A total of \$35,672,743 was distributed for fiscal year 2018 to the Tobacco Settlement Program Fund (see Note 1). The difference between what was paid and what was recorded in the Statement of Revenues, Expenditures, and Changes in Fund Balance is due to accrued amounts recorded as due to other state agencies at June 30, 2018.

<i>Department of Finance and Administration Federal Taylor Grazing</i>	34100/73800	<i>State Investment Office/ Land Grant Permanent Fund</i>	33700/60100
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A total of \$78,200 was received from the Department of Finance and Administration for fiscal year 2018. Funds transferred are a distribution from the Federal Taylor Grazing Act.

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (1 of 13)**  
**Year Ended June 30, 2018**

Participants - Core Bonds Pool	Balance	Withdrawals	Contributions	Net Investment	Balance
	June 30, 2017			Income	June 30, 2018
Central New Mexico Community College	\$ -	\$ -	\$ 541,500	\$ 1,733	\$ 543,233
Clovis Community College	506,643	-	-	6,324	512,967
Eastern New Mexico University	2,512,440	(120,000)	-	31,824	2,424,264
John Carver Trust	99,088	-	-	1,237	100,325
Los Alamos County - Cemetery	114,467	-	-	1,429	115,896
Los Alamos County - General Fund	2,053,607	-	-	25,634	2,079,241
Los Alamos County - Permanent Fund	3,151,852	-	-	39,343	3,191,195
NM Children's, Youth & Family Dept Next Generation Fund	1,291,700	-	-	16,124	1,307,824
NM Children's, Youth & Family Dept Trust Fund	3,386,341	-	-	42,270	3,428,611
NM Commissioner of Public Lands-Oil and Gas	3,629,509	-	-	45,297	3,674,806
NM Department of Game and Fish	240,654	(244,857)	-	4,203	-
NM Higher Education Department	707,614	(715,000)	-	11,416	4,030
NM Highlands University-Endowment Fund	1,112,918	-	-	13,892	1,126,810
NM Institute of Mining & Technology-Employee Benefit Trust	323,816	-	-	4,042	327,858
NM Institute of Mining & Technology-Endowment Fund	15,669,185	(634,580)	337,356	197,507	15,569,468
NM Institute of Mining & Technology-Plant Debt Allocated Funds	15,863,163	-	-	198,012	16,061,175
NM Institute of Mining & Technology-Research Fund	7,423,459	(910,000)	-	90,840	6,604,299
NM Institute of Mining & Technology-Research Restricted Fund	1,759,253	(51,878)	244,805	21,699	1,973,879
NM Interstate Stream Comm.-Improvements on the Rio Grande	863,081	-	-	10,774	873,855
NM Interstate Stream Comm.-Irrigation Works Construction	6,104,919	-	-	76,205	6,181,124
NM Interstate Stream Comm.-Unit Fund	16,998,391	-	-	212,189	17,210,580
NM Military Institute-Capital Outlay	681,475	-	58,296	8,240	748,011
NM Military Institute-Legislative Scholarship	4,754,236	-	825,284	56,322	5,635,842
NM Military Institute-LFC/VC Maintenance Endowment	2,284,725	(16,200)	195,462	27,669	2,491,656
NM Military Institute-Operating	475,112	(410,673)	2,427,602	(2,173)	2,489,868
NM Military Institute-Patterson Account	2,014,209	(136,557)	240,403	24,384	2,142,439
NM Military Institute-Trust Scholarship	2,452,140	(72,000)	209,825	29,973	2,619,938
NM Mortgage Finance Authority	8,849,536	(2,665,430)	1,644,664	130,785	7,959,555
NM Mortgage Finance Authority-IFT Housing Trust Fund	9,538,938	(1,517,414)	2,435,485	120,436	10,577,445
NM Office of Superintendent of Insurance-Patient's Comp Fund	25,033,208	-	-	312,478	25,345,686
NM Public Schools Insurance Authority-Benefits	7,692,436	-	-	96,021	7,788,457
NM Public Schools Insurance Authority-Risk	3,240,365	-	-	40,459	3,280,824
NM Retiree Health Care Authority	107,756,503	-	49,942,000	1,275,701	158,974,204
NMNM School for the Blind and Visually Impaired	4,905,403	-	-	61,232	4,966,635
San Juan College	2,210,040	(156,499)	275,711	26,254	2,355,506
NM Small Business Investment Corp.	8,262,463	(1,000,000)	1,000,000	95,300	8,357,763
Springer Municipal School District	28,589	-	-	361	28,950
<b>Total Participants - Core Bonds Pool</b>	<b>\$ 273,991,478</b>	<b>\$ (8,651,088)</b>	<b>\$ 60,378,393</b>	<b>\$ 3,355,436</b>	<b>\$ 329,074,219</b>



