

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**YEAR ENDED JUNE 30, 2017**



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2017**

<b>OFFICIAL ROSTER</b>	<b>1</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>15</b>
<b>STATEMENT OF ACTIVITIES</b>	<b>16</b>
<b>BALANCE SHEET – GOVERNMENTAL FUNDS</b>	<b>17</b>
<b>RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS     TO THE STATEMENT OF NET POSITION</b>	<b>18</b>
<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND     BALANCE – GOVERNMENTAL FUNDS</b>	<b>19</b>
<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,     AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS TO THE     STATEMENT OF ACTIVITIES</b>	<b>20</b>
<b>STATEMENT OF REVENUES AND EXPENDITURES – GENERAL     ADMINISTRATIVE FUND - BUDGET AND ACTUAL (NON-GAAP     BUDGETARY BASIS)</b>	<b>21</b>
<b>STATEMENT OF NET POSITION – FIDUCIARY FUNDS</b>	<b>22</b>
<b>STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS</b>	<b>23</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>24</b>
<b>SUPPLEMENTAL INFORMATION</b>	
<b>CHANGES IN LAND GRANT PERMANENT FUND HELD FOR     BENEFICIARIES</b>	<b>61</b>
<b>DETAIL OF INTERAGENCY TRANSFERS</b>	<b>62</b>
<b>EXTERNAL INVESTMENT TRUST FUNDS</b>	<b>63</b>
<b>SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS</b>	<b>75</b>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2017**

<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>78</b>
<b>SCHEDULE OF FINDINGS AND RESPONSES</b>	<b>80</b>
<b>SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS</b>	<b>81</b>
<b>EXIT CONFERENCE</b>	<b>82</b>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
OFFICIAL ROSTER  
JUNE 30, 2017**

**GOVERNING BOARD**

The Hon. Susana Martinez, Governor	<i>Ex Officio</i> Member, Chair
Duffy Rodriguez, DFA Cabinet Secretary	<i>Ex Officio</i> Member
The Hon. Tim Eichenberg, State Treasurer	<i>Ex Officio</i> Member
The Hon. Aubrey Dunn, State Land Commissioner	<i>Ex Officio</i> Member
Scott Smart, V.P. of Business Affairs, Eastern New Mexico University Appointment	Public Member, Governor's
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 Appointment	Public Member, Governor's
Lynn Hoffman Appointment	Public Member, Governor's
Tim Z. Jennings	Public Member, Legislative Council Appointment



# CliftonLarsonAllen

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the budgetary comparison for the general fund, and the aggregate remaining fund information of the State of New Mexico Investment Council - Investment Office (the Office), a department of the State of New Mexico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office as of June 30, 2017, and the respective changes in financial position and respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 15, the Office has restated the beginning net position of the governmental activities, the beginning fund balance of the governmental funds and the beginning net position of the fiduciary funds as a result of the reclassification of certain funds from fiduciary funds to governmental funds and to correct a previously reported balance. Our opinion is not modified with respect to these matters.

As discussed in Note 2, the financial statements of the Office are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the budgetary comparison for the general fund of the State of New Mexico attributable to the transactions of the Office. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2017, and the changes in the financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The Changes in Land Grant Permanent Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has

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

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 Changes in Land Grant Permanent Fund Held for Beneficiaries, the Detail of Interagency Transfers, the External Investment Trust Funds, and the Schedule of Deposit and Investment Accounts are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017 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 result 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.



**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
November 20, 2017

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

This discussion and analysis of the State of New Mexico Investment Council - Investment Office (the Office) provides a summary of the financial position and results of operations for the year ended June 30, 2017, with highlights and comparisons. The reader should review the actual financial statements, including the notes and supplemental schedules, for a more complete picture of the Office's financial activities.

**Financial Position**

**Net Position**

All expenses of the General Administrative Fund are related to investment management of the permanent funds and of external, governmental clients. As a result, these amounts are allocated to the funds and clients based on relative market values managed.

The increase in the Investment in State Treasurer Investment Pool and Due from Other State Entities is due to the change in the distribution method of the State Land Office as discussed under the Land Grant Permanent Fund.

Due from Broker and Due to Brokers have increased due to rebalancing activity at the end of the year.

The increase in Other Receivables is attributed to additional allocated investment management fees that have resulted from increased investment balances.

The increase in Investments is due to investment performance in the current fiscal year.

The Due to Other State Agencies in the prior year relates to a liquidation of part of the Tobacco Settlement Permanent Fund and was paid in the current fiscal year.

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

The assets include capital assets consisting of furniture and equipment. The unrestricted net position includes the Net Investment in Capital Assets and 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.



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

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

	<u>FY2017</u>	<u>FY2016</u>
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 1,048,375,918	\$ 1,005,973,508
Investment in State Treasurer General Fund Investment Pool	104,763,778	57,994,293
Due from Brokers	469,325,275	266,635,502
Other Receivables	312,448	277,433
Due from Other State Entities	76,448,386	2,191,561
Accrued Investment Income	43,734,789	38,259,044
Accrued Tobacco Settlement Income	18,696,822	18,646,943
Capital Assets, Net	996	2,191
Investments	<u>21,338,088,529</u>	<u>18,836,222,427</u>
 Total Assets	 <u><u>\$ 23,099,746,941</u></u>	 <u><u>\$ 20,226,202,902</u></u>
<b>Liabilities:</b>		
Accounts Payable	\$ 11,284,068	\$ 10,143,456
Accrued Payroll	438,871	95,921
Due to Brokers	1,429,909,566	666,005,257
Due to Other State Entities	-	109,052,359
Receipts Held for the Benefit of Others	18,696,822	18,646,943
Distributions Payable to Beneficiaries	69,876,399	70,774,592
Accrued Vacation and Sick Pay, Current	<u>160,029</u>	<u>168,770</u>
 Total Liabilities	 1,530,365,755	 874,887,298
<b>Net Position:</b>		
Net Investment in Capital Assets	996	2,191
Unrestricted (Deficit)	(160,029)	(168,770)
Restricted	<u>21,569,540,219</u>	<u>19,351,482,183</u>
Total Net Position (Deficit)	<u><u>21,569,381,186</u></u>	<u><u>19,351,315,604</u></u>
 Total Liabilities and Net Position	 <u><u>\$ 23,099,746,941</u></u>	 <u><u>\$ 20,226,202,902</u></u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

*Statement of Activities*

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

*Increases in Expenses and Revenues*

The increase in expenses for fiscal year 2017 has been in external investment management expenses. Expenses are allocated to the permanent funds and clients.

Royalties & Land Sales (State Land Office) are subject to a change in method by the State Land Office as explained under the Land Grant Permanent Fund.

The Tobacco Settlement Proceeds includes approximately \$14 million due to a court overruling a 2014 arbitration panel related to 2003 proceeds and is non-recurring.

The increases in Interest and Dividends and the Net Increase in Fair Value of Investment is due to investment performance over the prior fiscal year.

**Table A-2  
Statement of Activities**

	FY2017	FY2016
Expenses:		
General Government	\$ 47,726,785	\$ 43,319,752
Revenues:		
Program Revenues:		
Fees from External Investment Trust Participants and Water Trust Fund	1,178,301	1,279,335
Royalties & Land Sales (State Land Office)	468,471,035	419,744,447
Tobacco Settlement Proceeds	54,301,369	41,581,406
Federal Revenue (Taylor Grazing Act)	84,079	168,347
Total Program Revenues:	524,034,784	462,773,535
General Revenues:		
Interest and Dividends	493,783,955	416,103,560
Net Increase (Decrease) in Fair Value of Investments	2,028,959,116	(320,580,793)
Transfers	32	8,318,606
Tobacco Reversion Revenue	20,039	-
Distributions to Beneficiaries	(875,566,663)	(1,000,459,596)
Total General Revenues	1,647,196,479	(896,618,223)
Change in Net Position	2,123,504,478	(477,164,440)
Net Position (Deficit) - Beginning of Year*	19,351,315,604	19,828,480,044
Restatement	94,561,104	-
Net Position (Deficit) - Beginning of Year, Restated	19,445,876,708	19,828,480,044
Net Position (Deficit) - End of Year	\$ 21,569,381,186	\$ 19,351,315,604

\* Beginning net position amount includes the balances related to the funds reclassified as governmental funds from fiduciary funds

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**Financial Highlights – General Administrative Fund**

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

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

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Revenues from External Trust Participants	<u>\$ 1,178,301</u>	<u>\$ 1,279,335</u>	-7.9%
Expenditures:			
Personnel Services and Benefits	\$ 3,566,295	\$ 3,913,667	-8.9%
Contractual Services and Custody Fees	43,600,174	38,840,252	12.3%
Other - Operating Expenses	<u>567,862</u>	<u>584,295</u>	-2.8%
Total Expenditures	<u>\$ 47,734,331</u>	<u>\$ 43,338,214</u>	10.1%

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

The Office's expenditures for fiscal year 2017 increased in total due to increased external investment management expenses. Personnel costs decreased over fiscal year 2016 due to vacancies while the other operating expenses decreased slightly. The Office budgeted, but did not spend, approximately \$8.85 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: the Land Grant Permanent Fund (LGPF), the Severance Tax Permanent Fund (STPF), the Tobacco Settlement Permanent Fund (TSPF) and the Water Trust Fund (WTF). The State Investment Office, which is responsible for carrying out the investment management policies of the State Investment Council, also provides similar services to 21 state agencies and political subdivisions of New Mexico.

