

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, 2019



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**STATE OF NEW MEXICO INVESTMENT COUNCIL – INVESTMENT OFFICE  
OFFICIAL ROSTER  
JUNE 30, 2019**

**GOVERNING BOARD**

The Hon. Michelle Lujan Grisham, Governor	Ex Officio Member, Chair
Olivia Padilla-Jackson, DFA Cabinet Secretary	Ex Officio Member
The Hon. Tim Eichenberg, State Treasurer	Ex Officio Member
The Hon. Stephanie Garcia Richard, State Land Commissioner	Ex Officio Member
Tracy Hartzler, Vice President Finance and Operations Central New Mexico Community College	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
L. Michael Messina	Public Member, Governor's Appointment
Tim Z. Jennings	Public Member, Legislative Council Appointment

## **Report of Independent Auditors**

The Honorable Michelle Lujan Grisham, Chair  
State of New Mexico Investment Council – Investment Office  
Mr. Brian Colón, Esq.  
New Mexico State Auditor  
Santa Fe, New Mexico

### **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, 2019, 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, 2019, 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 1, the financial statements of the Office present the financial position and changes in financial position of only that portion of governmental activities, each major fund, the budgetary comparison for the general fund and the aggregate remaining fund information of the State of New Mexico that are attributable to the transactions of the Office. The financial statements do not present fairly the financial position of the entire State of New Mexico as of June 30, 2019, the changes in its financial position, and its cash flows for the year then ended in accordance 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 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 21, 2019 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 21, 2019

# State of New Mexico Investment Council – Investment Office Management’s Discussion and Analysis June 30, 2019

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The State of New Mexico Investment Council – Investment Office’s (the Office) mission is to protect and grow the state’s permanent endowment funds for current and future generations, through prudent, professional investment management. It currently has \$23.9 billion in investments under management, which includes investments managed on behalf of other governmental entities through joint power agreements and accounted for as fiduciary funds.

The Office complies with the required financial statement presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This discussion and analysis of the Office provides a summary of the financial position and results of operations as of and for the year ended June 30, 2019, 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.

The financial statements include 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, 2019**

**Condensed Financial Information**

The Office’s condensed statement of net position is summarized as follows:

	June 30,	
	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,898,447,183	\$ 1,115,509,668
Other assets	571,460,316	554,887,204
Investments	22,729,059,927	22,296,698,274
Total assets	\$ 25,198,967,426	\$ 23,967,095,146
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 26,956,298	\$ 28,905,225
Due to brokers	368,102,475	596,513,968
Total liabilities	395,058,773	625,419,193
<b>NET POSITION</b>		
Net investment in capital assets	15,464	-
Unrestricted deficit	(195,107)	(170,306)
Restricted	24,804,088,293	23,341,846,259
Total net position	24,803,908,650	23,341,675,953
Total liabilities and net position	\$ 25,198,967,423	\$ 23,967,095,146

All expenses of the General Administrative Fund are related to investment management of the permanent funds and of external, governmental clients; however, only external investment management expenses for publicly traded assets are allocated to the funds and clients based on relative market values managed.

The increase in cash and cash equivalents is due to anticipated future capital calls, other liquidity needs, considering the current market cycle, and increased monthly distributions from the State Land Office, and due to a larger contribution from the Severance Tax Bonding Fund in June 2019. The increase in other assets is largely due to increased distributions from the State Land Office that are impacted by volume increases over the prior fiscal year. The increase in investments is due to investment growth in the current fiscal year and also due to contributions exceeding distributions.

The decrease in accounts payable and other liabilities is largely attributed to a reduction of external investment management expenses. Due to brokers have decreased as a result of a reduction in purchasing activity at the end of the year.

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 \$15,464 as of June 30, 2019, due to a network equipment purchase at year-end.



**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2019**

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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

The Office’s condensed statement of activities is summarized as follows:

	Year Ended June 30,	
	<u>2019</u>	<u>2018</u>
<b>EXPENSES</b>		
General government	\$ 47,138,634	\$ 51,760,957
<b>REVENUES</b>		
Program revenues		
Fees from external investment trust participants and water trust fund	1,121,716	1,454,270
Royalties, land sales and other program revenues	946,351,006	724,195,139
Total program revenues	<u>947,472,722</u>	<u>725,649,409</u>
General revenues		
Income from investments	1,261,496,629	1,914,636,561
Severance tax bonding fund and other general revenues	285,455,219	117,026,825
Distributions to beneficiaries	(985,053,239)	(933,257,071)
Total general revenues	<u>561,898,609</u>	<u>1,098,406,315</u>
<b>CHANGE IN NET POSITION</b>	1,462,232,697	1,772,294,767
<b>NET POSITION</b>		
Beginning of year	<u>23,341,675,953</u>	<u>21,569,381,186</u>
End of year	<u>\$ 24,803,908,650</u>	<u>\$ 23,341,675,953</u>

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.

**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2019**

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*Decreases in Expenses* – The decrease in expenses for fiscal year 2019 has been due to external investment management expenses. Expenses are allocated to the permanent funds and clients and have decreased as investment returns have declined.

*Increases in Revenues* – Fees from external trust fund participants and water trust fund have decreased due to investing in cheaper public asset classes and also due to increased investing in private asset classes. Royalties, land sales and other program revenues’ increases have been driven by volume increases. The decrease in income from investments is impacted by declining investment performance over the prior fiscal year. Severance tax bonding fund and other 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 and a replenishment to the Tobacco Settlement Permanent Fund of \$40 million for part of \$109 million drawn in fiscal year 2017 for budget pressures facing the State of New Mexico.

**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
	2019	2018	
Revenues from external trust participants	\$ 1,121,716	\$ 1,454,270	-22.9%
Expenditures			
Personnel services and benefits	\$ 3,574,141	\$ 3,600,490	-0.7%
Contractual services and custody fees	42,986,475	47,559,241	-9.6%
Other - operating expenses	578,018	601,226	-3.9%
Total expenditures	\$ 47,138,634	\$ 51,760,957	-8.9%

Revenues from external trust participants have decreased due to investing in cheaper public asset classes and also due to increased investing in private asset classes.

The Office’s expenditures for fiscal year 2019 decreased in total due to decreased external investment management expenses. Personnel costs decreased over fiscal year 2019 due to increased vacancies while the other operating expenses decreased slightly. The Office budgeted, but did not spend, approximately \$7.9 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.

## State of New Mexico Investment Council – Investment Office Management’s Discussion and Analysis (continued) June 30, 2019

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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.

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 20 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 to the Tobacco Settlement Permanent Fund. Beginning in fiscal year 2007, the distribution for the Tobacco Settlement Permanent Fund returned to 50% of the 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. For fiscal years 2014 through 2019, the distributions have varied by fiscal year compared to the contributions. In fiscal year 2018, 100% of the contribution was distributed while only half was distributed in fiscal year 2019.

In April 2004, 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 \$16,250,000 and \$16,712,783 for the years ended June 30, 2019 and 2018, respectively.

**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2019**

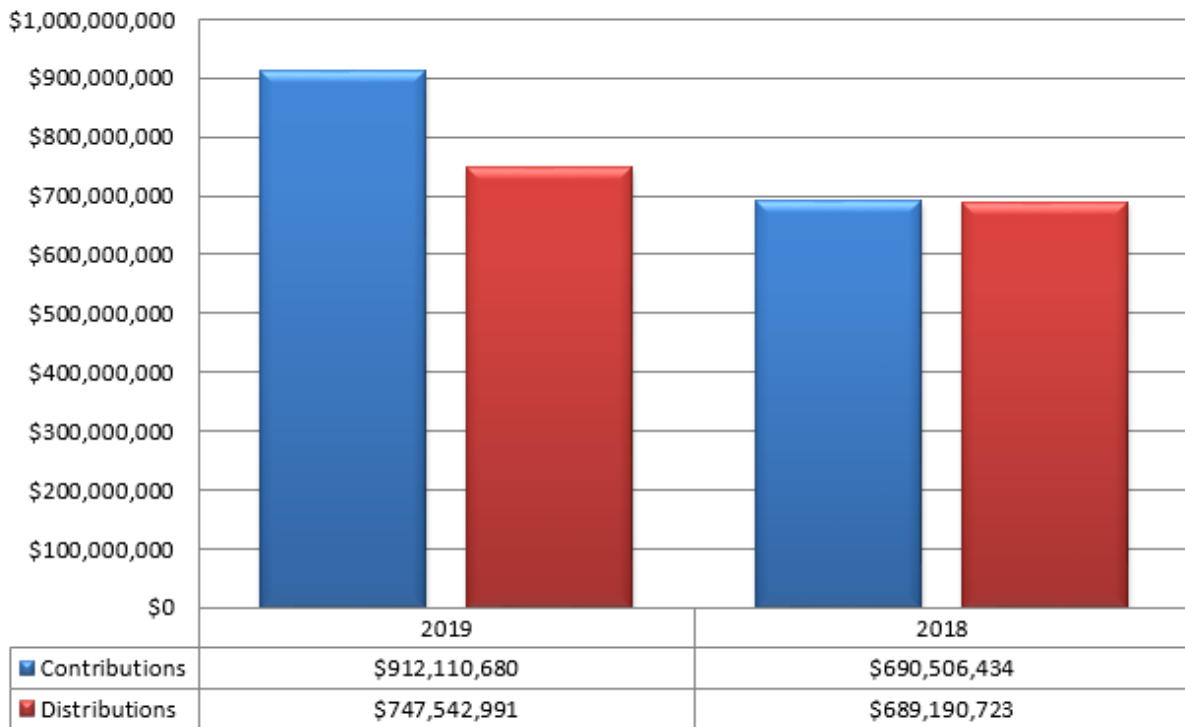
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*Land Grant Permanent Fund* – Beginning in fiscal year 2017, to align with statewide requirements, the State changed the revenue recognition method and is now recognizing all royalties earned for periods through the end of the fiscal year. This includes 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.

Land Grant Permanent Fund contributions from the State Land Office for fiscal year 2019 increased 32.1% from fiscal year 2018, impacted largely by volume increases. The change is inclusive of a Federal Taylor Grazing Act transfer of \$115,686. Distributions to the beneficiaries of the fund increased 8.5% from the prior year due primarily to an increasing rolling five calendar year average asset base.