**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (2 of 13)**  
**Year Ended June 30, 2018**

Participants - U.S. Large Cap. Active Pool	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
Los Alamos County - Cemetery	\$ 210,743	\$ -	\$ -	\$ 38,015	\$ 248,758
Los Alamos County - General Fund	3,844,736	-	-	693,529	4,538,265
Los Alamos County - Permanent Fund	5,903,790	-	-	1,064,947	6,968,737
City of Las Cruces	9,447,004	(4,000,000)	-	1,457,983	6,904,987
NM Commissioner of Public Lands - Oil & Gas	5,053,033	-	-	911,484	5,964,517
NM Children's, Youth & Family Dept Next Generation Fund	330,559	-	-	59,627	390,186
NM Children's, Youth & Family Dept Trust Fund	852,177	-	-	153,719	1,005,896
NM Higher Education Department	133,806	(140,000)	-	27,868	21,674
NM Interstate Stream Comm.-Improvements on the Rio Grande	1,169,712	-	-	210,997	1,380,709
NM Interstate Stream Comm.- Irrigation Works Construction	8,459,342	-	-	1,525,927	9,985,269
NM School for the Blind and Visually Impaired	1,273,907	-	-	229,792	1,503,699
San Juan College	2,602,608	(184,804)	-	453,832	2,871,636
Total Participants - U.S. Large Cap. Active Pool	<u>\$ 39,281,417</u>	<u>\$ (4,324,804)</u>	<u>\$ -</u>	<u>\$ 6,827,720</u>	<u>\$ 41,784,333</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (3 of 13)**  
**Year Ended June 30, 2018**

Participants - U.S. Large Cap. Index Fund	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
Central New Mexico Community College	\$ -	\$ -	\$ 631,750	\$ 20,284	\$ 652,034
City of Las Cruces	5,041,738	(1,000,000)	-	636,546	4,678,284
Los Alamos County-Cemetery	211,606	-	-	30,744	242,350
Los Alamos County-General Fund	3,864,472	-	-	561,468	4,425,940
Los Alamos County-Permanent Fund	5,835,183	-	-	847,792	6,682,975
Eastern New Mexico University	7,401,032	-	-	1,075,294	8,476,326
NM Higher Education Department	167,173	(173,000)	-	28,660	22,833
NM Commissioner of Public Lands-Oil and Gas	4,751,216	-	-	690,303	5,441,519
NM Department of Game and Fish	442,665	(452,920)	-	10,255	-
NM Highlands University-Endowment Fund	2,170,900	-	-	315,410	2,486,310
NM Institute of Mining & Technology-Employee Benefit Trust	891,159	-	-	129,476	1,020,635
NM Institute of Mining & Technology-Endowment Fund	25,394,206	(987,971)	378,637	3,707,356	28,492,228
NM Institute of Mining & Technology	10,804,937	(840,000)	-	1,564,447	11,529,384
NM Institute of Mining & Technology-Research Restricted Fund	2,605,259	(77,818)	367,207	384,129	3,278,777
NM Interstate Stream Comm.-Unit Fund	9,848,736	-	-	1,430,871	11,279,607
NM Military Institute-Capital Outlay	788,512	(32,632)	-	112,234	868,114
NM Military Institute-Legislative Scholarship	5,687,559	(449,555)	123,054	809,881	6,170,939
NM Military Institute-LFC/VC Maintenance Endowment	2,643,504	(126,401)	-	375,020	2,892,123
NM Military Institute-Operating	549,899	(436,077)	2,455,187	185,407	2,754,416
NM Military Institute-Patterson Account	2,330,596	(309,894)	-	330,191	2,350,893
NM Military Institute-Trust Scholarship	2,837,382	(193,448)	-	398,458	3,042,392
NM Mortgage Finance Authority	5,170,295	(1,793,965)	3,590,000	843,109	7,809,439
NM Office of Superintendent of Insurance-Patient's Comp Fund	4,015,269	-	-	583,377	4,598,646
NM Public Schools Insurance Authority-Benefits	5,120,276	(278,000)	200,000	735,294	5,777,570
NM Public Schools Insurance Authority-Risk	2,533,041	(450,000)	-	362,581	2,445,622
NM Retiree Health Care Authority	119,944,339	(12,975,000)	4,000,000	17,203,813	128,173,152
Springer Municipal School District	33,427	-	-	4,851	38,278
Clovis Community College Fund	2,153,191	-	-	312,854	2,466,045
John Carver Trust	440,697	-	-	64,031	504,728
<b>Total Participants U.S. Large Cap. Index Fund</b>	<b>\$ 233,678,269</b>	<b>\$ (20,576,681)</b>	<b>\$ 11,745,835</b>	<b>\$ 33,754,136</b>	<b>\$ 258,601,559</b>