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

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

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

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

In April 2004, the Governmental Accounting Standards Board issued Technical Bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues (GASB TB 2004-1), which became effective for financial statements for periods ending after June 15, 2004. GASB TB 2004-1 clarifies recognition guidance for payments received under the Master Settlement Agreement (MSA) with the settling tobacco companies. Since annual tobacco settlement reimbursements are based on cigarette sales from the preceding calendar year, governments should estimate accrued tobacco settlement reimbursements that derive from tobacco sales from January 1 to their respective fiscal year-ends. Accordingly, the Tobacco Settlement Permanent Fund recognized \$18,696,822 and \$18,646,943 for the years ended June 30, 2017 and 2016, respectively.

**The Land Grant Permanent Fund**

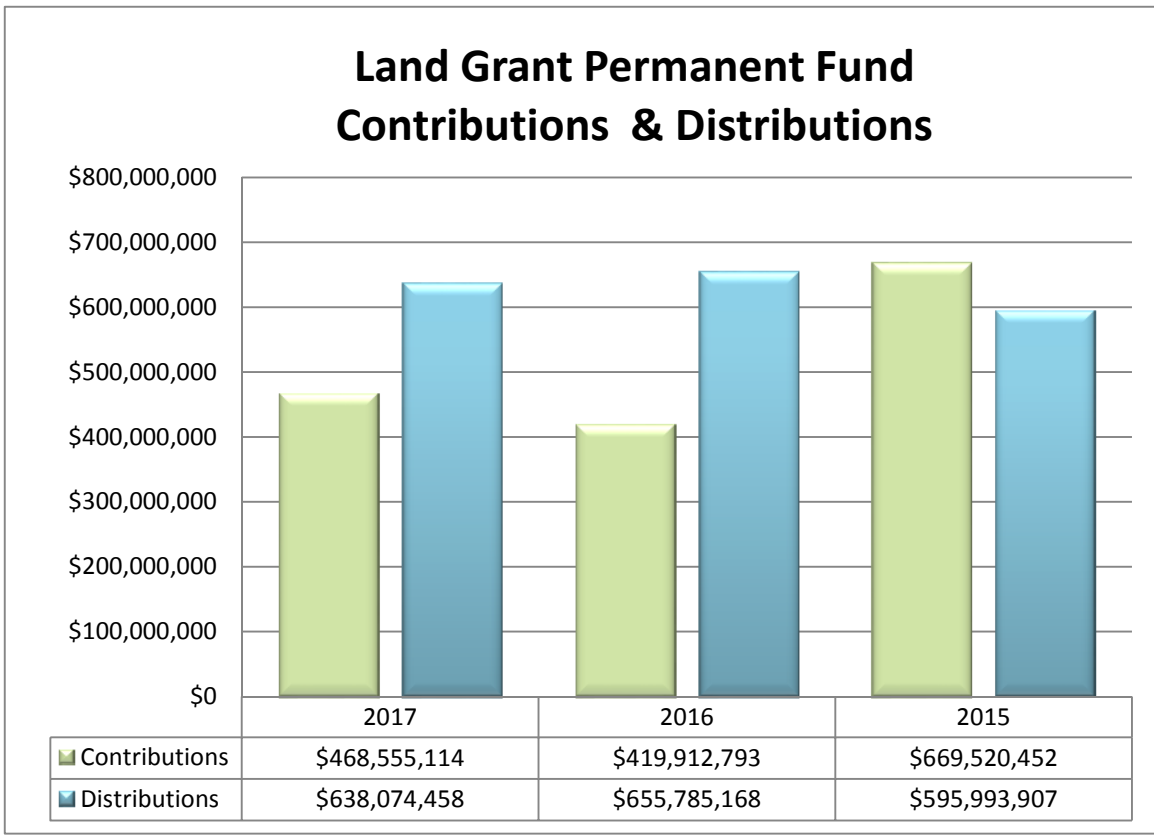
In the current fiscal year, to align with statewide requirements, the State changed the revenue recognition method and is now recognizing all royalties earned for periods through June 30, 2017. This includes royalties received up to 55 days after fiscal year end and distributable up to 85 days after its fiscal year end. The related accounts receivable and contributions for these royalties have been recognized.

The above changes have resulted in \$119,055,520, or three months, of additional contributions. Accordingly, the first three months of the fiscal year's contributions have been added to the prior fiscal year's beginning net position totaling \$94,561,104.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

The Land Grant Permanent Fund contributions from the State Land Office for fiscal year 2017 decreased 11.6% from fiscal year 2016. The change is inclusive of a Federal Taylor Grazing Act transfer of \$84,079. Distributions to the beneficiaries of the fund decreased 2.7% from the prior year due primarily to a reduction of the distribution formula from 5.5% to 5% on 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. The 2016 contributions have been not been adjusted by the \$94,561,104 discussed above.

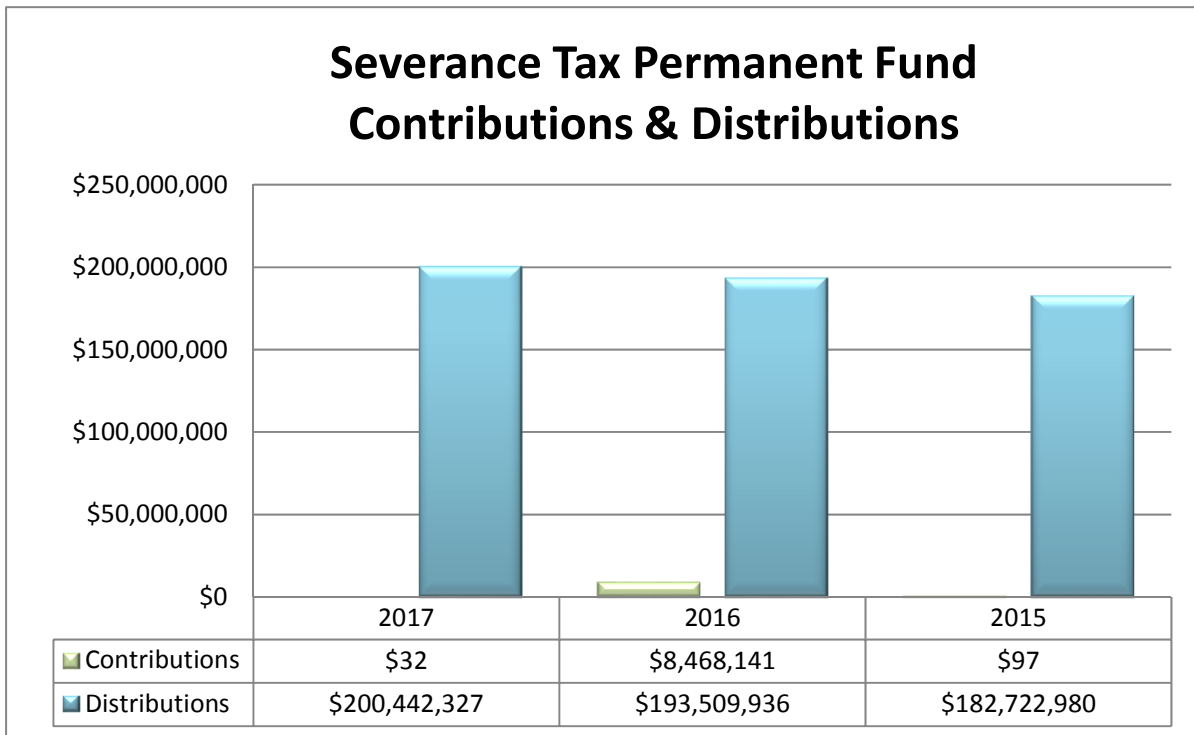


**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**The Severance Tax Permanent Fund**

Severance Tax Permanent Fund contributions are received from the Severance Tax Bonding Fund. Severance tax revenues first pay the required debt service on severance tax bonds issued by the State. Amounts transferred from the Severance Tax Bonding Fund to the Severance Tax Permanent Fund decreased from \$8.4 million in fiscal year 2016 to \$32 in fiscal year 2017. 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 2017 increased 3.6% from the previous year.



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**The Tobacco Settlement Permanent Fund**

The Tobacco Settlement Permanent Fund distribution was \$37.0 million to the State General Fund in fiscal year 2017, which was 68% of the amount of contributions recorded to the tobacco settlement trust funds in fiscal year 2017 as discussed on page 9.

The amounts presented below are from the total contributions and distributions for fiscal year 2017 shown in the Statement of Net Position because of the presentation requirements of GASB Technical Bulletin 2004-1 as discussed on page 9 and differ from the actual contributions and distributions.

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

	2017	2016	2015
Contributions	\$ 54,301,369	\$ 41,581,406	\$ 32,980,062
Distributions	\$ 37,049,878	\$ 42,112,128	\$ 17,226,967

**The Water Trust Fund**

The Water Trust Fund (WTF) was created in 2003 but not funded by the Legislature until 2007. On July 1 of each fiscal year, the WTF distributes \$4 million to water projects. When 4.7% of the WTF is greater than \$4 million, annual distributions will be 4.7% of a 5-year rolling average of the WTF. At June 30, 2017, the balance of the WTF was \$45.5 million.