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

**Land Grant Permanent Fund  
Contributions & Distributions**



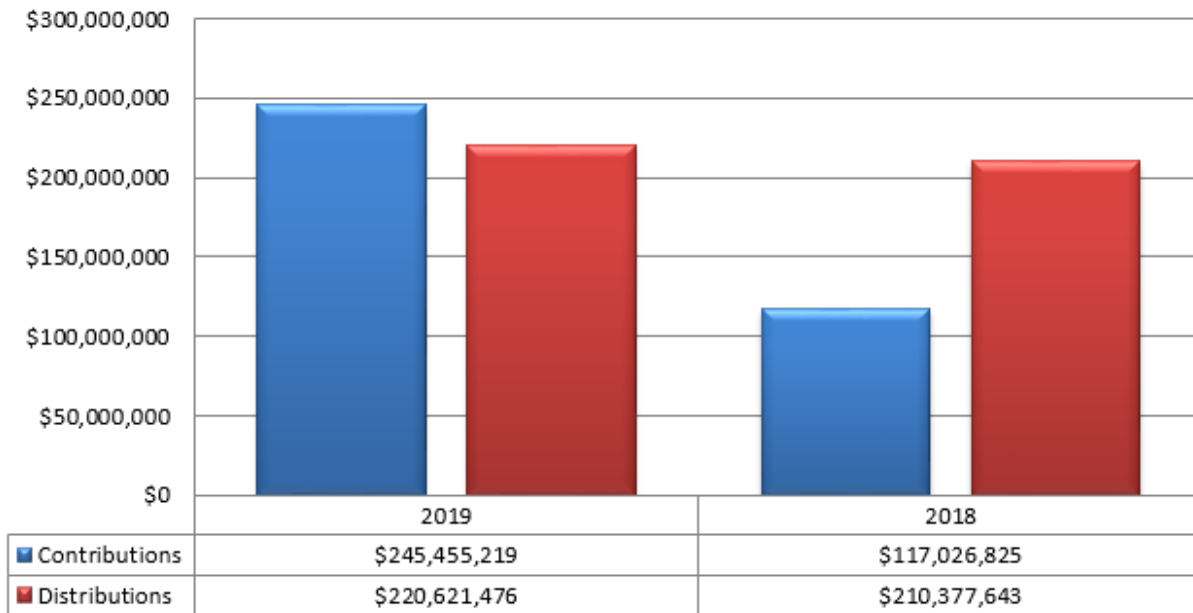
**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2019**

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*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 \$117 million in fiscal year 2018 to \$245.4 million in fiscal year 2019. 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 2019 increased 4.9% from the previous year due primarily to an increasing rolling five calendar year average asset base.

**Severance Tax Permanent Fund  
Contributions & Distributions**



**State of New Mexico Investment Council – Investment Office  
Management’s Discussion and Analysis (continued)  
June 30, 2019**

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*Tobacco Settlement Permanent Fund* – The Tobacco Settlement Permanent Fund distribution was \$17.35 million to the State General Fund in fiscal year 2019, which was 50% of the amount of contributions recorded to the tobacco settlement trust funds in fiscal year 2019.

The amounts presented below are from the total contributions and distributions for fiscal year 2019 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,	
	2019	2018
Contributions	\$ 34,240,326	\$ 33,688,705
Distributions	\$ 16,888,772	\$ 33,688,705

*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 five-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:

	June 30,		Change
	2019	2018	
Water trust funds	\$ 44,445,553	\$ 45,708,902	-2.8%
External client trust funds	1,185,210,093	1,064,128,382	11.4%
Total private purpose and external investment trust funds	\$ 1,229,655,646	\$ 1,109,837,284	10.8%

# State of New Mexico Investment Council – Investment Office

## Management’s Discussion and Analysis (continued)

### June 30, 2019

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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 \$7.4 million in contractual services that was not expended, inclusive of \$1.93 million in legal fees. Lower management fees, which were impacted by lower returns and legal settlements prior to costly trials and related litigation, are the primary factors impacting the budget variation.

#### **Economic Outlook**

The Land Grant Permanent Fund finished fiscal year 2019 with a net return of 5.72%. The Severance Tax Permanent Fund finished at 5.37%. 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.

The oil and gas production hit an all-time high in New Mexico during 2019. The forecasts show steady increases to oil prices over the next five years. The Office’s anticipates recognizing royalty revenue similar to 2019 in 2020 as the demand for New Mexico oil continues to be strong. Tobacco sales continue to decrease globally and the Office expects the revenue from the tobacco settlement to likewise decrease in 2020.

Similar to fiscal year 2019, fiscal year 2020 is expected to have sufficient budget in the General Administrative Fund for the operations of the Office. The funding of the General Administrative Fund is from the Land Grant Permanent Fund and the Severance Tax Permanent Fund offset by fees from external investment trust participants and the Water Trust Fund. Any unused budget is reverted back to the Land Grant Permanent Fund and the Severance Tax Permanent Fund in conjunction with the completion of the external audit. At the start of fiscal year 2020, the Tax Stabilization Reserve Fund was transferred to the Office with an initial transfer of \$526,759,157 and the Rural Libraries Endowment Fund was created with an initial transfer of \$1,000,000.

#### **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, 2019**

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**ASSETS**

	Governmental Activities
Cash and cash equivalents	\$ 1,425,739,628
Investment in State Treasurer General Fund Investment Pool	472,707,554
Due from brokers	337,302,413
Other receivables	282,577
Due from other state entities	153,713,648
Accrued investment income	63,896,212
Accrued tobacco settlement income	16,250,000
Investments	22,729,059,927
Capital assets, net	15,464
Total assets	\$ 25,198,967,423

**LIABILITIES AND NET POSITION**

**LIABILITIES**

Accounts payable	\$ 10,377,884
Accrued payroll	133,307
Due to brokers	368,102,475
Receipts held for the benefit of others	16,250,000
Accrued vacation and sick pay, current	195,107
Total liabilities	395,058,773

**NET POSITION (DEFICIT)**

Net investment in capital assets	15,464
Unrestricted	(195,107)
Restricted	24,804,088,293
Total net position	24,803,908,650
Total liabilities and net position	\$ 25,198,967,423



**State of New Mexico Investment Council – Investment Office**  
**Statement of Activities**  
**Year Ended June 30, 2019**

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	<u>Governmental Activities</u>
EXPENSES	
General government	<u>\$ 47,138,634</u>
REVENUES	
Program revenues	
Fees from external investment trust participants and water trust fund	1,121,716
Royalties and land sales (State Land Office)	911,994,994
Tobacco settlement proceeds	34,240,326
Federal revenues (Taylor Grazing Act)	115,686
Total program revenues	<u>947,472,722</u>
General revenues	
Investment earnings	
Interest and dividends	608,984,866
Net increase in fair value of investments	652,511,763
Severance tax bonding fund	245,455,219
Contribution from State General Fund to Tobacco Settlement Perm. Fund	40,000,000
Distributions to beneficiaries	(985,053,239)
Total general revenues	<u>561,898,609</u>
CHANGE IN NET POSITION	1,462,232,697
NET POSITION	
Beginning of year	<u>23,341,675,953</u>
End of year	<u><u>\$ 24,803,908,650</u></u>

**State of New Mexico Investment Council – Investment Office**  
**Balance Sheet – Governmental Funds**  
**June 30, 2019**

	Major Funds				Total Governmental Funds
	Fund 17300 General Administrative Fund	Fund 60100 Land Grant Permanent Fund	Fund 60200 Severance Tax Permanent Fund	Fund 95200 Tobacco Settlement Permanent Fund	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 1,128,827,551	\$ 274,525,564	\$ 22,386,513	\$ 1,425,739,628
Investment in State General Fund Investment Pool	10,511,191	181,520,864	240,675,499	40,000,000	472,707,554
Due from brokers	-	248,080,130	76,708,630	12,513,653	337,302,413
Other receivables	-	214,755	67,822	-	282,577
Due from other funds	-	26,140	8,255	-	34,395
Due from other state entities (State Land Office Fund 26400)	-	153,713,648	-	-	153,713,648
Accrued investment income	-	49,088,062	14,311,667	496,483	63,896,212
Accrued tobacco settlement income	-	-	-	16,250,000	16,250,000
	<u>10,511,191</u>	<u>1,761,471,150</u>	<u>606,297,437</u>	<u>91,646,649</u>	<u>2,469,926,427</u>
<b>Investments</b>					
Government-Sponsored Enterprise and Agency Issues (GSE)	-	-	39,475,956	-	39,475,956
Investment pools					
Core Plus Bonds	-	948,252,400	238,973,441	34,947,690	1,222,173,531
U.S. Large Cap Active	-	831,358,792	175,521,300	-	1,006,880,092
U.S. Large Cap Index	-	929,868,542	293,862,037	78,742,844	1,302,473,423
U.S. Small/Mid Cap Active	-	215,618,233	28,053,748	3,889,198	247,561,179
Non-U.S. Developed Markets Active	-	586,803,336	226,256,159	1,273,227	814,332,722
Non-U.S. Emerging Markets Active	-	-	-	-	-
Non-U.S. Emerging Markets Index	-	1,807,550,365	512,968,063	-	2,320,518,428
Non-U.S. Developed Markets Index	-	670,774,673	210,252,257	2,173,262	883,200,192
Non-U.S. Developed Alternative Weighted Index	-	816,731,816	219,875,222	11,691,268	1,048,298,306
Unconstrained Fixed Income	-	241,121,300	82,039,493	-	323,160,793
Short-term Duration Fixed Income	-	768,630,864	221,783,440	-	990,414,304
Absolute Return	-	61,751,873	463,865	7,861,023	70,076,761
National Private Equity	-	2,226,045,927	211,171,227	-	2,437,217,154
Credit and Structured Finance	-	1,177,591,352	257,936,080	-	1,435,527,432
Real Estate	-	1,770,542,055	470,662,271	-	2,241,204,326
Real Return	-	1,544,229,175	447,038,259	-	1,991,267,434
Core Bonds	-	1,123,234,811	342,216,632	3,455,844	1,468,907,287
US SMID Cap Alternative Weighted Index	-	88,841,113	34,880,938	-	123,722,051
Bank Loans	-	237,891,189	101,953,367	-	339,844,556
U.S. Large Cap Alternative Weighted Index	-	1,519,011,730	480,016,485	12,690,498	2,011,718,713
Common Stock - Public	-	-	1,841,914	-	1,841,914
Private Equity	-	-	409,243,373	-	409,243,373
Total investments	<u>-</u>	<u>17,565,849,546</u>	<u>5,006,485,527</u>	<u>156,724,854</u>	<u>22,729,059,927</u>
Total assets	<u>\$ 10,511,191</u>	<u>\$ 19,327,320,696</u>	<u>\$ 5,612,782,964</u>	<u>\$ 248,371,503</u>	<u>\$ 25,198,986,354</u>
<b>LIABILITIES AND RESTRICTED FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 10,377,884	\$ -	\$ -	\$ -	\$ 10,377,884
Accrued payroll	133,307	-	-	-	133,307
Due to brokers	-	279,842,505	84,745,259	3,514,711	368,102,475
Due to other funds	-	-	-	34,395	34,395
Receipts held for the benefit of others	-	-	-	16,250,000	16,250,000
Total liabilities	<u>10,511,191</u>	<u>279,842,505</u>	<u>84,745,259</u>	<u>19,799,106</u>	<u>394,898,061</u>
RESTRICTED FUND BALANCE	<u>-</u>	<u>19,047,478,191</u>	<u>5,528,037,705</u>	<u>228,572,397</u>	<u>24,804,088,293</u>
Total liabilities and restricted fund balance	<u>\$ 10,511,191</u>	<u>\$ 19,327,320,696</u>	<u>\$ 5,612,782,964</u>	<u>\$ 248,371,503</u>	<u>\$ 25,198,986,354</u>

**State of New Mexico Investment Council – Investment Office**  
**Reconciliation of Balance Sheet to**  
**Statement of Net Position – Governmental Funds**  
**June 30, 2019**

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**RESTRICTED FUND BALANCE - GOVERNMENTAL FUNDS** \$ 24,804,088,293  
**(Government Fund Balance Sheet)**

Amounts reported for governmental activities in the Statement of Net Position are different because of:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets, net 15,464

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 (195,107)