**state of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (4 of 13)**  
**Year Ended June 30, 2018**

Participants - U.S. Small/Mid Cap. Active Pool	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
Central New Mexico Community College	\$ -	\$ -	\$ 270,750	\$ 8,065	\$ 278,815
City of Las Cruces	7,751,185	(2,500,000)	1,000,000	503,638	6,754,823
Eastern New Mexico University	1,964,717	-	-	147,502	2,112,219
Los Alamos County-Cemetery	156,441	-	-	11,745	168,186
Los Alamos County-General Fund	2,839,910	-	-	213,208	3,053,118
Los Alamos County-Permanent Fund	4,327,564	-	-	324,894	4,652,458
NM Department of Game and Fish	114,780	(113,984)	-	(796)	-
NM Higher Education Department	132,637	(132,000)	-	10,637	11,274
NM Highlands University-Endowment Fund	550,184	-	-	41,305	591,489
NM Institute of Mining & Technology-Employee Benefit Trust	167,927	-	-	12,608	180,535
NM Interstate Stream Comm.-Unit Fund	3,136,088	-	-	235,456	3,371,544
NM Military Institute-Capital Outlay	238,407	(14,584)	-	17,336	241,159
NM Military Institute-Legislative Scholarship	1,742,111	(141,012)	60,536	126,061	1,787,696
NM Military Institute-LFC/VC Maintenance Endowment	799,291	(53,841)	-	57,940	803,390
NM Military Institute-Operating	166,250	(129,803)	715,931	28,119	780,497
NM Military Institute-Patterson Account	704,663	(84,828)	10,305	51,232	681,372
NM Military Institute-Trust Scholarship	857,894	(74,496)	-	61,559	844,957
NM Mortgage Finance Authority	-	-	3,383,098	57,048	3,440,146
NM Retiree Health Care Authority	16,319,336	-	2,417,000	1,321,408	20,057,744
NM Office of Superintendent of Insurance-Patient's Comp Fund	1,733,372	-	-	130,133	1,863,505
NM Public Schools Insurance Authority-Benefits	1,840,913	(200,000)	-	127,227	1,768,140
NM Public Schools Insurance Authority-Risk	267,893	-	450,000	44,850	762,743
NM School for the Blind and Visually Impaired	1,318,871	-	-	99,015	1,417,886
San Juan College	1,815,731	(120,703)	-	132,242	1,827,270
Springer Municipal School District	47,831	-	-	3,591	51,422
<b>Total Participants - U.S. Small/Mid Cap. Active Pool</b>	<b>\$ 48,993,996</b>	<b>\$ (3,565,251)</b>	<b>\$ 8,307,620</b>	<b>\$ 3,766,023</b>	<b>\$ 57,502,388</b>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (5 of 13)**  
**Year Ended June 30, 2018**