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

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

	2017	2016	Change
Water Trust Fund	\$ 45,509,092	\$ 44,554,203	2.1%
External Client Trust Funds	969,157,347	810,035,019	19.6%
Total Private Purpose and External Investment Trust Funds	\$ 1,014,666,439	\$ 854,589,222	18.7%

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

Asset classes authorized under the investment policy include:

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

Fund assets are managed using external advisors.

**Using the Annual Report**

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

**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.



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

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

**Budgetary Comparisons**

As required by the Office of the State Auditor under Section 2.2.2.10 P. (2) of 2.2.2 NMAC, the Budget Comparison-Statement for the General Administrative Fund is presented as part of the basic financial statements. This information is provided at the approved budget level to demonstrate compliance with legal requirements. The budgetary comparison schedule presents both the original and the final appropriated budget for the reporting period as well as the actual inflows, outflows and balances, stated on the government's budgetary basis. The only significant budgetary variation was approximately \$8.0 million in contractual services that was not expended, inclusive of \$1.68 million in legal fees. The legal fees will be incurred as trial dates approach.

**Economic Outlook**

The Land Grant Permanent Fund finished fiscal year 2017 with a return of 13.16%. The Severance Tax Permanent Fund finished at 13.0%.

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

**Financial Contact**

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,048,375,918
Investment in State Treasurer General Fund Investment Pool	104,763,778
Investments	21,338,088,529
Due from Brokers	469,325,275
Other Receivables	312,448
Due from Other State Entities	76,448,386
Accrued Investment Income	43,734,789
Accrued Tobacco Settlement Income	18,696,822
Capital Assets, Net	<u>996</u>
Total Assets	<u><u>\$ 23,099,746,941</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 11,284,068
Accrued Payroll	438,871
Due to Brokers	1,429,909,566
Receipts Held for the Benefit of Others	18,696,822
Distributions Payable to Beneficiaries	69,876,399
Accrued Vacation and Sick Pay, Current	<u>160,029</u>
Total Liabilities	1,530,365,755
<b>NET POSITION (DEFICIT)</b>	
Net Investment in Capital Assets	996
Unrestricted	(160,029)
Restricted	<u>21,569,540,219</u>
Total Net Position	<u><u>21,569,381,186</u></u>
Total Liabilities and Net Position	<u><u>\$ 23,099,746,941</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

	Governmental Activities
<b>EXPENSES</b>	
General Government	\$ 47,726,785
<b>REVENUES</b>	
Program Revenues:	
Fees from External Investment Trust Participants and Water Trust Fund	1,178,301
Royalties and Land Sales (State Land Office)	468,471,035
Tobacco Settlement Proceeds	54,301,369
Federal Revenue (Taylor Grazing Act)	84,079
Total Program Revenues	524,034,784
General Revenues:	
Investment Earnings:	
Interest and Dividends	493,783,955
Net Increase (Decrease) in Fair Value of Investments	2,028,959,116
Tobacco Reversion Revenue	20,039
Severance Tax Bonding Fund	32
Distributions to Beneficiaries	(875,566,663)
Total General Revenues	1,647,196,479
<b>CHANGE IN NET POSITION</b>	2,123,504,478
Net Position (Deficit) - Beginning of Year	(166,579)
Fiduciary Fund Type Reclassifications	19,351,482,183
Restatement - State Land Office Distributions	94,561,104
Net Position - Beginning of Year, as Restated	19,445,876,708
<b>NET POSITION - END OF YEAR</b>	\$ 21,569,381,186

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	Major Funds				Total Governmental Funds
	General Administrative Fund	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ -	\$ 718,349,788	\$ 201,994,515	\$ 128,031,615	\$ 1,048,375,918
Investment in State General Fund Investment Pool	11,722,939	91,084,786	1,936,014	20,039	104,763,778
Due from Brokers	-	369,159,215	99,361,844	804,216	469,325,275
Other Receivables	-	236,708	75,740	-	312,448
Due from Other Funds	-	3,140	-	-	3,140
Due from Other State Entities	-	76,448,386	-	-	76,448,386
Accrued Investment Income	-	33,765,714	9,878,289	90,786	43,734,789
Accrued Tobacco Settlement Income	-	-	-	18,696,822	18,696,822
<b>Total Assets</b>	<b>11,722,939</b>	<b>1,289,047,737</b>	<b>313,246,402</b>	<b>147,643,478</b>	<b>1,761,660,556</b>
<b>Investments</b>					
Government-Sponsored Enterprise and Agency Issues (GSE)	-	-	38,870,665	-	38,870,665
<b>Investment Pools:</b>					
Core Plus Bonds	-	1,552,024,745	385,443,290	4,717,944	1,942,185,979
U.S. Large Cap Active	-	1,394,405,721	414,548,777	-	1,808,954,498
U.S. Large Cap Index	-	1,454,204,851	324,346,959	9,268,013	1,787,819,823
U.S. Small/Mid Cap Active	-	366,904,679	90,150,769	-	457,055,448
Non-U.S. Developed Markets Active	-	1,551,335,176	463,712,976	-	2,015,048,152
Non-U.S. Emerging Markets Active	-	373,082,964	150,957,219	-	524,040,183
Non-U.S. Emerging Markets Index	-	30,262,186	8,842,471	1,157,167	40,261,824
Non-U.S. Developed Markets Index	-	450,631,806	170,235,467	1,175,089	622,042,362
Non-U.S. Developed Alternative Weighted Index	-	570,377,557	180,119,227	-	750,496,784
Unconstrained Fixed Income	-	498,636,674	160,224,005	-	658,860,679
Short-term Duration Fixed Income	-	326,259,392	50,276,751	-	376,536,143
Absolute Return Pool	-	640,358,172	203,359,655	1,880,183	845,598,010
National Private Equity Pool	-	1,530,772,335	215,604,645	-	1,746,376,980
Credit and Structured Finance Pool	-	604,099,353	220,830,504	-	824,929,857
Real Estate Pool	-	1,413,080,196	441,220,610	-	1,854,300,806
Real Return Pool	-	1,527,024,143	447,299,587	-	1,974,323,730
Core Bonds Pool	-	639,362,679	209,222,169	-	848,584,848
U.S. Large Cap Alternative Weighted Index	-	1,435,894,531	477,596,201	1,546,401	1,915,037,133
Common Stock - Public	-	-	2,695,358	-	2,695,358
Private Equity	-	-	304,069,267	-	304,069,267
<b>Total Investments</b>	<b>-</b>	<b>16,358,717,160</b>	<b>4,959,626,572</b>	<b>19,744,797</b>	<b>21,338,088,529</b>
<b>Total Assets</b>	<b>\$ 11,722,939</b>	<b>\$ 17,647,764,897</b>	<b>\$ 5,272,872,974</b>	<b>\$ 167,388,275</b>	<b>\$ 23,099,749,085</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 11,284,068	\$ -	\$ -	\$ -	\$ 11,284,068
Accrued Payroll	438,871	-	-	-	438,871
Due to Brokers	-	1,102,870,312	325,169,583	1,869,671	1,429,909,566
Due to Other Funds	-	-	-	3,140	3,140
Receipts Held for the Benefit of Others	-	-	-	18,696,822	18,696,822
Distributions Payable to Beneficiaries	-	53,172,872	16,703,527	-	69,876,399
<b>Total Liabilities</b>	<b>11,722,939</b>	<b>1,156,043,184</b>	<b>341,873,110</b>	<b>20,569,633</b>	<b>1,530,208,866</b>
<b>FUND BALANCE</b>					
Restricted	-	16,491,721,713	4,930,999,864	146,818,642	21,569,540,219
<b>Total Fund Balance</b>	<b>-</b>	<b>16,491,721,713</b>	<b>4,930,999,864</b>	<b>146,818,642</b>	<b>21,569,540,219</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 11,722,939</b>	<b>\$ 17,647,764,897</b>	<b>\$ 5,272,872,974</b>	<b>\$ 167,388,275</b>	<b>\$ 23,099,749,085</b>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017**

<b>Total Fund Balance - Governmental Funds (Governmental Fund Balance Sheet)</b>	\$ 21,569,540,219
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital Assets, Net	996
Some liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.	
Accrued Vacation and Sick Pay	<u>(160,029)</u>
<b>Net Position of Governmental Activities (Statement of Net Position)</b>	<u><u>\$ 21,569,381,186</u></u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017**