**TOTAL NET POSITION (Statement of Net Position)** \$ 24,803,908,650

**State of New Mexico Investment Council – Investment Office**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance – Governmental Funds**  
**Year Ended June 30, 2019**

	Major Funds				Total Governmental Funds
	Fund 17300 General Administrative Fund	Fund 60100 Land Grant Permanent Fund	Fund 60200 Severance Tax Permanent Fund	Fund 95200 Tobacco Settlement Permanent Fund	
<b>REVENUES</b>					
Fees from external investment trust					
Participants and Water Trust Fund	\$ 1,121,716	\$ -	\$ -	\$ -	\$ 1,121,716
Royalties and land sales (State Land Office Fund 26400)	-	911,994,994	-	-	911,994,994
Tobacco settlement proceeds	-	-	-	34,240,326	34,240,326
Federal revenue (Taylor Grazing Act)	-	115,686	-	-	115,686
Investment earnings					
Interest and dividends	-	469,808,095	134,853,911	4,322,860	608,984,866
Net increase in fair value of investments	-	545,864,648	98,286,921	8,360,194	652,511,763
Total revenues	<u>1,121,716</u>	<u>1,927,783,423</u>	<u>233,140,832</u>	<u>46,923,380</u>	<u>2,208,969,351</u>
<b>EXPENDITURES</b>					
Current					
Personnel services and benefits	3,549,340	-	-	-	3,549,340
Contractual services and custody fees	42,986,475	-	-	-	42,986,475
Other - operating expenditures	578,018	-	-	-	578,018
Capital outlay	15,464	-	-	-	15,464
Total expenditures	<u>47,129,297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,129,297</u>
<b>EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES</b>	(46,007,581)	1,927,783,423	233,140,832	46,923,380	2,161,840,054
<b>OTHER FINANCING SOURCES (USES)</b>					
Interagency transfers in (out)					
Distributions to beneficiaries of the Land Grant Permanent Fund	-	(747,542,991)	-	-	(747,542,991)
Distributions to State General Fund by the Severance Tax Permanent Fund and the Tobacco Settlement Permanent Fund	-	-	(220,621,476)	(16,888,772)	(237,510,248)
Contribution from State General Fund to Tobacco Settlement Permanent Fund	-	-	-	40,000,000	40,000,000
Severance-Tax Bonding Fund	-	-	245,455,219	-	245,455,219
Interfund transfers in	46,007,581	-	-	-	46,007,581
Interfund transfers out	-	(35,334,296)	(10,535,446)	(137,839)	(46,007,581)
Total other financing sources (uses)	<u>46,007,581</u>	<u>(782,877,287)</u>	<u>14,298,297</u>	<u>22,973,389</u>	<u>(699,598,020)</u>
<b>CHANGE IN FUND BALANCE</b>	-	1,144,906,136	247,439,129	69,896,769	1,462,242,034
<b>FUND BALANCE</b>					
Beginning of year	-	17,902,572,055	5,280,598,576	158,675,628	23,341,846,259
End of year	<u>\$ -</u>	<u>\$ 19,047,478,191</u>	<u>\$ 5,528,037,705</u>	<u>\$ 228,572,397</u>	<u>\$ 24,804,088,293</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, 2019**

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**CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS** \$ 1,462,242,034  
**(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:

Increase in accrued vacation and sick pay liability (24,801)

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

Capital outlay 15,464

**CHANGE IN NET POSITION (Statement of Activities)** \$ 1,462,232,697

**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, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget
	Original	Final		
REVENUES FROM EXTERNAL INVESTMENT TRUST PARTICIPANTS AND OTHER REVENUE	\$ 744,900	\$ 744,900	\$ 1,121,716	\$ (376,816)
EXPENDITURES				
Personnel services and benefits	3,714,600	3,714,600	3,549,340	165,260
Contractual services	50,388,300	50,388,300	42,986,475	7,401,825
Other - operating expenses	642,000	642,000	593,482	48,518
Total expenditures	<u>54,744,900</u>	<u>54,744,900</u>	<u>47,129,297</u>	<u>7,615,603</u>
EXPENDITURES IN EXCESS OF REVENUES	<u>(54,000,000)</u>	<u>(54,000,000)</u>	<u>(46,007,581)</u>	<u>(7,992,419)</u>
TRANSFERS				
Interfund transfers in	54,000,000	54,000,000	46,007,581	7,992,419
Total transfers	<u>54,000,000</u>	<u>54,000,000</u>	<u>46,007,581</u>	<u>7,992,419</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, 2019**

	Fund 10120 Water Trust Fund	Fund 40240 External Investment Trust Funds	Total Fiduciary Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,064,646	\$ 38,871,254	\$ 41,935,900
Due from brokers	1,216,562	39,032,409	40,248,971
Accrued investment income	79,116	3,945,503	4,024,619
	<u>4,360,324</u>	<u>81,849,166</u>	<u>86,209,490</u>
<b>Investments</b>			
Investment pools			
Core Plus Bonds	6,125,331	197,667,825	203,793,156
U.S. Large Cap Active	-	42,703,088	42,703,088
U.S. Large Cap Index	7,069,949	206,352,394	213,422,343
U.S. Small/Mid Cap Active	-	45,101,805	45,101,805
Non-U.S. Developed Markets Index	2,936,724	133,172,610	136,109,334
Non-U.S. Emerging Markets Index	-	78,116,442	78,116,442
Non-U.S. Developed Markets Active	-	251,948	251,948
Non-U.S. Emerging Markets Active	2,973,157	2,286,833	5,259,990
Absolute Return	4,593,067	-	4,593,067
National Private Equity	7,863,027	78,226,173	86,089,200
Credit and Structured Finance	-	94,644,780	94,644,780
Real Estate	6,552,447	63,584,160	70,136,607
Real Return	2,499,869	33,700,483	36,200,352
Core Bonds Pool	-	158,508,809	158,508,809
Total investments	<u>40,613,571</u>	<u>1,134,317,350</u>	<u>1,174,930,921</u>
Total assets	<u>44,973,895</u>	<u>1,216,166,516</u>	<u>1,261,140,411</u>
<b>LIABILITIES</b>			
Due to brokers	520,027	30,682,161	31,202,188
Other payables	8,315	274,262	282,577
Total liabilities	<u>528,342</u>	<u>30,956,423</u>	<u>31,484,765</u>
<b>NET POSITION HELD IN TRUST</b>	<u>\$ 44,445,553</u>	<u>\$ 1,185,210,093</u>	<u>\$ 1,229,655,646</u>

**State of New Mexico Investment Council – Investment Office**  
**Statement of Changes in Net Position – Fiduciary Funds**  
**Year Ended June 30, 2019**

	Fund 10120 Water Trust Fund	Fund 40240 External Investment Trust Funds	Total
<b>ADDITIONS</b>			
Investment income			
Interest and dividends	\$ 1,201,246	\$ 28,257,681	\$ 29,458,927
Net increase in fair value of investments	1,569,275	45,230,006	46,799,281
Contributions	-	308,089,635	308,089,635
Total additions	<u>2,770,521</u>	<u>381,577,322</u>	<u>384,347,843</u>
<b>DEDUCTIONS</b>			
Distribution to beneficiary of the Water Trust Fund	(4,000,000)	-	(4,000,000)
Distributions from external investment trust funds	-	(259,407,779)	(259,407,779)
Internal service fees	(33,870)	(1,087,832)	(1,121,702)
Total deductions	<u>(4,033,870)</u>	<u>(260,495,611)</u>	<u>(264,529,481)</u>
<b>CHANGE IN NET POSITION</b>	(1,263,349)	121,081,711	119,818,362
<b>NET POSITION</b>			
Beginning of year	<u>45,708,902</u>	<u>1,064,128,382</u>	<u>1,109,837,284</u>
End of year	<u>\$ 44,445,553</u>	<u>\$ 1,185,210,093</u>	<u>\$ 1,229,655,646</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 statements 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, 2019, the Office had \$153,713,648 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%) 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%) 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%) 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%) 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 (100%) 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 (50%) 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:

#### 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.

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 and 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.

# 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 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 statements, 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 the General Administrative Fund and the State Permanent Funds as follows:

*General Administrative Fund (Fund 17300)* – 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 (Fund 60100), Severance Tax Permanent Fund (Fund 60200), and Tobacco Settlement Permanent Fund (Fund 95200)* – 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.

#### **Fiduciary Funds**

Fiduciary funds consist of trust funds as follows:

*Water Trust Fund (Fund 10120)* – 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.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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

*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.

#### **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.

#### **Budgetary Matters**

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

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

#### **Budgetary Data**

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

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 2019 as all payables were paid by the statutory deadline.

# 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 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.

#### **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.

#### **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.

#### **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, U.S. SMID Cap Alternative Weighted Index Pool, Short-Term Duration Fixed Income Pool, Core Bonds Pool, Bank Loans 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: Core Bonds Pool, 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 consists of 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.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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

- *U.S. Large Cap Alternative Weighted Index Pool* – Three passively managed portfolios (1 fundamental, and 2 multi-factor).
- *U.S. Small/Mid Cap Active Pool* – Two actively managed portfolios (1 small-cap value, and 1 small-cap core). One strategy uses fundamental, bottom-up analysis; one strategy uses quantitative analysis.
- *U.S. SMID Cap Alternative Weighted Index Pool* – One passively managed portfolio (fundamental).

#### *Fixed Income Pools*

- *U.S. Core Plus Bonds Pool* – Managed externally by two 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.
- *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* – Two portfolios (passively and actively managed) benchmarked against the Barclays U.S. Aggregate Bond Index.
- *Unconstrained Fixed Income Pool* – Managed externally by one manager 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.
- *Bank Loans Pool* - Managed by two managers investing in syndicated bank loans. The role of this pool is to provide income generation through corporate credit exposure.

#### *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.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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

- *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.
- *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, Real Return, Credit and Structured, and Absolute Return**

These 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.

#### **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.



# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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

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 3 to 7 years for furniture and equipment.

#### **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% 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, 2019, \$26,140 was due to the LGPF from the TSPF, and \$8,255 was due to the STPF from the TSPF.

*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.

#### **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, 2019, the Office's fund balance was all restricted.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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

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

*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, 2019.

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, 2019.

### **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, 2019.

### **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.

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

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

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

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

*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.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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

#### **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 SGFIP to the associated resources held by the STO, 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 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, 2019, 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.

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

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

#### 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, 2019, the Office had the following invested in the General Fund Investment Pool:

General Fund Investment Pool	
General Administrative Fund	\$ 10,511,191
Land Grant Permanent Fund	\$ 181,520,864
Severance Tax Permanent Fund	\$ 240,675,499
Tobacco Settlement Permanent Fund	\$ 40,000,000

*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, 2019.

#### Deposits

Cash and cash equivalents totaling \$1,467,675,528 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.