Participants - Non U.S. Developed Markets Index Pool	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
City of Las Cruces	\$ 2,549,159	\$ (1,500,000)	\$ -	\$ 204,431	\$ 1,253,590
Eastern New Mexico University	1,017,718	-	-	81,255	1,098,973
Los Alamos County-Cemetery	98,952	-	-	7,900	106,852
Los Alamos County-General Fund	1,796,912	-	-	143,464	1,940,376
Los Alamos County-Permanent Fund	2,730,745	-	-	218,022	2,948,767
NM Children's, Youth & Family Department Next Generation Fund	61,362	-	-	4,900	66,262
NM Children's, Youth & Family Department Trust Fund	170,941	-	-	13,648	184,589
NM Department of Game and Fish	52,358	(53,995)	-	1,637	-
NM Institute of Mining & Technology-Employee Benefit Trust	109,349	-	-	8,731	118,080
NM Higher Education Department	301,315	(315,000)	-	44,989	31,304
NM Highlands University-Endowment Fund	239,492	-	-	19,123	258,615
NM Interstate Stream Comm.-Unit Fund	6,883,459	-	-	549,554	7,433,013
NM Military Institute-Capital Outlay	237,168	(1,069)	-	18,920	255,019
NM Military Institute-Legislative Scholarship	1,756,643	(70,348)	43,287	139,585	1,869,167
NM Military Institute-LFC/VC Maintenance Endowment	795,212	(9,061)	-	63,417	849,568
NM Military Institute-Operating	165,320	(138,511)	779,459	19,664	825,932
NM Military Institute-Patterson Account	701,036	(48,714)	2,102	56,434	710,858
NM Military Institute-Trust Scholarship	853,403	(27,832)	-	67,936	893,507
NM Mortgage Finance Authority General Fund	-	-	4,108,048	(56,331)	4,051,717
NM Office of Superintendent of Insurance-Patient's Comp Fund	1,792,118	-	-	143,082	1,935,200
NM Public Schools Insurance Authority-Benefits	2,760,919	(350,000)	222,400	227,207	2,860,526
NM Public Schools Insurance Authority-Risk	1,321,558	(200,000)	-	109,824	1,231,382
NM Retiree Health Care Authority	64,777,806	-	4,611,000	5,168,420	74,557,226
NM School for the Blind and Visually Impaired	1,221,985	-	-	97,562	1,319,547
San Juan College	3,339,754	(439,522)	-	255,618	3,155,850
Springer Municipal School District	44,216	-	-	3,534	47,750
<b>Total Participants-Non U.S. Developed Markets Index Pool</b>	<b>\$ 95,778,900</b>	<b>\$ (3,154,052)</b>	<b>\$ 9,766,296</b>	<b>\$ 7,612,526</b>	<b>\$ 110,003,670</b>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (6 of 13)**  
**Year Ended June 30, 2018**

<u>Participants - Non U.S. Emerging Markets Index Pool</u>	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
Eastern New Mexico University	\$ 83,604	\$ -	\$ -	\$ 6,089	\$ 89,693
Los Alamos County-Cemetery	28,129	-	-	2,049	30,178
Los Alamos County-General Fund	521,922	-	-	38,016	559,938
Los Alamos County-Permanent Fund	784,425	-	-	57,137	841,562
NM Children's, Youth & Family Dept Next Generation Fund	12,327	-	-	898	13,225
NM Children's, Youth & Family Dept Trust Fund	39,772	-	-	2,897	42,669
NM Department of Game and Fish	22,992	(24,896)	-	1,904	-
NM Higher Education Department	(3)	-	-	3	-
NM Military Institute-Capital Outlay	67,166	(10,011)	-	5,300	62,455
NM Military Institute-Legislative Scholarship	461,507	(77,134)	9,715	36,272	430,360
NM Military Institute-LFC/VC Maintenance Endowment	225,225	(34,958)	-	17,775	208,042
NM Military Institute-Operating	46,816	(39,585)	189,050	634	196,915
NM Military Institute-Patterson Account	198,564	(52,142)	-	16,536	162,958
NM Military Institute-Trust Scholarship	241,712	(42,048)	-	19,243	218,907
NM Mortgage Finance Authority - General Fund	-	-	1,208,249	(65,803)	1,142,446
NM Office of Superintendent of Insurance-Patient's Comp Fund	1,308,989	-	-	95,346	1,404,335
NM Public Schools Insurance Authority-Benefits	489,232	-	405,600	(1,627)	893,205
NM Public Schools Insurance Authority-Risk	229,827	-	200,000	(3,352)	426,475
NM Retiree Health Care Authority	82,734,251	(6,629,000)	3,000,000	6,433,765	85,539,016
NM School for the Blind and Visually Impaired	949,089	-	-	69,131	1,018,220
San Juan College	1,595,805	(174,183)	-	115,548	1,537,170
Springer Municipal School District	38,550	-	-	2,807	41,357
NM Highlands University-Endowment Fund	123,669	-	-	9,008	132,677
<b>Total Participants-Non U.S. Emerging Markets Index Pool</b>	<b>\$ 90,203,570</b>	<b>\$ (7,083,957)</b>	<b>\$ 5,012,614</b>	<b>\$ 6,859,576</b>	<b>\$ 94,991,803</b>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (7 of 13)**  
**Year Ended June 30, 2018**