	Major Funds				Total Governmental Funds
	General Administrative Fund	Land Grant Permanent Fund	Severance Tax Permanent Fund	Tobacco Settlement Permanent Fund	
<b>REVENUES</b>					
Fees from External Investment Trust					
Participants and Water Trust Fund	\$ 1,178,301	\$ -	\$ -	\$ -	\$ 1,178,301
Royalties and Land Sales (State Land Office)	-	468,471,035	-	-	468,471,035
Tobacco Settlement Proceeds	-	-	-	54,301,369	54,301,369
Federal Revenue (Taylor Grazing Act)	-	84,079	-	-	84,079
Investment Earnings:					
Interest and Dividends	-	379,975,600	112,047,953	1,760,402	493,783,955
Net Increase (Decrease) in Fair Value of Investments	-	1,539,975,492	471,384,002	17,599,622	2,028,959,116
<b>Total Revenues</b>	<b>1,178,301</b>	<b>2,388,506,206</b>	<b>583,431,955</b>	<b>73,661,393</b>	<b>3,046,777,855</b>
<b>EXPENDITURES</b>					
Current	47,734,331	-	-	-	47,734,331
Total Expenditures	47,734,331	-	-	-	47,734,331
<b>EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES</b>	<b>(46,556,030)</b>	<b>2,388,506,206</b>	<b>583,431,955</b>	<b>73,661,393</b>	<b>2,999,043,524</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interagency Transfers In (Out):					
Distributions to Beneficiaries of the Land Grant Permanent Fund	-	(638,074,458)	-	-	(638,074,458)
Distributions to State General Fund by the Severance Tax Permanent Fund and the Tobacco Settlement Permanent Fund	-	-	(200,442,327)	(37,049,878)	(237,492,205)
Tobacco Reversion Revenue	-	-	-	20,039	20,039
Severance Tax Bonding Fund	-	-	32	-	32
Transfers - Interfund	46,556,030	(35,337,318)	(11,159,157)	(59,555)	-
<b>Total Other Financing Sources (Uses)</b>	<b>46,556,030</b>	<b>(673,411,776)</b>	<b>(211,601,452)</b>	<b>(37,089,394)</b>	<b>(875,546,592)</b>
<b>CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>1,715,094,430</b>	<b>371,830,503</b>	<b>36,571,999</b>	<b>2,123,496,932</b>
Fund Balance - Beginning of Year	-	-	-	-	-
Fiduciary Fund Type Reclassifications	-	14,682,066,179	4,559,169,361	110,246,643	19,351,482,183
Restatement - State Land Office Distributions	-	94,561,104	-	-	94,561,104
Fund Balance - Beginning of Year, Restated	-	14,776,627,283	4,559,169,361	110,246,643	19,446,043,287
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ -</b>	<b>\$ 16,491,721,713</b>	<b>\$ 4,930,999,864</b>	<b>\$ 146,818,642</b>	<b>\$ 21,569,540,219</b>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

<b>Net Change in Fund Balance - Governmental Funds (Statement of Revenues, Expenditures, and Changes in Fund Balances)</b>	<b>\$ 2,123,496,932</b>
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Decrease in Accrued Vacation and Sick Pay Liability	8,741
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ -	
Depreciation Expense	(1,195)	
Excess of Capital Outlay over Depreciation Expense	(1,195)	(1,195)

<b>Change in Net Position of Governmental Activities (Statement of Activities)</b>	<b><u><u>\$ 2,123,504,478</u></u></b>
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**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
STATEMENT OF REVENUES AND EXPENDITURES – GENERAL ADMINISTRATIVE FUND –  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance From Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES FROM EXTERNAL INVESTMENT TRUST PARTICIPANTS AND OTHER REVENUE</b>	\$ 789,000	\$ 789,000	\$ 1,178,301	\$ 389,301
<b>EXPENDITURES</b>				
Personnel Services and Benefits	4,093,100	4,093,100	3,566,295	526,805
Contractual Services	51,633,100	51,633,100	43,600,174	8,032,926
Other - Operating Expenses	862,800	862,800	567,862	294,938
Total Expenditures	<u>56,589,000</u>	<u>56,589,000</u>	<u>47,734,331</u>	<u>8,854,669</u>
Expenditures in Excess of Revenues	(55,800,000)	(55,800,000)	(46,556,030)	9,243,970
<b>TRANSFERS</b>				
Interfund Transfers in	55,800,000	55,800,000	46,556,030	(9,243,970)
Total Transfers	<u>55,800,000</u>	<u>55,800,000</u>	<u>46,556,030</u>	<u>(9,243,970)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**STATEMENT OF NET POSITION – FIDUCIARY FUNDS**  
**JUNE 30, 2017**

	Water Trust Fund	External Investment Trust Funds	Total Fiduciary Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,075,572	\$ 17,689,430	\$ 18,765,002
Due from Brokers	1,333,499	53,372,639	54,706,138
Accrued Investment Income	85,640	2,960,386	3,046,026
Total Assets	2,494,711	74,022,455	76,517,166
Investments			
Investment Pools:			
Core Plus Bonds	7,667,503	308,602,948	316,270,451
U.S. Large Cap Active	134,609	37,211,829	37,346,438
U.S. Large Cap Index	9,065,876	232,821,814	241,887,690
U.S. Small/Mid Cap Active	-	45,709,157	45,709,157
Non-U.S. Emerging Markets Active	-	2,003,983	2,003,983
Non-U.S. Emerging Markets Index	2,901,287	88,683,314	91,584,601
Non-U.S. Developed Markets Index	3,628,433	94,954,269	98,582,702
Absolute Return Pool	4,990,728	26,254,025	31,244,753
National Private Equity Pool	7,431,133	58,951,489	66,382,622
Credit and Structured Finance Pool	-	53,877,934	53,877,934
Real Estate Pool	7,168,274	30,811,092	37,979,366
Real Return Pool	2,329,505	-	2,329,505
Core Bonds Pool	-	9,321,611	9,321,611
U.S. Large Cap Alternative Weighted Index	41,605	-	41,605
Total Investments	45,358,953	989,203,465	1,034,562,418
Total Assets and Investments	47,853,664	1,063,225,920	1,111,079,584
<b>LIABILITIES</b>			
Due to Brokers	2,338,647	93,762,050	96,100,697
Other Payables	5,925	306,523	312,448
Total Liabilities	2,344,572	94,068,573	96,413,145
<b>NET POSITION HELD IN TRUST</b>	<b>\$ 45,509,092</b>	<b>\$ 969,157,347</b>	<b>\$ 1,014,666,439</b>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2017**

	<u>Water Trust Fund</u>	<u>External Investment Trust Funds</u>	<u>Total</u>
<b>ADDITIONS</b>			
Investment Earnings:			
Interest and Dividends	\$ 945,953	\$ 19,539,025	\$ 20,484,978
Net Increase (Decrease) in Fair Value of Investments	4,032,658	92,736,967	96,769,625
Contributions	-	95,069,860	95,069,860
Total Additions	<u>4,978,611</u>	<u>207,345,852</u>	<u>212,324,463</u>
<b>DEDUCTIONS</b>			
Distribution to Beneficiary of the			
Water Trust Fund	(4,000,000)	-	(4,000,000)
Distributions from External Investment			
Trust Funds	-	(47,068,952)	(47,068,952)
Internal Service Fees	<u>(23,722)</u>	<u>(1,154,572)</u>	<u>(1,178,294)</u>
Total Deductions	<u>(4,023,722)</u>	<u>(48,223,524)</u>	<u>(52,247,246)</u>
<b>CHANGE IN NET POSITION</b>	954,889	159,122,328	160,077,217
Net Position - Beginning of Year	<u>44,554,203</u>	<u>810,035,019</u>	<u>854,589,222</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 45,509,092</u>	<u>\$ 969,157,347</u>	<u>\$ 1,014,666,439</u>

See accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 ORGANIZATION AND BACKGROUND**

The State of New Mexico Investment Council (the Council) is responsible for the investment activities of certain State of New Mexico trust funds. The Council is composed of eleven members: the Governor; the State Treasurer, the Commissioner of Public Lands; the Secretary of the Department of Finance and Administration (DFA); four public members appointed by the Legislative Council; and three public members appointed by the Governor, one of 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 New Mexico law, the Council establishes policies for the investment of trust funds entrusted to it. Policies established by the Council are carried out by personnel of the State Investment Office (Investment Office or the Office) under the direction of the State Investment Officer. The Office currently manages certain assets identified as the Land Grant Permanent Fund, the Severance Tax Permanent Fund, the Tobacco Settlement Permanent Fund, the Water Trust Fund, and client funds. The following is a brief description of the purpose and sources of these four funds:

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

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

The legislature, by a three-fifths vote of the members elected to each house, may suspend any additional distributions noted above. No additional distribution shall be made in any fiscal year if the average of the year-end market values of the LGPF for the immediately preceding five calendar years is less than \$5.8 billion. The fund is classified as a special revenue fund in the State of New Mexico comprehensive annual financial report and is classified as a special revenue fund in the financial statements of the Office.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**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 special revenue fund in the State of New Mexico comprehensive annual financial report and is classified as a special revenue fund in the financial statements of the Office.

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

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

Chapter 312, Laws of 2003 mandates that the Tobacco Settlement Permanent Fund shall be considered a reserve fund of the state. Based on this, for fiscal year ended June 30, 2017, the New Mexico State Department of Finance and Administration has recorded the balance of the Tobacco Settlement Permanent Fund within their Governmental Fund, State General Fund balance. The fund is classified as a special revenue fund in the State of New Mexico comprehensive annual financial report and is classified as a special revenue fund in the financial statements of the Office.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 ORGANIZATION AND BACKGROUND (CONTINUED)**

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Use of Estimates in Preparing Financial Statements**

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

**Financial Reporting Entity**

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

**Government-wide Financial Statements**

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-wide Financial Statements (Continued)**

The statement of activities presents a comparison between direct expenses and revenues for the governmental activities. All expenses of the Office are considered direct expenses and are clearly identifiable to the investment function of the Office. Program revenues include external fees, royalties & land sales and tobacco settlement proceeds and other revenues include investment earnings.