#### 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.

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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

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, 2019
General Administrative Fund	17300	\$ 10,511,191	\$ -	\$ 10,511,191
Land Grant Permanent Fund	60100	181,520,864	305,085,224	486,606,088
Severance Tax Permanent Fund	60200	240,675,499	72,070,718	312,746,217
Tobacco Settlement Permanent Fund	95200	40,000,000	17,865,621	57,865,621
Water Trust Fund	10120	-	396,535	396,535
Large Cap Active Pool	09400	-	30,829,516	30,829,516
Large Cap Index Pool	62800	-	23,841,698	23,841,698
Large Cap Alternative Weighted Index Pool	35150	-	73,488,488	73,488,488
Core Bonds Pool	30870	-	16,062,830	16,062,830
Core Plus Bonds Pool	35150	-	32,903,785	32,903,785
Short Term Duration Fixed Income Pool	50360	-	6,853,894	6,853,894
Small/Mid Cap Active Pool	22000	-	16,461,898	16,461,898
Non-U.S. Developed Markets Index Pool	21800	-	2,786,315	2,786,315
Non-U.S. Developed Markets Active Pool	11950	-	66,915,295	66,915,295
Non-U.S. Emerging Markets Index Pool	61100	-	256,107	256,107
Non-U.S. Emerging Markets Active Pool	11930	-	27,209,857	27,209,857
Non-U.S. Developed Weighted Index Pool	50320	-	6,417,608	6,417,608
Private Equity Pool	11380	-	101,745,520	101,745,520
Real Estate Pool	11390	-	346,032,246	346,032,246
Real Asset Pool	11540	-	58,948,048	58,948,048
Unconstrained Pool	11940	-	41,501,715	41,501,715
Absolute Return Pool	72100	-	15,366,215	15,366,215
Credit and Structured Finance Pool	20140	-	183,206,918	183,206,918
Bank Loans Pool	20690	-	20,336,408	20,336,408
SMID Cap Alternative Weighted Index Pool	20590	-	1,093,069	1,093,069
Total		<u>\$ 472,707,554</u>	<u>\$ 1,467,675,528</u>	<u>\$ 1,940,383,082</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, 2019
Asset Backed	AAA	\$ 94,902,426
CDO/Collateralized Debt Obligation	AAA	44,924,689
CMO/REMIC	AAA	1,756,130
Commercial Mortgage Backed Securities	AAA	16,931,716
Corporate Bonds	AAA	1,565,507
Municipal Bonds	AAA	283,390
Asset Backed	AA+	7,775,830
CMO/REMIC	AA+	132,625,816
Commercial Mortgage Backed Securities	AA+	41,461,413
Corporate Bonds	AA+	8,242,004
Government Bonds	AA+	1,478,151,931
Mortgage Backed Securities	AA+	182,579,072
Asset Backed	AA	20,947,816
CDO/Collateralized Debt Obligation	AA	1,492,130
CMO/REMIC	AA	316,982
Corporate Bonds	AA	7,925,751
Government Bonds	AA	3,409,215
Municipal Bonds	AA	10,308,426
CMO/REMIC	AA-	1,050,902
Corporate Bonds	AA-	46,355,947
Government Bonds	AA-	4,478,501
Municipal Bonds	AA-	2,795,337

**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, 2019
Asset Backed	A+	\$ 1,972,948
CMO/REMIC	A+	508,833
Corporate Bonds	A+	49,873,302
Government Bonds	A+	3,679,988
Municipal Bonds	A+	2,320,425
Asset Backed	A	16,290,102
CMO/REMIC	A	799,018
Corporate Bonds	A	71,033,677
Municipal Bonds	A	4,169,412
Asset Backed	A-	4,266,688
CMO/REMIC	A-	68,841
Corporate Bonds	A-	131,397,211
Government Bonds	A-	8,370,997
Treasury Bills	A-1+	147,510,146
Asset Backed	BBB+	1,870,704
CMO/REMIC	BBB+	1,251,070
Corporate Bonds	BBB+	167,199,036
Government Bonds	BBB+	10,933,910
Asset Backed	BBB	12,400,500
CMO/REMIC	BBB	488,383
Corporate Bonds	BBB	183,440,864
Government Bonds	BBB	22,841,343
Preferred Stock	BBB	264,500
Asset Backed	BBB-	5,436,113
Commercial Mortgage Backed Securities	BBB-	1,141,115
Corporate Bonds	BBB-	206,232,336
Government Bonds	BBB-	6,386,367
Municipal Bonds	BBB-	1,685,114
Asset Backed	BB+	5,574,960
Corporate Bonds	BB+	115,516,703
Government Bonds	BB+	5,981,018
Preferred Stock	BB+	618,732



**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, 2019
Asset Backed	BB	\$ 1,059,566
CMO/REMIC	BB	930,942
Corporate Bonds	BB	127,690,682
Government Bonds	BB	2,833,848
Asset Backed	BB-	812,725
CMO/REMIC	BB-	187,479
Commercial Mortgage Backed Securities	BB-	1,175,813
Corporate Bonds	BB-	176,781,994
Government Bonds	BB-	3,501,257
CMO/REMIC	B+	40,951
Corporate Bonds	B+	118,991,926
Government Bonds	B+	983,680
Asset Backed	B	2,127,945
CMO/REMIC	B	1,135,932
Corporate Bonds	B	163,795,944
Government Bonds	B	15,053,602
Asset Backed	B-	978,838
CMO/REMIC	B-	1,615,537
Corporate Bonds	B-	66,532,930
Government Bonds	B-	6,966,364
Corporate Bonds	CCC+	19,843,623
Government Bonds	CCC+	898,376
Preferred Stock	CCC+	144,690
Asset Backed	CCC	7,041,514
CMO/REMIC	CCC	1,699,634
Corporate Bonds	CCC	1,870,955
Asset Backed	CC	3,570,630
Corporate Bonds	CC	75,965
Asset Backed	D	136,281
CMO/REMIC	D	548,898
Corporate Bonds	D	3,318,497
		\$ 4,034,152,305

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

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**Note 4 – Investments (continued)**

	Fair Value June 30, 2019
Investments Subject to Credit Risk - Not Rated	
Asset Backed	\$ 108,147,062
CDO/Collateralized Debt Obligation	89,470,263
CMO/REMIC	32,983,173
Commercial Mortgage Backed Securities	89,104,792
Corporate Bonds	355,074,837
Discounted Notes	17,779,477
Government Bonds	2,406,173
Preferred Stock	31,212,036
Total investments subject to credit risk - not rated	726,177,813
Investments Not Subject to Ratings	
Absolute Return Pool	74,669,828
Credit & Structured Finance Pool	1,530,172,211
Real Estate Pool	2,311,340,933
Real Asset Pool	1,634,380,862
Private Equity	2,523,306,354
Equity Securities, MLPs, Bank Loans, other excluded investments	10,621,071,212
NM Private Equity	409,243,373
Government-Sponsored Enterprise & Agency Issues (GSEs)	39,475,957
Total investments not subject to ratings	19,143,660,730
Total investments	\$ 23,903,990,848

**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, 2019	Life Not Available	Less than 1 Year	1-5 Years	6-10 Years	Greater Than 10 Years
Asset Backed	\$ 295,312,648	\$ -	\$ 82,524,957	\$ 114,475,812	\$ 52,069,557	\$ 46,242,322
Cash Collateral	8,757,317	8,647,865	-	-	-	109,452
CDO/Collateralized Debt Obligation	135,887,081	-	135,887,081	-	-	-
CMO/REMIC	178,008,521	-	94,707,246	2,720,555	10,798,636	69,782,084
Commercial Mortgage Backed Securities	149,814,848	-	42,980,130	787,275	7,588,356	98,459,087
Corporate Bonds	2,022,759,693	-	253,497,894	1,080,454,257	541,602,295	147,205,247
Discounted Notes	17,779,477	-	17,779,477	-	-	-
Futures	7,364,270	-	7,364,270	-	-	-
Government Bonds	1,576,876,572	-	70,366,421	752,854,440	462,040,772	291,614,939
Money Markets	25,298	-	-	-	-	25,298
Mortgage Backed Securities	182,579,072	-	12,575,633	4,624,703	26,204,380	139,174,356
Municipal Bonds	21,562,103	-	-	1,685,114	7,936,567	11,940,422
Options	34,706	-	34,706	-	-	-
Preferred Stock	32,239,958	32,239,958	-	-	-	-
Swaps	(12,102,728)	-	252,011	(2,732,696)	(9,514,351)	(107,692)
Swaptions	299,251	-	299,251	-	-	-
Treasury Bills	147,510,146	-	147,510,146	-	-	-
Total	<u>\$ 4,764,708,233</u>	<u>\$ 40,887,823</u>	<u>\$ 865,779,223</u>	<u>\$ 1,954,869,460</u>	<u>\$ 1,098,726,212</u>	<u>\$ 804,445,515</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, 2019, 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

#### Note 4 – Investments (continued)

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

Currency	Cash	Derivatives	Equity	Limited Partnership	Fixed Income	Total Foreign Currency Risk
Australian Dollar	\$ 144,446	\$ 12,622	\$ -	\$ -	\$ 1,852,556	\$ 2,009,624
Brazilian Real	1,508,197	(27,334)	188,533,968	-	25,298	190,040,129
Canadian Dollar	1,005,266	(15,722)	81,911,410	-	-	82,900,954
Chilean Peso	2,108,306	(2,554)	250,951,847	-	559,920	253,617,519
Colombia Peso	68,690	(6,449)	2,370,546	-	-	2,432,787
Czech Koruna	-	(5,257)	408,587	-	980,142	1,383,472
Danish Krone	542,313	(2,549)	3,391,279	-	-	3,931,043
Egyptian Pound	242,302	-	59,487,710	-	-	59,730,012
Euro	-	-	207,613	-	-	207,613
Hong Kong Dollar	12,874,916	(574,917)	1,156,785,757	384,496,242	5,226,321	1,558,808,319
Hungarian Forint	2,155,684	-	422,325,560	-	-	424,481,244
Indian Rupee	645,558	33,436	8,547,702	-	-	9,226,696
Indonesian Rupiah	-	2,948	-	-	-	2,948
Israel Shekel	27,705	43,562	36,741,904	-	851,727	37,664,898
Japanese Yen	61,386	-	16,508,626	-	-	16,570,012
Georgian Lari	6,061,174	(97,353)	831,012,560	-	53,026	837,029,407
Malaysian Ringgit	412	-	-	-	-	412
Mexican Peso	128,271	(12,494)	21,167,629	-	-	21,283,406
New Taiwan Dollar	744,972	142,606	33,365,061	-	-	34,252,639
New Turkish Lira	1,977,493	-	148,728,307	-	-	150,705,800
New Zealand Dollar	367,871	4,098	11,329,719	-	-	11,701,688
Norwegian Krone	43,644	-	12,250,086	-	-	12,293,730
Peruvian Nuevo Sol	441,967	(28,063)	37,472,916	-	-	37,886,820
Philippine Peso	2,981	(30,459)	-	-	2,477,263	2,449,785
Polish Zloty	2,051	3,472	18,071,768	-	-	18,077,291
Pound Sterling	292,280	58,221	18,449,483	-	-	18,799,984
Qatari Rial	1,669,805	(53,608)	581,850,285	48,024,692	4,326,475	635,817,649
Russian Ruble	-	-	4,976,103	-	-	4,976,103
Saudi Riyal	-	62,964	-	-	-	62,964
Singapore Dollar	-	-	3,262,715	-	-	3,262,715
South African Rand	347,843	(84,317)	52,226,237	-	-	52,489,763
South Korean Won	615,412	(127,089)	65,819,231	-	5,981,018	72,288,572
Swedish Krona	702,032	(2,421)	137,778,293	-	-	138,477,904
Swiss Franc	512,124	(892)	104,811,365	-	-	105,322,597
Thai Baht	771,348	(11,816)	369,145,876	-	-	369,905,408
Uae Dirham	1,062	-	45,828,595	-	-	45,829,657
Yuan Renminbi	-	-	2,411,233	-	-	2,411,233
YUAN RENMINBI	218,702	(55)	33,089,486	-	-	33,308,133
	<u>\$ 36,286,213</u>	<u>\$ (719,420)</u>	<u>\$ 4,761,219,457</u>	<u>\$ 432,520,934</u>	<u>\$ 22,333,746</u>	<u>5,251,640,930</u>