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Participant - Credit and Structured Finance Pool	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
NM Retiree Health Care Authority	\$ 56,324,016	\$ (50,888)	\$ 4,462,726	\$ 3,984,449	\$ 64,720,303
Total Participant - Credit and Structured Finance Pool	<u>\$ 56,324,016</u>	<u>\$ (50,888)</u>	<u>\$ 4,462,726</u>	<u>\$ 3,984,449</u>	<u>\$ 64,720,303</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (8 of 13)**  
**Year Ended June 30, 2018**

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<u>Participant - Absolute Return Fund</u>	<u>Balance June 30, 2017</u>	<u>Withdrawals</u>	<u>Contributions</u>	<u>Net Investment Income</u>	<u>Balance June 30, 2018</u>
NM Retiree Health Care Authority	<u>\$ 26,344,761</u>	<u>\$ (28,721,726)</u>	<u>\$ 1,050,888</u>	<u>\$ 1,326,077</u>	<u>\$ -</u>
Total Participant - Absolute Return Fund	<u><u>\$ 26,344,761</u></u>	<u><u>\$ (28,721,726)</u></u>	<u><u>\$ 1,050,888</u></u>	<u><u>\$ 1,326,077</u></u>	<u><u>\$ -</u></u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (9 of 13)**  
**Year Ended June 30, 2018**

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Participant - National Private Equity Pool	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
NM Retiree Health Care Authority	\$ 61,434,563	\$ (2,465,000)	\$ 2,000,000	\$ 9,471,521	\$ 70,441,084
Total Participant - National Private Equity Pool	<u>\$ 61,434,563</u>	<u>\$ (2,465,000)</u>	<u>\$ 2,000,000</u>	<u>\$ 9,471,521</u>	<u>\$ 70,441,084</u>



**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (10 of 13)**  
**Year Ended June 30, 2018**

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Participant - Real Estate Pool	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
NM Retiree Health Care Authority	\$ 31,674,737	\$ (1,642,000)	\$ 1,000,000	\$ 3,420,518	\$ 34,453,255
Total Participant - Real Estate Pool	\$ 31,674,737	\$ (1,642,000)	\$ 1,000,000	\$ 3,420,518	\$ 34,453,255

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (11 of 13)**  
**Year Ended June 30, 2018**

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Participant - Core Bonds Pool	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
NM Mortgage Finance Authority	\$ 9,405,774	\$ (9,474,664)	\$ -	\$ 68,890	\$ -
Total Participant - Core Bonds Pools	<u>\$ 9,405,774</u>	<u>\$ (9,474,664)</u>	<u>\$ -</u>	<u>\$ 68,890</u>	<u>\$ -</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (12 of 13)**  
**Year Ended June 30, 2018**

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<u>Participant - Non-U.S. Emerging Active Pool</u>	<u>Balance June 30, 2017</u>	<u>Withdrawals</u>	<u>Contributions</u>	<u>Net Investment Income</u>	<u>Balance June 30, 2018</u>
Central NM Community College	\$ -	\$ -	\$ 90,250	\$ (6,783)	\$ 83,467
NM Interstate Stream Comm. - Unit Fund	2,045,866	-	-	164,962	2,210,828
<b>Total Participant - Non-U.S. Emerging Active Pool</b>	<b>\$ 2,045,866</b>	<b>\$ -</b>	<b>\$ 90,250</b>	<b>\$ 158,179</b>	<b>\$ 2,294,295</b>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (13 of 13)**  
**Year Ended June 30, 2018**

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	Balance June 30, 2017	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2018
<u>Participant - Non-U.S. Developed Active Pool</u>					
Central NM Community College	\$ -	\$ -	\$ 270,750	\$ (9,274)	\$ 261,476
Total Participant - Non-U.S. Emerging Active Pool	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,750</u>	<u>\$ (9,274)</u>	<u>\$ 261,476</u>

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Deposit and Investment Accounts – Exhibit 4 (1 of 3)**  
**June 30, 2018**