**Governmental Fund Financial Statements**

The fund financial statements are similar to the government-wide financial statements. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented on the page following each statement, which briefly explains the adjustments necessary to transform the fund-based financial statements into the government-wide presentation.

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

**Measurement Focus, Basis of Accounting**

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

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Governmental Funds**

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

**General Administrative Fund**

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

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

**Fiduciary Funds**

Fiduciary funds consist of trust funds as follows:

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

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

**Reservations and Designations**

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reservations and Designations (Continued)**

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, 2017, the Office's fund balance was all restricted.

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

**Budgetary Accounting**

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



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Council has not included such reconciliation for fiscal year 2017 as all payables were paid by the statutory deadline.

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

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

**Investments**

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

**Investment Pools.** The Office's investments are reported in the governmental and fiduciary funds.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments (Continued)**

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. Small/Mid Cap Index Pool, U.S. Small/Mid Cap Enhanced Index Pool, Short-Term Duration Fixed Income Pool, Core Bonds Pool, Credit & Structured Finance, Unconstrained Fixed Income Pool, Core Plus Bonds Pool, Non-U.S. Developed Markets Index Pool, Non-U.S. Emerging Markets Index Pool, Non-U.S. Developed Markets Active Pool, Non-U.S. Emerging Markets Active Pool, Non-U.S. Developed Alternative Weighted Index Pool, Absolute Return Pool, National Private Equity Pool, Real Estate Pool, and Real Return Pool. External 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, 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 four actively managed portfolios (2 growth, 1 value, 1 core). All four strategies use fundamental, bottom-up analysis.

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

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

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

**Fixed Income Pools**

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments (Continued)**

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

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

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

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

**International Equity Pools**

The Non-U.S. Developed Markets Index Pool: one passively managed portfolio benchmarked against the MSCI World ex-US IM Index.

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

The Non-U.S. Developed Markets Active Pool: 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.

The Non-U.S. Emerging Markets Active Pool: two actively managed portfolios. One strategy uses quantitative analysis, and one strategy uses fundamental bottom-up analysis.

The Non-U.S. Developed Alternative-Weighted Index Pool: two passively managed portfolios (multi-factor and minimum variance).

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments (Continued)**

**Alternative Asset Pools**

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

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

The Real Return Pool contains a diversified mix of assets which 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.

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

**Private Equity, Real Estate, and Real Return**

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

**Portfolio Restrictions**

The Constitution or the laws of the State of New Mexico require a "prudent investor standard" for all investments of the LGPF, STPF, TSPF, and WTF.

**Vacation and Sick Pay**

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2017, \$3,140 was due to the LGPF from the TSPF.

**Cash and Cash Equivalents**

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

**Capital Assets**

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

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

**Encumbrances**

Due to the change in budgetary accounting, encumbrances no longer remain outstanding at year end as any remaining amounts are reverted. As a result, there are no differences between measurement focus at June 30, 2017.

**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:

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

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**External Trust Fund Accounting Policies (Continued)**

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

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

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

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

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

**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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**External Trust Fund Accounting Policies (Continued)**

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office did not have any items that qualified for reporting in this category as of June 30, 2017.

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, 2017.

**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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**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 State General Fund Investment Pool to the associated resources held by the State Treasurer's Office, is now in its third 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, 2017, 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**  
**JUNE 30, 2017**

**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, 2017, the Office had the following invested in the General Fund Investment Pool:

General Fund Investment Pool:	
General Administrative Fund	\$11,722,939
Land Grant Permanent Fund	\$91,084,786
Severance Tax Permanent Fund	\$1,936,014
Tobacco Settlement Permanent Fund	\$20,039

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

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

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2017.

**Deposits**

Cash and cash equivalents totaling \$1,067,140,920 are held by the custodian, J.P. Morgan. The Office's cash held by J.P. Morgan is invested in short-term investment funds which are insured or registered with securities held by the government or its agent in the government's name. All of these investments are invested in US Government Money Market Funds, with a portfolio consisting of 63% cash and the remaining portfolio consisting of primarily bonds. The bond ratings are primarily AAA and AA with an average maturity of 1-3 years.

**Custodial Credit Risk**

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)**

Investments in the State Treasurer Investment Pool (STIP) and cash and cash equivalents balances as of June 30, 2017 were as follows:

	SHARE Fund	State Treasurer's Office Funds	J.P. Morgan	Total
General Administration Fund	17300	\$ 11,722,939	\$ -	\$ 11,740,239
Land Grant Permanent Fund	60100	91,084,786	181,017,197	272,101,983
Severance Tax Permanent Fund	60200	1,936,014	47,370,312	49,306,326
Tobacco Settlement Permanent Fund	95200	20,039	127,897,962	127,918,001
Water Trust Fund	10120	-	278,628	278,628
Large Cap Active Pool	9400	-	103,520,963	103,520,963
Large Cap Index Pool	62800	-	5,405,371	5,405,371
Large Cap Alternative Weighted Index Pool	35150	-	38,392,706	38,392,706
Core Bonds Pool	30870	-	100,572,542	100,572,542
Core Plus Bonds Pool	35150	-	30,193,496	30,193,496
Short Term Duration Fixed Income Pool	50360	-	788,585	788,585
Small/Mid Cap Active Pool	22000	-	35,678,612	35,678,612
Small/Mid Cap Index Pool	30840	-	11,437	11,437
Non-U.S. Developed Markets Index Pool	21800	-	2,490,650	2,490,650
Non-U.S. Developed Markets Active Pool	11950	-	42,316,089	42,316,089
Non-U.S. Emerging Markets Index Pool	61100	-	412,829	412,829
Non-U.S. Emerging Markets Active Pool	11930	-	9,206,774	9,206,774
Non-U.S. Developed Weighted Index Pool	50320	-	6,356,703	6,356,703
Private Equity Pool	11380	-	76,305,950	76,305,950
Real Estate Pool	11390	-	53,004,983	53,004,983
Real Asset Pool	11540	-	92,851,820	92,851,820
Unconstrained Pool	11940	-	70,165,845	70,165,845
Absolute Return Pool	72100	-	3,028,476	3,028,476
Credit and Structured Finance Pool	20140	-	39,872,990	39,893,130
Total		<u>\$ 104,763,778</u>	<u>\$ 1,067,140,920</u>	<u>\$ 1,171,942,138</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, CDs, film projects and various other loan guarantees.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

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).

**Credit Risk - Debt Investments**

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

The Office's investments and their exposure to credit risk at June 30, 2017 are as follows:

Investment	Rating	Fair Value
Investments Subject to Credit Risk - S&P Ratings:		
ASSET BACK	AAA	\$ 140,538,215
CMO/REMIC	AAA	471,132
COMMERCIAL MORTGAGE BACKED SECURITIES	AAA	23,180,440
CORPORATE BONDS	AAA	8,295,787
GOVERNMENT BONDS	AAA	31,725,365
MUNICIPAL BONDS	AAA	803,257
ASSET BACK	AA+	6,509,113
CMO/REMIC	AA+	27,928,764
COMMERCIAL MORTGAGE BACKED SECURITIES	AA+	14,989,321
CORPORATE BONDS	AA+	7,228,599
GOVERNMENT BONDS	AA+	40,968,350
MORTGAGE BACKED SECURITIES	AA+	531,392,976
MUNICIPAL BONDS	AA+	594,226
ASSET BACK	AA	12,115,456
CMO/REMIC	AA	431,690
COMMERCIAL MORTGAGE BACKED SECURITIES	AA	332,443
CORPORATE BONDS	AA	12,575,061
GOVERNMENT BONDS	AA	13,724,644
MUNICIPAL BONDS	AA	2,744,758

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Credit Risk - Debt Investments (Continued)**

Investment	Rating	Fair Value
Investments Subject to Credit Risk - S&P Ratings (Continued):		
ASSET BACK	AA-	\$ 390,223
COMMERCIAL MORTGAGE BACKED SECURITIES	AA-	1,763,632
CORPORATE BONDS	AA-	45,620,727
GOVERNMENT BONDS	AA-	9,241,999
MUNICIPAL BONDS	AA-	14,364,152
ASSET BACK	A+	13,611,794
CMO/REMIC	A+	710,591
COMMERCIAL MORTGAGE BACKED SECURITIES	A+	158,760
CORPORATE BONDS	A+	56,759,821
GOVERNMENT BONDS	A+	18,823,584
MUNICIPAL BONDS	A+	2,616,295
ASSET BACK	A	20,259,526
CMO/REMIC	A	597,615
CORPORATE BONDS	A	111,590,631
GOVERNMENT BONDS	A	2,471,678
MUNICIPAL BONDS	A	4,714,706
ASSET BACK	A-	780,331
CMO/REMIC	A-	938,565
COMMERCIAL MORTGAGE BACKED SECURITIES	A-	1,613,046
CORPORATE BONDS	A-	118,948,676
MUNICIPAL BONDS	A-	8,068,501
COMMERCIAL PAPER	A-1+	12,887,089
CERTIFICATE OF DEPOSIT	A-1	2,103,688
COMMERCIAL PAPER	A-1	24,889,225
CERTIFICATE OF DEPOSIT	A-2	701,576
COMMERCIAL PAPER	A-2	109,474,439
COMMERCIAL PAPER	A-3	8,583,488
CORPORATE BONDS	A-P	784,413
ASSET BACK	BBB+	9,871,024
CMO/REMIC	BBB+	838,351
COMMERCIAL MORTGAGE BACKED SECURITIES	BBB+	1,649,221
CORPORATE BONDS	BBB+	229,527,602
GOVERNMENT BONDS	BBB+	15,592,208
MUNICIPAL BONDS	BBB+	4,950,937
ASSET BACK	BBB	8,300,569
CMO/REMIC	BBB	455,236
CORPORATE BONDS	BBB	184,104,253
GOVERNMENT BONDS	BBB	8,308,706
PREFERRED STOCK	BBB	274,300
ASSET BACK	BBB-	2,679,865
CMO/REMIC	BBB-	81,999
COMMERCIAL MORTGAGE BACKED SECURITIES	BBB-	4,177,788
CORPORATE BONDS	BBB-	184,420,912
GOVERNMENT BONDS	BBB-	17,481,766