Non-foreign currency investments and cash  
and cash equivalents

20,120,025,446

Total investments and cash and cash  
equivalents

\$ 25,371,666,376

# State of New Mexico Investment Council – Investment Office

## Notes to Financial Statements

### 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.

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	Significant Observable Inputs	Significant Unobservable Inputs	Fair Value June 30, 2019
	Level 1	Level 2	Level 3	
<b>Debt and equity securities</b>				
Agency bonds	\$ -	\$ 16,821,863	\$ -	\$ 16,821,863
Corporate bonds	-	1,623,428,556	-	1,623,428,556
Government bonds	-	93,372,712	-	93,372,712
Municipal bonds	-	21,562,103	-	21,562,103
CLO	-	135,887,081	-	135,887,081
Treasuries	-	1,618,883,804	-	1,618,883,804
Asset backed securities	-	294,806,648	506,000	295,312,648
Mortgage backed securities	-	510,402,441	-	510,402,441
Pooled funds - mutual funds	55,641	147,261	-	202,902
Equities	10,408,340,938	4,501,587	799,043	10,413,641,568
Bank loans	-	399,331,136	-	399,331,136
Sovereign debt	-	4,344,628	-	4,344,628
Spot currency contracts	26,581,350	-	-	26,581,350
Total debt and equity securities	10,434,977,929	4,723,489,820	1,305,043	15,159,772,792
<b>Alternative investments</b>				
Master limited partnerships	262,785,724	-	-	262,785,724
Total alternative investments	262,785,724	-	-	262,785,724
<b>Investment in derivative instruments</b>				
Derivatives - credit	-	(1,303,836)	-	(1,303,836)
Derivatives - equity	3,369,216	(7,228)	-	3,361,988
Derivatives - interest rate	7,426,310	(11,795,057)	-	(4,368,747)
Derivatives - other	-	300,743	-	300,743
Total derivative instruments	10,795,526	(12,805,378)	-	(2,009,852)
Total investments by fair value level	\$ 10,708,559,179	\$ 4,710,684,442	\$ 1,305,043	\$ 15,420,548,664

## State of New Mexico Investment Council – Investment Office

### Notes to Financial Statements

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

Investment Measured at NAV	Fair Value June 30, 2019
Private equity partnerships	\$ 2,523,306,354
Regional private equity partnerships	409,243,373
Real estate partnerships	872,114,145
Open-ended real estate partnerships	1,439,226,788
Real asset funds (excluding MLPs)	1,317,380,204
Open ended real asset partnerships	317,033,279
Absolute return (hedge) funds	74,668,828
Credit and structured finance	1,530,469,213
Total investments measured at NAV	8,483,442,184
Total investments measured at fair value level	15,420,548,664
Total investments	\$ 23,903,990,848

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, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity partnerships	\$ 2,523,306,354	\$ 1,424,314,140	Illiquid	Illiquid
Regional private equity partnerships	409,243,373	41,770,389	Illiquid	Illiquid
Real estate partnerships	872,114,145	882,567,956	Illiquid	Illiquid
Open-ended real estate partnerships	1,439,226,788	302,020,408	Quarterly	45-90 days
Real asset funds	1,317,380,204	963,715,706	Illiquid	Illiquid
Open-ended real asset partnerships	317,033,279	69,579,629	Quarterly-	
Absolute return (hedge) funds	74,668,828	-	Binannual	90-180 days
Credit and structured finance	1,530,469,213	668,051,304	Quarterly	30-65 days
			Illiquid	Illiquid
Total investments measured at NAV	\$ 8,483,442,184	\$ 4,352,019,532		

#### 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, 2019, 2018 and 2017 were \$449,489, \$454,978, and \$453,732, respectively, equal to the amount of the required contributions for each fiscal year.

## **State of New Mexico Investment Council – Investment Office**

### **Notes to Financial Statements**

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#### **Note 6 – Pension Plan – New Mexico Public Employees Retirement Association (continued)**

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

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

##### **Plan Description**

The Office, 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, 2019 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, 2019, 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, 2019, 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, 2019, 2018, and 2017 were \$52,911, \$53,558 and \$53,433, 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:

<u>Capital Assets</u>	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Furniture and equipment	\$ 84,737	\$ 15,464	\$ -	\$ 100,201
Accumulated depreciation	(84,737)	-	-	(84,737)
Total capital assets	<u>\$ -</u>	<u>\$ 15,464</u>	<u>\$ -</u>	<u>\$ 15,464</u>

The Office did not record any depreciation expense 2019 due to the only depreciable asset being placed in service at the end of the fiscal year.

**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, 2018	\$ 170,306
Additions	236,418
Deletions	(211,617)
Balance, at June 30, 2019	<u>\$ 195,107</u>

The balance outstanding at June 30, 2019 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, 2019, the Office was an investor in approximately 208 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 12 to 15 years. As of June 30, 2019, unfunded commitments to private equity partnerships were approximately \$1.46 billion, unfunded commitments to real estate and real asset investments were approximately \$2.21 billion and unfunded commitment to the Credit & Structure Finance Pool was \$668 million. Due to the nature of these investments, the Office cannot predict when these capital contributions will be called. Subsequent to June 30, 2019, the Office approved an additional \$805 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, 2019 was \$298,869. Minimum annual lease payments under these leases are as follows:

Year Ending June 30,	Lease Expense
2020	\$ 293,914
2021	298,690
2022	299,716
2023	303,085
	<u>\$ 1,195,405</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, 2019, 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, 2019, the NMRHCA had total net assets held in trust of \$722,651,693.
- 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, 2019, the NMIMT had total net assets held in trust of \$93,020,590.

## 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, 2019, the NMSBVI had total net assets held in trust of \$10,815,460.
- 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, 2019, the Commissioner had total net assets held in trust of \$16,663,317.
- 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, 2019, the Commission had total net assets held in trust of \$64,488,235.
- 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, 2019, the NMMI had total net assets held in trust of \$43,684,683.
- 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, 2019, 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, 2019, the ENMU had total net assets held in trust of \$15,220,754.
- 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, 2019, the SMSD had total net assets held in trust of \$213,682.
- 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, 2019, the Agency had total net assets held in trust of \$37,717,547.

## 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, 2019, the County had total net assets held in trust of \$45,696,935.
- 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, 2019, the NMPSIA had total net assets held in trust of \$28,873,803.
- 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, 2019, the NMHU had total net assets held in trust of \$4,930,720.
- 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, 2019, the CYFD had total net assets held in trust of \$7,008,843.
- 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, 2019, the NMMFA had total net assets held in trust of \$39,538,804.
- 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, 2019, the NMHED had total net assets held in trust of \$2,305,155.
- 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, 2019, the Client had total net assets held in trust of \$22,800,902.
- 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, 2019, the Client had total net assets held in trust of \$11,240,679.

## 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, 2019, the Client had total net assets held in trust of \$663,801.
- 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, 2019, the Client had total net assets held in trust of \$3,267,895.
- 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 SBIC in accordance with guidelines established in the SBIC's investment policy. At June 30, 2019, SBIC had total net assets held in trust of \$12,223,033.
- 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 CNMCC in accordance with guidelines established in the CNMCC's investment policy. At June 30, 2019, the CNMCC had total net assets held in trust of \$1,924,692.
- w. *City of Albuquerque* (Client) dated August 1, 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, 2019, the Client had total net assets held in trust of \$258,868.

#### 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, 2019, 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 three 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)
Administration appropriation	<u>\$ 46,007,581</u>	<u>\$ (35,334,295)</u>	<u>\$ (137,841)</u>	<u>\$ (10,535,445)</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, 2019**

Beneficiary	Balance June 30, 2018	Allocation of Prior Years Unallocated Balance	State Land Office Transfers	Distributions to Beneficiaries	Other Increases In Capital Accounts, Net	Balance June 30, 2019	Participation Percentage June 30, 2019
Carrie Tingley Hospital	\$ 230,044	\$ 3,170	\$ -	\$ (9,590)	\$ 12,414	\$ 236,037	0.00124%
Charitable, Penal and Reform	132,563,572	1,839,663	945,136	(5,543,989)	7,190,816	136,995,198	0.71923%
Public Schools	15,053,482,382	217,390,121	858,775,563	(638,656,368)	838,753,320	16,329,745,018	85.73180%
Eastern New Mexico University	13,069,567	180,935	41,649	(546,381)	707,991	13,453,761	0.07063%
Improvements to the Rio Grande	37,257,538	515,670	159,086	(1,556,253)	2,016,570	38,392,611	0.20156%
Miners' Colfax Medical Center	149,391,990	2,075,158	1,099,690	(6,250,919)	8,106,794	154,422,713	0.81073%
New Mexico Boys School	912,365	12,572	-	(38,036)	49,233	936,134	0.00491%
New Mexico Highlands University	4,179,975	58,129	37,939	(174,993)	227,121	4,328,171	0.02272%
New Mexico Institute of Mining and Technology	32,156,608	448,132	341,556	(1,347,428)	1,749,682	33,348,550	0.17508%
New Mexico Military Institute	533,386,846	7,502,466	13,237,004	(22,392,657)	29,157,714	560,891,373	2.94470%
New Mexico School for the Deaf	320,330,092	4,486,588	6,099,855	(13,439,036)	17,478,574	334,956,073	1.75853%
New Mexico School for the Blind and Visually Impaired	319,674,904	4,477,561	6,099,891	(13,411,722)	17,443,221	334,283,855	1.75500%
New Mexico State Hospital	58,953,792	849,349	3,020,662	(2,501,363)	3,273,999	63,596,439	0.33388%
New Mexico State University	71,309,811	987,704	353,587	(2,979,991)	3,862,930	73,534,041	0.38606%
Northern New Mexico Community College	3,400,890	47,395	38,043	(142,515)	185,084	3,528,897	0.01853%
Penitentiary of New Mexico	323,544,980	4,531,773	5,487,463	(13,587,051)	17,667,924	337,645,089	1.77265%
Public Buildings - Capitol	188,709,510	2,736,536	12,016,194	(7,966,197)	10,505,876	206,001,919	1.08152%
The University of New Mexico	227,365,909	3,170,187	3,287,349	(9,521,957)	12,372,316	236,673,804	1.24255%
The University of New Mexico Saline Lands	7,891,209	110,554	96,474	(332,171)	431,762	8,197,828	0.04304%
Water Reservoirs	166,766,888	2,309,776	819,914	(6,968,489)	9,032,521	171,960,610	0.90280%
Western New Mexico University	4,201,321	58,423	37,939	(175,883)	228,272	4,350,072	0.02284%
<b>Total Beneficiaries</b>	<b>\$ 17,648,780,193</b>	<b>\$ 253,791,862</b>	<b>\$ 911,994,994</b>	<b>\$ (747,542,989)</b>	<b>\$ 980,454,134</b>	<b>\$ 19,047,478,193</b>	<b>100.00000%</b>



# State of New Mexico Investment Council – Investment Office

## Detail of Interagency Transfers – Exhibit 2

### Year Ended June 30, 2019

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

A total of \$911,994,994 was received from the State Land Office for fiscal year 2019. 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 \$225,455,219 was transferred from the Severance Tax Bonding Fund during 2019. 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 \$747,754,991 was distributed for fiscal year 2019 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/ State General Fund</i>	34101/85300
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A total of \$220,621,476 was distributed for fiscal year 2019 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 \$34,703,111 was received in fiscal year 2019 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, 2019.