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
<b>Interest in State General Fund Investment Pool</b>				
NM State Treasurer's Office	Fund 173-General Administrative Fund	Interest in SGFIP	\$ 12,022,136	\$ 12,022,136
NM State Treasurer's Office	Fund 60100-Land Grant Permanent Fund	Interest in SGFIP	142,625,176	142,625,176
NM State Treasurer's Office	Fund 60200-Severance Tax Permanent Fund	Interest in SGFIP	118,332,535	118,332,535
<b>Total Interest in State General Fund Investment Pool</b>			<b>272,979,847</b>	<b>272,979,847</b>
<b>Cash and Cash Equivalents</b>				
JP Morgan	Land Grant Permanent Fund	Money Market	181,649,591	181,649,591
JP Morgan	Severance Tax Permanent Fund	Money Market	67,998,582	67,998,582
JP Morgan	Tobacco Settlement Permanent Fund	Money Market	398,928	398,928
JP Morgan	Water Trust Fund	Money Market	388,397	388,397
JP Morgan	Alliance Bernstein (Developed)	Money Market	1,452,492	1,452,492
JP Morgan	Alliance Bernstein (Emerging)	Money Market	311,850	311,850
JP Morgan	AQR SPLO	Money Market	90,481,660	90,481,660
JP Morgan	Blackrock (Small Mid Cap)	Money Market	458,428	458,428
JP Morgan	Blackrock (Core Bonds Pool)	Money Market	15,363,270	15,363,270
JP Morgan	Blackrock EMG MKT OPP FD	Money Market	10,780,474	10,780,474
JP Morgan	BLK FTSE Developed Ex-US Min Variance	Money Market	1,013,560	1,013,560
JP Morgan	BLK MSCI WORLD EX-USA IMI CUSTOM FACTOR INDEX	Money Market	7,185,136	7,185,136
JP Morgan	Brown Brothers Harriman	Money Market	33,854,650	33,854,650
JP Morgan	Cash Accounts	Money Market	2,097,769	2,097,769
JP Morgan	Credit & Structured Finance Cash	Money Market	17,403,046	17,403,046
JP Morgan	Donald Smith	Money Market	18,060,447	18,060,447
JP Morgan	GAM	Money Market	13,466,260	13,466,260
JP Morgan	Harvest MLP	Money Market	2,950,164	2,950,164
JP Morgan	Hedge Fund Cash	Money Market	2,000,743	2,000,743
JP Morgan	International Private Equity	Money Market	3,722	3,722
JP Morgan	JP Morgan Asset Management	Money Market	512,654	512,654
JP Morgan	Loomis (Unconstrained)	Money Market	15,367,509	15,367,509
JP Morgan	Loomis Sayles	Money Market	5,701,287	5,701,287
JP Morgan	LSV Intl Large Cap Value Equity	Money Market	8,824,705	8,824,705
JP Morgan	MFS Intl Growth Equity	Money Market	3,452,738	3,452,738
JP Morgan	MSCI EAFE IMI Enhanced Value	Money Market	40,710	40,710
JP Morgan	MSCI EAFE IMI Momentum Index	Money Market	19,066	19,066
JP Morgan	National Private Equity	Money Market	757,580	757,580
JP Morgan	Neuberger Berman	Money Market	3,380,343	3,380,343
JP Morgan	ING	Money Market	8,498,635	8,498,635
JP Morgan	Credit Suisse	Money Market	11,656,871	11,656,871
JP Morgan	Northern Trust S&P 500	Money Market	16,742,440	16,742,440
JP Morgan	NT Russell Fundamental LC	Money Market	13,299,840	13,299,840
JP Morgan	NT S&P 600	Money Market	506,341	506,341
JP Morgan	NT SciBeta USA HFE Index	Money Market	9,794,750	9,794,750
JP Morgan	Pimco (Unconstrained)	Money Market	1,171,879	1,171,879
JP Morgan	Pimco (Core Plus Bonds)	Money Market	(761,960)	(761,960)
JP Morgan	Private Equity Cash	Money Market	121,620,032	121,620,032
JP Morgan	Prudential	Money Market	14,868,611	14,868,611

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Deposit and Investment Accounts – Exhibit 4 (2 of 3)**  
**June 30, 2018**