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Credit Risk - Debt Investments (Continued)**

Investment	Rating	Fair Value
Investments Subject to Credit Risk - S&P Ratings (Continued):		
MUNICIPAL BONDS	BBB-	\$ 103,833
ASSET BACK	BB+	10,341,163
CMO/REMIC	BB+	88,786
CORPORATE BONDS	BB+	75,415,957
GOVERNMENT BONDS	BB+	2,239,163
PREFERRED STOCK	BB+	554,819
ASSET BACK	BB	309,114
CMO/REMIC	BB	1,405,447
CORPORATE BONDS	BB	47,754,110
GOVERNMENT BONDS	BB	1,394,250
ASSET BACK	BB-	552,736
CMO/REMIC	BB-	490,053
COMMERCIAL MORTGAGE BACKED SECURITIES	BB-	888,469
CORPORATE BONDS	BB-	72,585,999
GOVERNMENT BONDS	BB-	1,986,025
ASSET BACK	B+	207,363
CMO/REMIC	B+	1,664,468
CORPORATE BONDS	B+	61,837,037
GOVERNMENT BONDS	B+	3,287,882
ASSET BACK	B	1,083,691
CMO/REMIC	B	120,506
CORPORATE BONDS	B	52,859,624
GOVERNMENT BONDS	B	7,380,527
PREFERRED STOCK	B	102,382
ASSET BACK	B-	2,489,950
CMO/REMIC	B-	2,933,152
COMMERCIAL MORTGAGE BACKED SECURITIES	B-	761,351
CORPORATE BONDS	B-	19,744,116
GOVERNMENT BONDS	B-	1,927,931
CORPORATE BONDS	CCC+	6,611,343
ASSET BACK	CCC	27,726,580
CMO/REMIC	CCC	16,621,919
CORPORATE BONDS	CCC	3,848,540
ASSET BACK	CC	3,335,862
CORPORATE BONDS	CC	1,350,331
ASSET BACK	D	8,198,242
CMO/REMIC	D	15,895,195
COMMERCIAL MORTGAGE BACKED SECURITIES	D	200,125
CORPORATE BONDS	D	155,307
PREFERRED STOCK	D	197,160
Total Investments Subject to Credit Risk - S&P Ratings		2,599,383,610

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Credit Risk - Debt Investments (Continued)**

<u>Investment</u>	<u>Rating</u>	<u>Fair Value</u>
Investments Subject to Credit Risk - Not Rated:		
ASSET BACK	Not Rated	\$ 145,340,839
CMO/REMIC	Not Rated	57,617,930
COMMERCIAL MORTGAGE BACKED SECURITIES	Not Rated	60,952,719
COMMERCIAL PAPER (INTEREST BEARING)	Not Rated	4,784,120
CORPORATE BONDS	Not Rated	211,490,845
GOVERNMENT BONDS	Not Rated	43,733,710
PREFERRED STOCK		46,569,534
Total Investments Subject to Credit Risk - Not Rated		<u>570,489,696</u>
Investments Not Subject to Ratings:		
Absolute Return Pool		876,842,774
Credit & Structured Finance Pool		878,807,792
Real Estate Pool		1,892,280,171
Real Asset Pool		1,257,198,810
Private Equity		1,811,981,105
Equity Securities, MLPs, Bank Loans, Other excluded investments		12,142,727,058
NM Private Equity		304,069,266
Government -Sponsored Enterprise & Agency Issues (GSEs)		38,870,665
Total Investments Not Subject to Ratings		<u>19,202,777,641</u>
Total Investments		<u>\$ 22,372,650,947</u>

**Interest Rate Risk - Debt Investments**

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Interest Rate Risk - Debt Investments (Continued)**

A summary of the investments at June 30, 2017 and their exposure to interest rate risk is as follows:

Investment	Fair Value	Life Not Available	Less than 1 Year	1-5 Years	6-10 Years	Greater than 10 Years
Asset Backed	\$ 414,641,659	\$ 1,201,758	\$ 260,197,522	\$ 72,560,627	\$ 52,292,328	\$ 28,389,423
Cash Collateral	1,740,398	779,085	-	-	-	961,313
Certificate Of Deposit	2,805,265	-	2,805,265	-	-	-
Cmo/Remic	159,821,847	-	129,916,528	143,531	238,163	29,523,625
Commercial Mortgage Backed Securities	117,097,003	-	41,532,051	1,071,713	65,848	74,427,390
Commercial Paper (Interest Bearing)	163,016,616	4,793,837	158,222,779	-	-	-
Corporate Bonds	1,653,527,770	114,087	255,244,520	636,219,559	571,889,168	190,060,435
Discounted Notes	34,041,202	-	34,041,202	-	-	-
Forward Contracts	193,238	193,238	-	-	-	-
Futures	(858,443)	-	(626,661)	(231,782)	-	-
Government Bonds	1,211,782,885	-	308,470,932	495,422,914	194,523,498	213,365,541
Money Markets	545,972	545,972	-	-	-	-
Mortgage Backed Securities	604,041,863	-	38,414,860	2,250,068	7,853,870	555,523,065
Municipal Bonds	30,892,162	-	-	318,265	8,911,364	21,662,533
Options	68,786	-	68,786	-	-	-
Preferred Stock	47,698,194	47,698,194	-	-	-	-
Swaps	7,369,984	-	(66,510)	3,984,237	1,732,091	1,720,167
Swaptions	1,245,403	-	(1,474,777)	920,992	515,603	1,283,585
Treasury Bills	15,925,692	-	15,925,692	-	-	-
<b>Total</b>	<b>4,465,597,495</b>	<b>\$ 55,326,170</b>	<b>\$ 1,242,672,190</b>	<b>\$ 1,212,660,125</b>	<b>\$ 838,021,933</b>	<b>\$ 1,116,917,078</b>
Investments Not Subject to Interest Rate Risk						
Securities, Equity and Real Estate Investments	<u>17,907,053,452</u>					
<b>Total Investments</b>	<b><u>\$ 22,372,650,947</u></b>					

**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, 2017, the Office was not exposed to concentration of credit risk as no single issuer represented 5% of total investments.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Foreign Currency Risk – Investments**

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

A summary of the investments and cash and cash equivalents at June 30, 2017 and their exposure to foreign currency risk are as follows:

Investment	Foreign Currency	Amount	% of Total Investments
Common Stock	AUSTRALIAN DOLLAR	\$ 127,408,985	0.50 %
Common Stock	BRAZILIAN REAL	38,756,503	0.20
Common Stock	CANADIAN DOLLAR	206,443,609	0.90
Common Stock	CHILEAN PESO	3,800,209	-
Common Stock	CZECH KORUNA	1,065,586	-
Common Stock	DANISH KRONE	57,353,950	0.20
Common Stock	EGYPTIAN POUND	193,937	-
Common Stock	EURO	914,778,165	3.90
Common Stock	HONG KONG DOLLAR	300,462,663	1.30
Common Stock	HUNGARIAN FORINT	3,497,941	-
Common Stock	INDONESIAN RUPIAH	24,177,519	0.10
Common Stock	ISRAEL SHEKEL	60,592	-
Common Stock	ISRAELI SHEKEL	16,650,908	0.10
Common Stock	JAPANESE YEN	672,511,763	2.90
Common Stock	MALAYSIAN RINGGIT	11,603,739	-
Common Stock	MEXICAN PESO	14,299,691	0.10
Common Stock	NEW TAIWAN DOLLAR	106,860,419	0.50
Common Stock	NEW TURKISH LIRA	19,533,423	0.10
Common Stock	NEW ZEALAND DOLLAR	7,810,684	-
Common Stock	NORWEGIAN KRONE	34,396,637	0.10
Common Stock	PHILIPPINE PESO	10,142,197	-
Common Stock	POLISH ZLOTY	7,108,970	-
Common Stock	POUND STERLING	470,909,266	2.00
Common Stock	QATARI RIAL	3,287,741	-
Common Stock	SINGAPORE DOLLAR	40,450,841	0.20
Common Stock	SOUTH AFRICAN RAND	47,365,746	0.20
Common Stock	SOUTH KOREAN WON	152,850,375	0.60
Common Stock	SWEDISH KRONA	83,987,031	0.40
Common Stock	SWISS FRANC	258,543,447	1.10
Common Stock	THAI BAHT	14,410,034	0.10
Common Stock	UAE DIRHAM	5,124,336	-
Common Stock	UNITED KINGDOM POUND	3,827,571	-
Cash	AUSTRALIAN DOLLAR	922,960	-
Cash	BRAZILIAN REAL	146,633	-
Cash	CANADIAN DOLLAR	1,528,733	-