<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 \$17,351,556 was distributed for fiscal year 2019 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, 2019.

<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 \$115,686 was received from the Department of Finance and Administration for fiscal year 2019. Funds transferred are a distribution from the Federal Taylor Grazing Act.

<i>Department of Finance and Administration General Fund</i>	34100/62000	<i>State Investment Office/ Tobacco Settlement Program Fund</i>	33700/95200
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A total of \$40,000,000 was received from the Department of Finance and Administration in fiscal year 2019. Funds transferred per Laws 2019, 1S, Ch.271-S12-15

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (1 of 13)**  
**Year Ended June 30, 2019**

	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
Participants - Core Plus Bonds Pool					
Central New Mexico Community College	\$ 543,233	\$ -	\$ -	\$ 45,558	\$ 588,791
Clovis Community College	512,967	-	-	43,020	555,987
Eastern New Mexico University	2,424,264	-	-	203,344	2,627,608
John Carver Trust	100,325	-	-	8,414	108,739
Los Alamos County - Cemetery	115,896	-	128,530	15,942	260,368
Los Alamos County - General Fund	2,079,241	-	2,398,904	289,905	4,768,050
Los Alamos County - Permanent Fund	3,191,195	-	3,607,463	441,151	7,239,809
NM Children's, Youth & Family Dept Next Generation Fund	1,307,824	-	-	109,686	1,417,510
NM Children's, Youth & Family Dept Trust Fund	3,428,611	-	-	287,558	3,716,169
NM Commissioner of Public Lands-Oil and Gas	3,674,806	-	-	308,212	3,983,018
NM Higher Education Department	4,030	(25,000)	750,000	55,389	784,419
NM Highlands University-Endowment Fund	1,126,810	-	-	94,506	1,221,316
NM Institute of Mining & Technology-Employee Benefit Trust	327,858	-	-	27,497	355,355
NM Institute of Mining & Technology-Endowment Fund	15,569,469	(652,791)	523,184	1,319,638	16,759,500
NM Institute of Mining & Technology-Plant Debt Allocated Funds	16,061,175	-	-	1,347,043	17,408,218
NM Institute of Mining & Technology-Research Fund	6,604,299	(460,000)	60,000	551,618	6,755,917
NM Institute of Mining & Technology-Research Restricted Fund	1,973,879	(93,538)	402,833	172,869	2,456,043
NM Institute of Mining & Technology - Proceeds from ABQ Building Sale	-	-	770,102	55,614	825,716
NM Institute of Mining & Technology- Research Enhanced	-	-	60,000	1,972	61,972
NM Interstate Stream Comm.-Improvements on the Rio Grande	873,855	-	-	73,290	947,145
NM Interstate Stream Comm.-Irrigation Works Construction	6,181,124	-	-	518,398	6,699,522
NM Interstate Stream Comm.-Unit Fund	17,210,580	-	-	1,443,437	18,654,017
NM Military Institute-Capital Outlay	748,010	-	40,279	63,311	851,600
NM Military Institute-Legislative Scholarship	5,635,843	-	167,244	475,155	6,278,242
NM Military Institute-LFC/VC Maintenance Endowment	2,491,656	-	134,387	210,949	2,836,992
NM Military Institute-Operating	2,489,868	(1,917,757)	24,693	78,891	675,695
NM Military Institute-Patterson Account	2,142,439	-	45,554	180,397	2,368,390
NM Military Institute-Trust Scholarship	2,619,938	-	177,779	222,337	3,020,054
NM Mortgage Finance Authority	7,959,555	-	-	667,592	8,627,147
NM Mortgage Finance Authority-IFT Housing Trust Fund	10,577,445	(1,820,730)	3,918,753	1,048,279	13,723,747
NM Public Regulation Commission-Patients' Comp. Fund	25,345,686	-	-	2,125,726	27,471,412
NM Public Schools Insurance Authority-Benefits	7,788,457	-	550,000	692,926	9,031,383
NM Public Schools Insurance Authority-Risk	3,280,824	-	275,000	295,009	3,850,833
NM Retiree Health Care Authority	158,974,204	(159,835,017)	-	860,813	-
NMNM School for the Blind and Visually Impaired	4,966,635	-	-	416,544	5,383,179
San Juan College	2,355,506	(300,000)	-	189,518	2,245,024
NM Small Business Investment Corp.	8,357,763	-	3,000,000	865,271	12,223,034
Springer Municipal School District	28,950	-	-	2,454	31,404
<b>Total Participants - Core Plus Bonds Pool</b>	<b>\$ 329,074,219</b>	<b>\$ (165,104,833)</b>	<b>\$ 17,034,705</b>	<b>\$ 15,809,233</b>	<b>\$ 196,813,325</b>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (2 of 13)**  
**Year Ended June 30, 2019**

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Participants - U.S. Large Cap. Active Pool	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
City of Las Cruces	\$ 6,904,987	\$ (1,000,000)	\$ 1,000,000	\$ 881,470	\$ 7,786,457
NM Children's, Youth & Family Dept Next Generation Fund	390,186	-	-	47,867	438,053
NM Children's, Youth & Family Dept Trust Fund	1,005,896	-	-	123,391	1,129,287
NM Interstate Stream Comm.-Improvements on the Rio Grande	1,380,709	-	-	169,379	1,550,088
NM Interstate Stream Comm.- Irrigation Works Construction	9,985,269	-	-	1,224,943	11,210,212
Los Alamos County - Cemetery	248,758	(58,696)	-	26,730	216,792
Los Alamos County - General Fund	4,538,265	(1,093,412)	-	486,311	3,931,164
Los Alamos County - Permanent Fund	6,968,737	(1,778,461)	-	741,346	5,931,622
NM Commissioner of Public Lands - Oil & Gas	5,964,517	-	-	731,700	6,696,217
NM Higher Education Department	21,674	(50,000)	500,000	31,541	503,215
NM School for the Blind and Visually Impaired	1,503,699	-	-	184,436	1,688,135
San Juan College	2,871,636	(320,000)	-	334,743	2,886,379
Total Participants - U.S. Large Cap. Active Pool	<u>\$ 41,784,333</u>	<u>\$ (4,300,569)</u>	<u>\$ 1,500,000</u>	<u>\$ 4,983,857</u>	<u>\$ 43,967,621</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (3 of 13)**  
**Year Ended June 30, 2019**

Participants - U.S. Large Cap. Index Fund	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
Central New Mexico Community College	\$ 652,034	\$ -	\$ -	\$ 64,999	\$ 717,033
City of Albuquerque	-	-	175,000	7,288	182,288
City of Las Cruces	4,678,284	-	-	466,461	5,144,745
Clovis Community College Fund	2,466,045	-	-	245,864	2,711,909
Eastern New Mexico University	8,476,326	-	-	845,161	9,321,487
NM Interstate Stream Comm.-Unit Fund	11,279,607	-	-	1,124,725	12,404,332
John Carver Trust	504,728	-	-	50,334	555,062
Los Alamos County-Cemetery	242,350	(35,603)	-	21,812	228,559
Los Alamos County-General Fund	4,425,940	(681,323)	-	396,813	4,141,430
Los Alamos County-Permanent Fund	6,682,975	(914,394)	-	604,840	6,373,421
NM Commissioner of Public Lands-Oil and Gas	5,441,519	-	-	542,563	5,984,082
NM Higher Education Department	22,833	(25,000)	750,000	22,995	770,828
NM Highlands University-Endowment Fund	2,486,310	-	-	247,905	2,734,215
NM Military Institute-Operating	2,754,416	(2,055,712)	103,467	(104,202)	697,969
NM Military Institute-Capital Outlay	868,115	(80,576)	-	81,002	868,541
NM Military Institute-Legislative Scholarship	6,170,939	(401,693)	57,000	591,402	6,417,648
NM Military Institute-LFC/VC Maintenance Endowment	2,892,123	(268,606)	-	269,798	2,893,315
NM Military Institute-Patterson Account	2,350,894	(155,594)	-	223,540	2,418,840
NM Military Institute-Trust Scholarship	3,042,392	(283,154)	37,716	286,266	3,083,220
NM Retiree Health Care Authority	128,173,152	(47,000,000)	6,300,000	12,107,359	99,580,511
NM Institute of Mining & Technology-Research Restricted Fund	3,278,777	(140,307)	604,250	361,533	4,104,253
NM Institute of Mining & Technology - Research	11,529,384	(690,000)	90,000	1,104,142	12,033,526
NM Institute of Mining & Technology-Employee Benefit Trust	1,020,635	-	-	101,766	1,122,401
NM Institute of Mining & Technology-Endowment Fund	28,492,228	(1,016,325)	512,172	2,853,482	30,841,557
NM Mortgage Finance Authority	7,809,439	-	-	778,639	8,588,078
NM Public Schools Insurance Authority-Benefits	5,777,570	(550,000)	-	472,819	5,700,389
NM Public Schools Insurance Authority-Risk	2,445,622	(225,000)	-	201,610	2,422,232
Office of the Superintendent of Insurance	4,598,646	-	-	458,532	5,057,178
Springer Municipal School District	38,278	-	-	3,827	42,105
Total Participants U.S. Large Cap. Index Fund	<u>\$ 258,601,561</u>	<u>\$ (54,523,287)</u>	<u>\$ 8,629,605</u>	<u>\$ 24,433,275</u>	<u>\$ 237,141,154</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (4 of 13)**  
**Year Ended June 30, 2019**