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
<b>Cash and Cash Equivalents (continued)</b>				
JP Morgan	Real Asset Cash	Money Market	\$ 46,719,071	\$ 46,719,071
JP Morgan	Real Asset Domestic	Money Market	32,329	32,329
JP Morgan	Real Asset International	Money Market	1,138	1,138
JP Morgan	Real Estate Cash	Money Market	54,559,701	54,559,701
JP Morgan	Real Estate Pefs - International	Money Market	2,352	2,352
JP Morgan	Real Estate Pefs - National	Money Market	69,625	69,625
JP Morgan	S&P 500 Active	Money Market	3,627,693	3,627,693
JP Morgan	Seizert Capital	Money Market	4,981,921	4,981,921
JP Morgan	Shenkman	Money Market	10,190,321	10,190,321
JP Morgan	SIC Tax Reclaims	Money Market	73,484	73,484
JP Morgan	T. Rowe Price	Money Market	12,236,012	12,236,012
JP Morgan	T. Rowe Price Associate Inc	Money Market	2,934,407	2,934,407
JP Morgan	Templeton Intl Small Cap Equity	Money Market	19,618,317	19,618,317
JP Morgan	William Blair	Money Market	3,573,492	3,573,492
<b>Total Cash and Cash Equivalents</b>			<b>1,134,372,910</b>	<b>1,134,372,910</b>
Investment on Deposits				
JP Morgan	Alliance Bernstein	Equity	785,553,976	785,553,976
JP Morgan	Alliance Bernstein	Equity	94,536,067	94,536,067
JP Morgan	AQR SPLO	Equity	1,092,965,754	1,092,965,754
JP Morgan	Blackrock (Small Mid Cap)	Equity	180,196,843	180,196,843
JP Morgan	Blackrock (Core Bonds Pool)	Core Bonds	1,044,295,412	1,044,295,412
JP Morgan	Blackrock EMG MKT OPP FD	Equity	545,073,065	545,073,065
JP Morgan	BLK FTSE Developed Ex-US Min Variance	Equity	231,869,245	231,869,245
JP Morgan	BLK MSCI WORLD EX-USA IMI CUSTOM INDEX	Equity	740,054,256	740,054,256
JP Morgan	BLK TRANSITION	Equity	142,619	142,619
JP Morgan	Brown Brothers Harriman	Equity	448,896,383	448,896,383
JP Morgan	Citi Transition	Equity	1,978	1,978
JP Morgan	CREDIT SUISSE	Floating Rate	149,689,632	149,689,632
JP Morgan	Donald Smith Co.	Equity	174,090,118	174,090,118
JP Morgan	GAM	Fixed Income	328,853,448	328,853,448
JP Morgan	Harvest MLP	MLP	397,316,343	397,316,343
JP Morgan	ING	Floating Rate	184,185,718	184,185,718
JP Morgan	JPMorgan Asset Management	Short Term	203,755,242	203,755,242
JP Morgan	Loomis	Core Plus Bonds	216,746,018	216,746,018
JP Morgan	Loomis Sayles	Fixed Income	647,060,617	647,060,617
JP Morgan	LSV Intl Large Cap Value Equity	Equity	534,469,074	534,469,074
JP Morgan	MFS Intl Growth Equity	Equity	407,210,306	407,210,306
JP Morgan	MSCI EAFE IMI Enhanced Value	Equity	18,235	18,235
JP Morgan	MSCI EAFE IMI Momentum Index	Equity	3,633	3,633
JP Morgan	Neuberger Berman	Equity	229,277,075	229,277,075
JP Morgan	Northern Trust S&P 500	Equity	1,599,647,839	1,599,647,839
JP Morgan	NT Russell Fundamental LC	Equity	586,817,910	586,817,910
JP Morgan	NT S&P	Equity	30,378,894	30,378,894
JP Morgan	NT SciBeta USA HFE Index	Equity	886,262,391	886,262,391
JP Morgan	Pimco (Unconstrained)	Fixed Income	385,986,739	385,986,739
JP Morgan	Pimco (Core Plus Bonds)	Core Plus Bonds	441,590,451	441,590,451
JP Morgan	Prudential	Core Plus Bonds	630,271,988	630,271,988
JP Morgan	Seizert Capital	Equity	108,443,840	108,443,840
JP Morgan	Shenkman	Equity	342,329,419	342,329,419
JP Morgan	T. Rowe Price	Equity	675,696,447	675,696,447
JP Morgan	T. Rowe Price Associate Inc	Equity	566,620,409	566,620,409
JP Morgan	Templeton Intl Small Cap Equity	Equity	470,568,222	470,568,222
JP Morgan	William Blair	Equity	334,431,687	334,431,687
<b>Total Investments on Deposit</b>			<b>\$ 15,695,307,293</b>	<b>\$ 15,695,307,293</b>

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Deposit and Investment Accounts – Exhibit 4 (3 of 3)**  
**June 30, 2018**