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Foreign Currency Risk – Investments (Continued)**

Investment	Foreign Currency	Amount	% of Total Investments
Cash	CHILEAN PESO	\$ 119,708	-
Cash	CZECH KORUNA	308,239	-
Cash	DANISH KRONE	54,922	-
Cash	EURO	12,379,301	0.10
Cash	HONG KONG DOLLAR	1,512,773	-
Cash	HUNGARIAN FORINT	251,041	-
Cash	INDIAN RUPEE	-	-
Cash	INDONESIAN RUPIAH	686	-
Cash	ISRAELI SHEKEL	144,992	-
Cash	JAPANESE YEN	2,323,626	-
Cash	MALAYSIAN RINGGIT	48,483	-
Cash	MEXICAN PESO	1,277,095	-
Cash	NEW TAIWAN DOLLAR	831,122	-
Cash	NEW TURKISH LIRA	828,585	-
Cash	NEW ZEALAND DOLLAR	384,432	-
Cash	NORWEGIAN KRONE	396,010	-
Cash	PHILIPPINE PESO	1,957	-
Cash	POLISH ZLOTY	174,648	-
Cash	POUND STERLING	4,896,440	-
Cash	SINGAPORE DOLLAR	223,259	-
Cash	SOUTH AFRICAN RAND	142,644	-
Cash	SOUTH KOREAN WON	1,000,992	-
Cash	SWEDISH KRONA	318,796	-
Cash	SWISS FRANC	290,236	-
Cash	THAI BAHT	1,111	-
Cash	YUAN RENMINBI	21,076	-
Cash Collateral	AUSTRALIAN DOLLAR	2,112	-
Cash Collateral	CANADIAN DOLLAR	488,380	-
Cash Collateral	EURO	2,488,276	-
Cash Collateral	HONG KONG DOLLAR	49,196	-
Cash Collateral	JAPANESE YEN	88,074	-
Cash Collateral	POUND STERLING	888,217	-
Cash Collateral	SWEDISH KRONA	(3,271)	-
Corporate Bonds	ARGENTINE PESO	1,307,602	-
Corporate Bonds	AUSTRALIAN DOLLAR	2,811,736	-
Corporate Bonds	BRAZILIAN REAL	114,087	-
Corporate Bonds	EURO	13,048,549	-
Corporate Bonds	JAPANESE YEN	1,468,227	-
Corporate Bonds	MEXICAN PESO	195,007	-
Corporate Bonds	POUND STERLING	7,607,509	-
Corporate Bonds	SINGAPORE DOLLAR	561,194	-
Corporate Bonds	SWISS FRANC	1,460,225	-
Corporate Bonds	UNITED KINGDOM POUND	2,611,082	-
CMO/REMIC	EURO	430,096	-

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Foreign Currency Risk – Investments (Continued)**

Investment	Foreign Currency	Amount	% of Total Investments
CMO/REMIC	POUND STERLING	\$ 1,400,537	-
Derivatives (Forwards, Futures, Options, Swaps)	AUSTRALIAN DOLLAR	(26,695)	-
Derivatives (Forwards, Futures, Options, Swaps)	BRAZILIAN REAL	489,741	-
Derivatives (Forwards, Futures, Options, Swaps)	CANADIAN DOLLAR	38,214	-
Derivatives (Forwards, Futures, Options, Swaps)	CHILEAN PESO	176,974	-
Derivatives (Forwards, Futures, Options, Swaps)	COLOMBIA PESO	(15,519)	-
Derivatives (Forwards, Futures, Options, Swaps)	CZECH KORUNA	168,953	-
Derivatives (Forwards, Futures, Options, Swaps)	DANISH KRONE	(294,166)	-
Derivatives (Forwards, Futures, Options, Swaps)	EURO	(223,567)	-
Derivatives (Forwards, Futures, Options, Swaps)	HONG KONG DOLLAR	14,073	-
Derivatives (Forwards, Futures, Options, Swaps)	HUNGARIAN FORINT	4,587	-
Derivatives (Forwards, Futures, Options, Swaps)	INDIAN RUPEE	(4,663)	-
Derivatives (Forwards, Futures, Options, Swaps)	INDONESIAN RUPIAH	2,570	-
Derivatives (Forwards, Futures, Options, Swaps)	JAPANESE YEN	293,276	-
Derivatives (Forwards, Futures, Options, Swaps)	MEXICAN PESO	(511,841)	-
Derivatives (Forwards, Futures, Options, Swaps)	NEW TAIWAN DOLLAR	10,751	-
Derivatives (Forwards, Futures, Options, Swaps)	NEW TURKISH LIRA	104,546	-
Derivatives (Forwards, Futures, Options, Swaps)	NEW ZEALAND DOLLAR	132,151	-
Derivatives (Forwards, Futures, Options, Swaps)	NORWEGIAN KRONE	(53,713)	-
Derivatives (Forwards, Futures, Options, Swaps)	PHILIPPINE PESO	(31,700)	-
Derivatives (Forwards, Futures, Options, Swaps)	POLISH ZLOTY	(37,645)	-
Derivatives (Forwards, Futures, Options, Swaps)	POUND STERLING	(2,013,114)	-
Derivatives (Forwards, Futures, Options, Swaps)	RUSSIAN RUBLE	63,651	-
Derivatives (Forwards, Futures, Options, Swaps)	SINGAPORE DOLLAR	(12,392)	-
Derivatives (Forwards, Futures, Options, Swaps)	SOUTH AFRICAN RAND	922,658	-
Derivatives (Forwards, Futures, Options, Swaps)	SOUTH KOREAN WON	51,905	-
Derivatives (Forwards, Futures, Options, Swaps)	SWEDISH KRONA	1,875,338	-
Derivatives (Forwards, Futures, Options, Swaps)	SWISS FRANC	(63,432)	-
Derivatives (Forwards, Futures, Options, Swaps)	YUAN RENMINBI	106,893	-
Global Depository Receipt	AUSTRALIAN DOLLAR	489,473	-
Global Depository Receipt	EURO	12,094,138	0.10
Global Depository Receipt	SWEDISH KRONA	3,097,255	-
Global Depository Receipt	THAI BAHT	18,567,173	0.10
Government Bonds	ARGENTINE PESO	2,584,920	-
Government Bonds	AUSTRALIAN DOLLAR	1,057,965	-
Government Bonds	CHILEAN PESO	9	-
Government Bonds	COLOMBIA PESO	1,020,633	-
Government Bonds	DANISH KRONE	6,447,371	-
Government Bonds	EURO	17,402,891	0.10
Government Bonds	JAPANESE YEN	3,251,175	-
Government Bonds	MEXICAN PESO	3,554,805	-
Government Bonds	POLISH ZLOTY	7,569,301	-
Government Bonds	SOUTH AFRICAN RAND	4,334,152	-
Government Bonds	SWEDISH KRONA	2,914,175	-
Government Bonds	SWISS FRANC	106,485	-
Limited Partnerships	CANADIAN DOLLAR	1	-
Limited Partnerships	EURO	262,538,208	1.10

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 INVESTMENTS (CONTINUED)**

**Foreign Currency Risk – Investments (Continued)**

Investment	Foreign Currency	Amount	% of Total Investments
Limited Partnerships	POUND STERLING	\$ 37,942,955	0.20 %
Money Markets	EURO	5,257	-
Mutual Funds	POUND STERLING	37,663	-
Preferred Stock	BRAZILIAN REAL	26,635,074	0.10
Preferred Stock	CHILEAN PESO	152,690	-
Preferred Stock	EURO	9,823,419	-
Preferred Stock	SOUTH KOREAN WON	2,965,456	-
Preferred Stock	SWEDISH KRONA	68,462	-
Rights	AUSTRALIAN DOLLAR	4,203	-
Rights	EURO	10,140	-
Rights	ISRAELI SHEKEL	3,518	-
Rights	POUND STERLING	276	-
Real Estate Investment Trust	AUSTRALIAN DOLLAR	10,722,393	-
Real Estate Investment Trust	CANADIAN DOLLAR	1,371,941	-
Real Estate Investment Trust	EURO	7,304,281	-
Real Estate Investment Trust	HONG KONG DOLLAR	2,199,237	-
Real Estate Investment Trust	JAPANESE YEN	4,192,358	-
Real Estate Investment Trust	MEXICAN PESO	144,129	-
Real Estate Investment Trust	NEW TURKISH LIRA	59,208	-
Real Estate Investment Trust	NEW ZEALAND DOLLAR	610,543	-
Real Estate Investment Trust	POUND STERLING	3,694,648	-
Real Estate Investment Trust	SINGAPORE DOLLAR	3,181,973	-
Real Estate Investment Trust	SOUTH AFRICAN RAND	1,234,559	-
Treasury Bills	BRAZILIAN REAL	2,353,275	-
Foreign Currency Investments and Cash and Cash Equivalents		4,190,137,434	17.80
Non-Foreign Currency Investments and Cash and Cash Equivalents		19,354,418,211	82.20
Total Investments and Cash and Cash Equivalents		<u>\$ 23,544,555,645</u>	100.00

**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The State of New Mexico Investment Council utilizes its custody bank, J.P. Morgan, to assist with leveling of its investments per GASB 72's fair market hierarchy.