	Balance			Net Investment	Balance
Participants - U.S. Small/Mid Cap. Active Pool	June 30, 2018	Withdrawals	Contributions	Income	June 30, 2019
Central New Mexico Community College	\$ 278,815	\$ -	\$ -	\$ (4,355)	\$ 274,460
City of Las Cruces	6,754,823	-	-	(105,213)	6,649,610
Eastern New Mexico University	2,112,219	-	-	(32,898)	2,079,321
Los Alamos County-Cemetery	168,186	(45,755)	-	(3,972)	118,459
Los Alamos County-General Fund	3,053,118	(819,099)	-	(71,537)	2,162,482
Los Alamos County-Permanent Fund	4,652,458	(1,249,126)	-	(108,968)	3,294,364
NM Higher Education Department	11,274	-	215,000	(10,988)	215,286
NM Highlands University-Endowment Fund	591,489	-	-	(9,214)	582,275
NM Institute of Mining & Technology-Employee Benefit Trust	180,535	-	-	(2,813)	177,722
NM Interstate Stream Comm.-Unit Fund	3,371,544	-	-	(52,534)	3,319,010
NM Military Institute-Capital Outlay	241,159	-	13,489	(2,644)	252,004
NM Military Institute-Legislative Scholarship	1,787,696	-	89,065	(20,613)	1,856,148
NM Military Institute-LFC/VC Maintenance Endowment	803,390	-	44,919	(8,818)	839,491
NM Military Institute-Operating	780,497	(550,000)	61,766	(91,497)	200,766
NM Military Institute-Patterson Account	681,372	-	26,577	(8,498)	699,451
NM Military Institute-Trust Scholarship	844,957	-	58,173	(8,434)	894,696
NM Mortgage Finance Authority	3,440,146	-	-	(53,582)	3,386,564
NM Retiree Health Care Authority	20,057,744	(8,000,000)	900,000	(31,833)	12,925,911
NM Public Regulation Commission-Patients' Comp. Fund	1,863,505	-	-	(29,038)	1,834,467
NM Public Schools Insurance Authority-Benefits	1,768,140	-	-	(27,547)	1,740,593
NM Public Schools Insurance Authority-Risk	762,743	-	-	(11,905)	750,838
NM School for the Blind and Visually Impaired	1,417,886	-	-	(22,108)	1,395,778
San Juan College	1,827,270	(80,000)	-	(34,995)	1,712,275
Springer Municipal School District	51,422	-	-	(796)	50,626
<b>Total Participants - U.S. Small/Mid Cap. Active Pool</b>	<b>\$ 57,502,388</b>	<b>\$ (10,743,980)</b>	<b>\$ 1,408,989</b>	<b>\$ (754,800)</b>	<b>\$ 47,412,597</b>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (5 of 13)**  
**Year Ended June 30, 2019**

Participants - Non U.S. Developed Markets Index Pool	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
City of Albuquerque	\$ -	\$ -	\$ 37,500	\$ 1,339	\$ 38,839
City of Las Cruces	1,253,590	-	2,000,000	(33,498)	3,220,092
Eastern New Mexico University	1,098,973	-	-	3,063	1,102,036
Los Alamos County-Cemetery	106,852	-	16,521	1,125	124,498
Los Alamos County-General Fund	1,940,376	-	307,664	21,220	2,269,260
Los Alamos County-Permanent Fund	2,948,767	-	483,232	33,045	3,465,044
NM Children's, Youth & Family Department Next Generation Fund	66,262	-	-	184	66,446
NM Children's, Youth & Family Department Trust Fund	184,589	-	-	516	185,105
NM Institute of Mining & Technology-Employee Benefit Trust	118,080	-	-	329	118,409
NM Higher Education Department	31,304	-	-	102	31,406
NM Highlands University-Endowment Fund	258,615	-	-	721	259,336
NM Interstate Stream Comm.-Unit Fund	7,433,013	-	-	20,741	7,453,754
NM Military Institute-Capital Outlay	255,019	-	21,801	1,959	278,779
NM Military Institute-Legislative Scholarship	1,869,167	-	170,869	14,995	2,055,031
NM Military Institute-LFC/VC Maintenance Endowment	849,568	-	72,604	6,533	928,705
NM Military Institute-Operating	825,932	(604,923)	72,228	(73,978)	219,259
NM Military Institute-Patterson Account	710,858	-	58,645	5,358	774,861
NM Military Institute-Trust Scholarship	893,507	-	88,301	7,554	989,362
NM Mortgage Finance Authority General Fund	4,051,717	-	-	11,294	4,063,011
NM Public Regulation Commission-Patients' Comp. Fund	1,935,200	-	-	5,398	1,940,598
NM Public Schools Insurance Authority-Benefits	2,860,526	-	-	7,986	2,868,512
NM Public Schools Insurance Authority-Risk	1,231,382	-	-	3,444	1,234,826
NM Retiree Health Care Authority	74,557,226	-	21,300,000	405,577	96,262,803
NM School for the Blind and Visually Impaired	1,319,547	-	-	3,682	1,323,229
San Juan College	3,155,850	(230,000)	-	(2,187)	2,923,663
Springer Municipal School District	47,750	-	-	132	47,882
Total Participants-Non U.S. Developed Markets Index Pool	\$ 110,003,670	\$ (834,923)	\$ 24,629,365	\$ 446,634	\$ 134,244,746

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (6 of 13)**  
**Year Ended June 30, 2019**

Participants - Non U.S. Emerging Markets Index Pool	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
City of Albuquerque	\$ -	\$ -	\$ 37,500	\$ 241	\$ 37,741
Eastern New Mexico University	89,693	-	-	610	90,303
Los Alamos County-Cemetery	30,178	(5,563)	566	118	25,299
Los Alamos County-General Fund	559,938	(122,184)	9,450	2,372	449,576
Los Alamos County-Permanent Fund	841,562	(163,858)	15,144	3,890	696,738
NM Children's, Youth & Family Dept Next Generation Fund	13,225	-	-	90	13,315
NM Children's, Youth & Family Dept Trust Fund	42,669	-	-	287	42,956
NM Highlands University-Endowment Fund	132,677	-	-	900	133,577
NM Military Institute-Capital Outlay	62,454	-	5,008	747	68,209
NM Military Institute-Legislative Scholarship	430,359	-	67,514	7,062	504,935
NM Military Institute-LFC/VC Maintenance Endowment	208,041	-	16,696	2,430	227,167
NM Military Institute-Operating	196,915	(158,616)	24,855	(10,228)	52,926
NM Military Institute-Patterson Account	162,959	-	24,818	2,575	190,352
NM Military Institute-Trust Scholarship	218,907	-	20,438	2,690	242,035
NM Mortgage Finance Authority - General Fund	1,142,446	-	-	7,812	1,150,258
NM Public Regulation Commission-Patients' Comp. Fund	1,404,335	-	-	9,558	1,413,893
NM Public Schools Insurance Authority-Benefits	893,205	-	-	6,001	899,206
NM Public Schools Insurance Authority-Risk	426,475	(50,000)	-	(1,485)	374,990
NM Retiree Health Care Authority	85,539,016	(21,000,000)	4,500,000	320,848	69,359,864
NM School for the Blind and Visually Impaired	1,018,220	-	-	6,919	1,025,139
San Juan College	1,537,170	(70,000)	-	6,169	1,473,339
Springer Municipal School District	41,357	-	-	305	41,662
Total Participants-Non U.S. Emerging Markets Index Pool	<u>\$ 94,991,801</u>	<u>\$ (21,570,221)</u>	<u>\$ 4,721,989</u>	<u>\$ 369,911</u>	<u>\$ 78,513,480</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (7 of 13)**  
**Year Ended June 30, 2019**

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Participant - Credit and Structured Finance Pool	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
NM Retiree Health Care Authority	\$ 64,720,303	\$ -	\$ 38,250,000	\$ 3,028,202	\$ 105,998,505
Total Participant - Credit and Structured Finance Pool	\$ 64,720,303	\$ -	\$ 38,250,000	\$ 3,028,202	\$ 105,998,505



**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (8 of 13)**  
**Year Ended June 30, 2019**

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<u>Participant - Real Return Pool</u>	<u>Balance June 30, 2018</u>	<u>Withdrawals</u>	<u>Contributions</u>	<u>Net Investment Income</u>	<u>Balance June 30, 2019</u>
NM Retiree Health Care Authority	\$ -	\$ -	\$ 34,250,000	\$ 429,545	\$ 34,679,545
Total Participant - Absolute Return Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,250,000</u>	<u>\$ 429,545</u>	<u>\$ 34,679,545</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (9 of 13)**  
**Year Ended June 30, 2019**

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Participant - National Private Equity Pool	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
NM Retiree Health Care Authority	\$ 70,441,084	\$ (2,000,000)	\$ 4,500,000	\$ 8,444,625	\$ 81,385,709
Total Participant - National Private Equity Pool	\$ 70,441,084	\$ (2,000,000)	\$ 4,500,000	\$ 8,444,625	\$ 81,385,709

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (10 of 13)**  
**Year Ended June 30, 2019**

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Participant - Real Estate Pool	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
NM Retiree Health Care Authority	\$ 34,453,255	\$ (164,983)	\$ 35,000,000	\$ 3,832,385	\$ 73,120,657
Total Participant - Real Estate Pool	<u>\$ 34,453,255</u>	<u>\$ (164,983)</u>	<u>\$ 35,000,000</u>	<u>\$ 3,832,385</u>	<u>\$ 73,120,657</u>

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (11 of 13)**  
**Year Ended June 30, 2019**

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Participant - Core Bonds Pool	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
NM Retiree Health Care Authority	\$ -	\$ -	\$ 138,000,000	\$ 11,338,190	\$ 149,338,190
Total Participant - Core Bonds Pools	\$ -	\$ -	\$ 138,000,000	\$ 11,338,190	\$ 149,338,190

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (12 of 13)**  
**Year Ended June 30, 2019**

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	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
Participant - Non-U.S. Emerging Active Pool					
Central NM Community College	\$ 83,467	\$ -	\$ -	\$ 1,491	\$ 84,958
NM Interstate Stream Comm. - Unit Fund	2,210,828	-	-	39,327	2,250,155
Total Participant - Non-U.S. Emerging Active Pool	\$ 2,045,865	\$ -	\$ -	\$ 40,818	\$ 2,335,113

**State of New Mexico Investment Council – Investment Office**  
**External Investment Trust Funds – Exhibit 3 (13 of 13)**  
**Year Ended June 30, 2019**

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	Balance June 30, 2018	Withdrawals	Contributions	Net Investment Income	Balance June 30, 2019
<u>Participant - Non-U.S. Developed Active Pool</u>					
Central NM Community College	<u>\$ 261,476</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,026)</u>	<u>\$ 259,450</u>
Total Participant - Non-U.S. Emerging Active Pool	<u>\$ 261,476</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,026)</u>	<u>\$ 259,450</u>

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Deposit and Investment Accounts – Exhibit 4 (1 of 3)**  
**June 30, 2019**