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
<b>Other Investments</b>				
JP Morgan	Private Equity Pool	Private Equity	\$ 2,204,646,338	\$ 2,204,646,338
JP Morgan	Regional Private Equity	Private Equity	392,673,369	392,673,369
JP Morgan	Real Asset Pool	Real Asset Investments	1,558,887,784	1,558,887,784
JP Morgan	Real Estate Pool	Real Estate Investments	2,014,624,234	2,014,624,234
JP Morgan	Economically Targeted Investments	Gov't Sponsored Entities	40,541,008	40,541,008
JP Morgan	Private Equity Stock Distribution-National	Direct Equity & Bond Inv	770,979	770,979
JP Morgan	Private Equity Stock Distribution-Regional	Direct Equity & Bond Inv	1,841,914	1,841,914
JP Morgan	Credit & Structured Finance Pool	Structured Credit	1,205,227,548	1,205,227,548
JP Morgan	Absolute Return Fund	Hedge Investments	302,752,386	302,752,386
<b>Total Other Investments</b>			<u>7,721,965,560</u>	<u>7,721,965,560</u>
<b>Total Investments</b>			<u>23,417,272,853</u>	<u>23,417,272,853</u>
<b>Total Cash, Cash Equivalents and Investments</b>			<u>\$ 24,551,645,763</u>	<u>\$ 24,551,645,763</u>

**Reconciliation to Financial Statements**

<b>Governmental Activities</b>		
Investment in State General Fund Investment Pool		\$ 272,979,847
Cash and Cash Equivalents		842,529,821
Investments		<u>22,296,698,274</u>
<b>Total Governmental Activities</b>		<u>23,412,207,942</u>
<b>Fiduciary Funds</b>		
Cash and Cash Equivalents		18,863,242
Investments		<u>1,120,574,579</u>
<b>Total Fiduciary Funds</b>		<u>1,139,437,821</u>
<b>Total Cash, Cash Equivalents, and Investments</b>		<u>\$ 24,551,645,763</u>

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Investment Management Fees**  
**June 30, 2018**

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**FY18 Consultant Costs (Unaudited)**  
**State Investment Council (Agency #33700)**

<u>Consultant</u>	<u>Location</u>	<u>Description of Investments Subject to the Agreement</u>	<u>Fees</u>
Aksia	New York, NY	Hedge, Credit & Structured	\$ 542,301
Pavilion Alternatives Group	El Dorado Hills, CA	Private Equity	875,000
RVK	Portland, OR	General Consultant	469,000
Sun Mountain Capital	Santa Fe, NM	NM Private Equity	235,000
Townsend	Cleveland, OH	Real Estate, Real Assets	550,000
Colmore	Dallas, TX	Fee Compliance	66,412
			<u>\$ 2,737,713</u>

**FY18 Asset Management Costs (Unaudited)**  
**State Investment Council (Agency #33700)**

<u>Name of Investment Asset Class</u>	<u>Value</u>	<u>Management Fees</u>	<u>Carried Interest</u>
Domestic Equity	\$ 5,783,396,418	\$ 11,252,213	\$ -
International Equity	4,939,829,848	17,754,532	-
Fixed Income	4,240,889,333	7,817,223	-
Private Equity	2,599,932,600	33,607,978	39,863,312
Real Estate	2,014,624,234	23,341,896	26,837,275
Real Return	2,290,079,478	29,153,995	-
Hedge Funds	302,752,386	3,977,765	2,784,176
Credit & Structured	1,205,227,548	13,372,271	8,870,143
	<u>\$ 23,376,731,845</u>	<u>\$ 140,277,873</u>	<u>\$ 78,354,906</u>



## **Report of Independent Auditors 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  
State of New Mexico Investment Council – Investment Office, and  
Mr. Wayne Johnson, 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, each major fund, the budgetary comparison for the general fund, and the aggregate remaining fund information of 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, 2018, 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 20, 2018.

### **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.

### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 results 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 20, 2018

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Findings and Responses**  
**June 30, 2018**

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**Section II – Financial Statements Findings**

There were no findings for the year ended June 30, 2018.

**State of New Mexico Investment Council – Investment Office**  
**Exit Conference**  
**June 30, 2018**

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An exit conference was held with the Office on November 14, 2018. 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**

Jim Goodwin, Audit Committee Member  
Steven K. Moise, State Investment Officer  
Brent H. Shipp, CFO  
Evan L. Land, General Counsel  
Charles V. Wollmann, Director of Communications  
Kerri Segell, Executive Assistant  
Nicole Gallegos, Investment Accounting Manager  
Rita Scheett, Administrative Accountant

**Moss Adams LLP**

Kory I. Hoggan, Partner and Engagement Leader  
Aaron Hamilton, Senior Manager

**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 Report of Independent Auditors.