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 17300-General Administrative Fund	Interest in SGFIP	\$ 10,511,191	\$ 10,511,191
NM State Treasurer's Office	Fund 60100-Land Grant Permanent Fund	Interest in SGFIP	181,520,864	181,520,864
NM State Treasurer's Office	Fund 60200-Severance Tax Permanent Fund	Interest in SGFIP	240,675,499	240,675,499
NM State Treasurer's Office	Fund 95200- Tobacco Settlement Permanent Fund	Interest in SGFIP	40,000,000	40,000,000
<b>Total Interest in State General Fund Investment Pool</b>			<b>472,707,554</b>	<b>472,707,554</b>
<b>Cash and Cash Equivalents</b>				
JP Morgan	Land Grant Permanent Fund	Money Market	305,085,244	305,085,244
JP Morgan	Severance Tax Permanent Fund	Money Market	72,070,718	72,070,718
JP Morgan	Tobacco Settlement Permanent Fund	Money Market	17,865,621	17,865,621
JP Morgan	Water Trust Fund	Money Market	396,535	396,535
JP Morgan	Alliance Bernstein (Developed)	Money Market	2,709,867	2,709,867
JP Morgan	Alliance Bernstein (Emerging)	Money Market	255,936	255,936
JP Morgan	AQR SPLO	Money Market	68,816,035	68,816,035
JP Morgan	Blackrock (Small Mid Cap)	Money Market	613,790	613,790
JP Morgan	Blackrock (Core Bonds Pool)	Money Market	11,194,813	11,194,813
JP Morgan	Blackrock EMG MKT OPP FD	Money Market	11,214,193	11,214,193
JP Morgan	BLK FTSE Developed Ex-US Min Variance	Money Market	1,672,242	1,672,242
JP Morgan	BLK MSCI WORLD EX-USA IMI CUSTOM FACTOR INDEX	Money Market	4,575,741	4,575,741
JP Morgan	Brown Brothers Harriman	Money Market	18,684,223	18,684,223
JP Morgan	Cash Accounts	Money Market	2,618,738	2,618,738
JP Morgan	Credit & Structured Finance Cash	Money Market	183,206,918	183,206,918
JP Morgan	Credit Suisse	Money Market	7,242,739	7,242,739
JP Morgan	Donald Smith	Money Market	11,610,509	11,610,509
JP Morgan	Harvest MLP	Money Market	12,357,710	12,357,710
JP Morgan	Hedge Fund Cash	Money Market	15,366,215	15,366,215
JP Morgan	ING	Money Market	13,093,706	13,093,706
JP Morgan	International Private Equity	Money Market	8,922,696	8,922,696
JP Morgan	International Real Estate	Money Market	1,712,162	1,712,162
JP Morgan	JP Morgan Asset Management	Money Market	1,037,755	1,037,755
JP Morgan	Loomis (Unconstrained)	Money Market	41,487,160	41,487,160
JP Morgan	Loomis Sayles	Money Market	7,934,873	7,934,873
JP Morgan	LSV Intl Large Cap Value Equity	Money Market	11,687,122	11,687,122
JP Morgan	MFS Intl Growth Equity	Money Market	8,650,504	8,650,504
JP Morgan	National Private Equity	Money Market	929,333	929,333
JP Morgan	Neuberger Berman	Money Market	24,397,127	24,397,127
JP Morgan	Northern Trust S&P 1000 Index	Money Market	23,374,278	23,374,278
JP Morgan	NT Russell Fundamental LC	Money Market	1,320,903	1,320,903
JP Morgan	NT S&P 600	Money Market	1,093,069	1,093,069
JP Morgan	NT SciBeta USA HFE Index	Money Market	2,072,565	2,072,565
JP Morgan	Pimco (Unconstrained)	Money Market	21,391	21,391
JP Morgan	Pimco (Core Plus Bonds)	Money Market	4,868,000	4,868,000
JP Morgan	Private Equity Cash	Money Market	91,893,491	91,893,491
JP Morgan	Prudential	Money Market	24,947,469	24,947,469

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Deposit and Investment Accounts – Exhibit 4 (2 of 3)**  
**June 30, 2019**

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	\$ 46,524,220	\$ 46,524,220
JP Morgan	Real Asset Domestic	Money Market	66,118	66,118
JP Morgan	Real Estate Cash	Money Market	344,195,189	344,195,189
JP Morgan	Real Estate Pefs - National	Money Market	124,894	124,894
JP Morgan	S&P 500 Active	Money Market	4,117,281	4,117,281
JP Morgan	Seizert Capital	Money Market	3,576,544	3,576,544
JP Morgan	Shenkman	Money Market	5,816,139	5,816,139
JP Morgan	SIC Tax Reclaims	Money Market	75,047	75,047
JP Morgan	T. Rowe Price Intl Core	Money Market	3,911,765	3,911,765
JP Morgan	T. Rowe Price Associate Inc.	Money Market	8,028,013	8,028,013
JP Morgan	Templeton Intl Small Cap Equity	Money Market	18,260,730	18,260,730
JP Morgan	William Blair	Money Market	15,978,197	15,978,197
<b>Total Cash and Cash Equivalents</b>			<b>1,940,383,082</b>	<b>1,940,383,082</b>
Investment on Deposits				
JP Morgan	Alliance Bernstein (Developed)	Equity	950,442,054	950,442,054
JP Morgan	Alliance Bernstein (Emerging)	Equity	78,116,442	78,116,442
JP Morgan	AQR SPLO	Equity	855,421,379	855,421,379
JP Morgan	Blackrock (Small Mid Cap)	Equity	204,039,949	204,039,949
JP Morgan	Blackrock (Core Bonds Pool)	Core Bonds	1,143,848,988	1,143,848,988
JP Morgan	Blackrock EMG MKT OPP FD	Equity	552,013,465	552,013,465
JP Morgan	BLK FTSE Developed Ex-US Min Variance	Equity	254,663,783	254,663,783
JP Morgan	BLK MSCI WORLD EX-USA IMI CUSTOM INDEX	Equity	793,503,106	793,503,106
JP Morgan	BLK TRANSITION	Equity	131,417	131,417
JP Morgan	Brown Brothers Harriman	Equity	529,604,165	529,604,165
JP Morgan	Citi Transition	Equity	2,550	2,550
JP Morgan	CREDIT SUISSE	Floating Rate	153,812,578	153,812,578
JP Morgan	Donald Smith Co.	Equity	88,623,035	88,623,035
JP Morgan	Harvest MLP	MLP	393,054,303	393,054,303
JP Morgan	ING	Floating Rate	186,031,977	186,031,977
JP Morgan	JPMorgan Asset Management	Short Term	419,079,638	419,079,638
JP Morgan	Loomis	Core Plus Bonds	737,473,621	737,473,621
JP Morgan	Loomis Sayles (Unconstrained)	Fixed Income	323,160,793	323,160,793
JP Morgan	LSV Intl Large Cap Value Equity	Equity	569,029,156	569,029,156
JP Morgan	MFS Intl Growth Equity	Equity	560,894,141	560,894,141
JP Morgan	Neuberger Berman	Equity	200,608,334	200,608,334
JP Morgan	Northern Trust S&P 500	Equity	1,515,895,765	1,515,895,765
JP Morgan	NT Russell Fundamental LC	Equity	463,232,668	463,232,668
JP Morgan	NT S&P 600	Equity	123,722,051	123,722,051
JP Morgan	NT SciBeta USA HFE Index	Equity	693,064,667	693,064,667
JP Morgan	Pimco (Core Bonds)	Core Bonds	483,567,107	483,567,107
JP Morgan	Prudential	Core Plus Bonds	688,493,065	688,493,065
JP Morgan	Shenkman	Equity	571,334,666	571,334,666
JP Morgan	T. Rowe Price (Large Cap Active)	Equity	519,979,015	519,979,015
JP Morgan	T. Rowe Price Associate Inc. (Developed Active)	Equity	632,410,559	632,410,559
JP Morgan	Templeton Intl Small Cap Equity	Equity	357,828,187	357,828,187
JP Morgan	William Blair	Equity	336,444,171	336,444,171
<b>Total Investments on Deposit</b>			<b>\$ 15,379,526,795</b>	<b>\$ 15,379,526,795</b>



**State of New Mexico Investment Council – Investment Office**  
**Schedule of Deposit and Investment Accounts – Exhibit 4 (3 of 3)**  
**June 30, 2019**

<u>Depository Institution</u>	<u>Account Name</u>	<u>Deposit Type</u>	<u>Balance per Books</u>	<u>Balance per Statement</u>
<b>Other Investments</b>				
JP Morgan	Private Equity Pool	Private Equity	\$ 2,523,306,354	\$ 2,523,306,354
JP Morgan	Regional Private Equity	Private Equity	409,243,373	409,243,373
JP Morgan	Real Asset Pool	Real Asset Investments	1,634,413,482	1,634,413,482
JP Morgan	Real Estate Pool	Real Estate Investments	2,311,340,933	2,311,340,933
JP Morgan	Economically Targeted Investments	Gov't Sponsored Entities	39,475,956	39,475,956
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	1,530,172,213	1,530,172,213
JP Morgan	Absolute Return Fund	Hedge Investments	74,669,828	74,669,828
<b>Total Other Investments</b>			<u>8,524,464,053</u>	<u>8,524,464,053</u>
<b>Total Investments</b>			<u>23,903,990,848</u>	<u>23,903,990,848</u>
<b>Total Cash, Cash Equivalents and Investments</b>			<u>\$ 25,844,373,930</u>	<u>\$ 25,844,373,930</u>

**Reconciliation to Financial Statements**

<b>Governmental Activities</b>		
Investment in State General Fund Investment Pool		\$ 472,707,554
Cash and Cash Equivalents		1,425,739,628
Investments		<u>22,729,059,927</u>
<b>Total Governmental Activities</b>		<u>24,627,507,109</u>
<b>Fiduciary Funds</b>		
Cash and Cash Equivalents		41,935,900
Investments		<u>1,174,930,921</u>
<b>Total Fiduciary Funds</b>		<u>1,216,866,821</u>
<b>Total Cash, Cash Equivalents, and Investments</b>		<u>\$ 25,844,373,930</u>

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Investment Management Fees**  
**June 30, 2019**

**FY19 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	\$ 503,544
Pavilion Alternatives Group	El Dorado Hills, CA	Private Equity	904,167
RVK	Portland, OR	General Consultant	482,168
Sun Mountain Capital	Santa Fe, NM	NM Private Equity	176,250
Townsend	Cleveland, OH	Real Estate, Real Assets	550,000
Colmore	Dallas, TX	Fee Compliance	160,504
Burgiss	Hoboken, NJ	Private Informant Data Services	159,017
			<u>\$ 2,935,650</u>

**FY19 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	\$ 4,995,424,607	\$ 8,467,198	\$ -
International Equity	5,286,087,362	17,667,068	-
Fixed Income	4,406,433,838	7,190,310	-
Private Equity	2,932,549,726	37,160,477	59,039,281
Real Estate	2,311,340,933	25,032,997	13,995,552
Real Return	2,027,467,786	26,922,098	9,662,586
Hedge Funds	74,669,828	1,005,655	525,097
Credit & Structured	1,870,016,768	18,612,780	6,165,796
	<u>\$ 23,903,990,848</u>	<u>\$ 142,058,583</u>	<u>\$ 89,388,312</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 Michelle Lujan Grisham, Chair  
State of New Mexico Investment Council – Investment Office  
Mr. Brian Colón, Esq.  
New Mexico State Auditor  
Santa Fe, New Mexico

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, 2019, 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 21, 2019.

### **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 21, 2019

**State of New Mexico Investment Council – Investment Office**  
**Summary of Auditor’s Results (As Required by 2.2.2.10 NMAC L(1) (f))**  
**June 30, 2019**

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***Financial Statements***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

Yes

No

Yes

None reported

Compliance and other matters noted?

Yes

No

**State of New Mexico Investment Council – Investment Office**  
**Schedule of Findings and Responses**  
**June 30, 2019**

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**Section II – Financial Statements Findings**

There were no findings for the year ended June 30, 2019.

**State of New Mexico Investment Council – Investment Office**  
**Summary Schedule of Prior Year Findings**  
**June 30, 2019**

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None

**State of New Mexico Investment Council – Investment Office**  
**Exit Conference**  
**June 30, 2019**

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An exit conference was held with the Office on November 21, 2019. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

**New Mexico State Investment Council**

Peter Frank, Audit Committee Member  
Jim Goodwin, Audit Committee Member  
Tracy Hartzler, Audit Committee Member  
Leonard Lee Rawson, Audit Committee Member (by phone)  
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  
Thu Sanchez, Financial Coordinator

**Moss Adams LLP**

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

**Preparation of Financial Statements**

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