The Office has the following recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	Fair Value
	Level 1	Level 2	Level 3	6/30/2017
Debt and Equity Securities				
Agency Bonds	\$ -	\$ 47,200,192	\$ -	\$ 47,200,192
Corporate Bonds	-	1,311,170,933	624,851	1,311,795,784
Government Bonds	-	156,876,324	-	156,876,324
Municipal Bonds	-	30,892,162	-	30,892,162
Certificates of Deposit	-	2,805,265	-	2,805,265
Commercial Paper	-	163,016,616	-	163,016,616
Treasuries	-	977,372,004	-	977,372,004
Discounted Notes	-	34,041,202	-	34,041,202
Treasury Bills	-	15,925,692	-	15,925,692
Asset Backed Securities	-	413,991,659	650,000	414,641,659
Mortgage Backed Securities	-	880,960,712	-	880,960,712
Pooled Funds - Mutual Funds	37,663	83,824,730	-	83,862,393
Equities	10,494,769,651	3,179,470	4,190,702	10,502,139,823
Bank Loans	-	341,731,986	-	341,731,986
Sovereign Debt	-	30,334,366	-	30,334,366
Total Debt and Equity Securities	10,494,807,314	4,493,323,313	5,465,553	14,993,596,180
Alternative Investments				
Master Limited Partnerships	348,054,772	-	-	348,054,772
Total Alternative Investments	348,054,772	-	-	348,054,772
Investment in Derivative Instruments				
Derivatives - Credit	-	961,874	-	961,874
Derivatives - Equity	(16,284)	7,158	-	(9,126)
Derivatives - Foreign Exchange	88,461	1,539,261	-	1,627,722
Derivatives - Interest Rate	(163,812)	7,449,633	-	7,285,821
Derivatives - Other	-	1,155,544	-	1,155,544
Total Derivative Instruments	(91,635)	11,113,470	-	11,021,835
Total Investments by Fair Value Level	<u>\$ 10,842,770,451</u>	<u>\$ 4,504,436,783</u>	<u>\$ 5,465,553</u>	<u>\$ 15,352,672,787</u>
<b>Investment measured at the Net Asset Value (NAV)</b>				
	NAV at 6/30/17			
Private Equity Partnerships	\$ 1,811,981,105			
Regional Private Equity Partnerships	304,069,266			
Real Estate Partnerships	737,348,865			
Open Ended Real Estate Partnerships	1,154,931,306			
Real Asset Funds	1,257,198,810			
Absolute Return (Hedge) Funds	727,583,378			
Event Driven Hedge Funds	76,167,754			
Special Purpose Vehicles	836,359,928			
Non- Core Fixed Income	41,246,106			
Total Investments Measured at NAV	7,019,978,160			
Total Investments by Fair Value Level	15,352,672,787			
<b>Total Investments</b>	<u>\$ 22,372,650,947</u>			

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

<u>Investment Type</u>	<u>NAV at 6/30/17</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private Equity Partnerships	\$ 1,811,981,105	\$ 1,499,771,699	Illiquid	Illiquid
Regional Private Equity Partnerships	304,069,266	74,354,255	Illiquid	Illiquid
Real Estate Partnerships	737,348,865	489,393,605	Illiquid	Illiquid
Open Ended Real Estate Partnerships	1,154,931,306	48,152,915	Quarterly	45-90 days
Real Asset Funds	1,257,198,810	864,340,347	Illiquid	Illiquid
Absolute Return (Hedge) Funds	727,583,378	-	Illiquid	Illiquid
Event Driven Hedge Funds	76,167,754	-	Quarterly	65 days
Relative Value Hedge Funds	73,091,642	-	Quarterly	60 days
Special Purpose Vehicles	836,359,928	-	Quarterly	30 days
Non- Core Fixed Income	41,246,106	160,000,000	Illiquid	Illiquid
Total Investments Measured at NAV	<u>\$ 7,019,978,160</u>	<u>\$ 3,136,012,821</u>		

**NOTE 6 PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Plan Description**

Substantially all of the Office's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](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, 2017, 2016 and 2015 were \$453,732, \$424,041, and \$437,461, respectively, equal to the amount of the required contributions for each fiscal year.

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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

**Plan Description**

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

**Funding Policy**

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

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Funding Policy (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, 2017, 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, 2017, 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, 2017, 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 the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$53,433, \$49,916, and \$51,514, respectively, which equal the required contributions for each year.

**NOTE 8 CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Furniture and Equipment	\$ 134,014	\$ -	\$ (3,061)	\$ 130,953
Accumulated Depreciation	(131,823)	(1,195)	3,061	(129,957)
Total Capital Assets	<u>\$ 2,191</u>	<u>\$ (1,195)</u>	<u>\$ -</u>	<u>\$ 996</u>

Depreciation expense recorded by the Office in fiscal year 2017 was \$1,195. This amount was recognized as an expense in the general government function in the statement of activities.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**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, 2016	\$ 168,770
Additions	215,074
Deletions	<u>(223,815)</u>
Balance at June 30, 2017	<u>\$ 160,029</u>

Of the balance outstanding at June 30, 2017, \$160,029 is estimated to be due within one year of the statement date.

**NOTE 10 COMMITMENTS**

The Office has commitments for capital contributions to the various private equity partnerships and real estate / real asset investments. As of June 30, 2017, the Office was an investor in approximately 175 private equity limited partnerships and various real estate investments. When making an investment in a limited partnership, the Office commits to a capital commitment that will be drawn down by the limited partnership over the life of the partnership, typically twelve to fifteen years. As of June 30, 2017, unfunded commitments to private equity partnerships were approximately \$1.57 billion, and unfunded commitments to real estate and real asset investments were approximately \$1.4 billion. Unfunded commitments to credit and structured were \$160 million. Due to the nature of these investments, the Office cannot predict when these capital contributions will be called. Subsequent to June 30, 2017, the Office approved an additional \$423 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, 2017 was \$297,061. Minimum annual lease payments under these leases for the years ended June 30 are as follows:

2018	\$ 295,627
2019	24,667
2020	<u>-</u>
Total	<u>\$ 320,294</u>



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**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, 2017, 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, 2017, the NMRHCA had total net assets held in trust of \$567,310,312.
- (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, 2017, the NMIMT had total net assets held in trust of \$81,011,713.
- (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, 2017, the NMSBVI had total net assets held in trust of \$9,669,255.
- (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, 2017, the Commissioner had total net assets held in trust of \$13,433,758.
- (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, 2017, the Commission had total net assets held in trust of \$55,509,594.
- (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, 2017, the NMMI had total net assets held in trust of \$37,757,737.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)**

- (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, 2017, the NMDGF had total net assets held in trust of \$873,449.
- (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, 2017, the ENMU had total net assets held in trust of \$12,979,511.
- (i) Springer Municipal School District (SMSD) dated February 5, 1999, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to SMSD in accordance with guidelines established in SMSD's investment policy. At June 30, 2017, the SMSD had total net assets held in trust of \$192,613.
- (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, 2017, the Agency had total net assets held in trust of \$33,882,956.
- (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, 2017, the County had total net assets held in trust of \$38,475,456.
- (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, 2017, the NMPSIA had total net assets held in trust of \$25,496,460.
- (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, 2017, the NMHU had total net assets held in trust of \$4,197,163.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 11 JOINT POWERS AGREEMENTS (CONTINUED)**

- (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, 2017, the CYFD had total net assets held in trust of \$6,145,179.
- (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, 2017, the NMMFA had total net assets held in trust of \$32,964,543.
- (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, 2017, the NMHED had total net assets held in trust of \$1,442,542.
- (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, 2017, the Client had total net assets held in trust of \$24,789,086.
- (r) San Juan College (Client) dated October 1, 2014, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2017, the Client had total net assets held in trust of \$11,563,938.
- (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, 2017, the Client had total net assets held in trust of \$539,785.
- (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, 2017, the Client had total net assets held in trust of \$2,659,834.
- (u) New Mexico Small Business Investment Corporation (SBIC) dated May 6, 2016, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement, the Office invests certain monies belonging to the Client in accordance with guidelines established in the Client's investment policy. At June 30, 2017, the Client had total net assets held in trust of \$8,262,463.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 12 RISK MANAGEMENT**

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

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

At June 30, 2017, the Office had no claims that the Risk Management Division had determined not to cover. Denial of coverage by the Risk Management Division would result in the responsibility for coverage reverting to the Office. There were no significant reductions in insurance coverage from prior year and there were no settlements that exceeded insurance coverage for each of the past 3 years.

**NOTE 13 SHORT -TERM DEBT**

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

**NOTE 14 NON-REVERTING FUND**

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

**NOTE 15 RECLASSIFICATIONS/RESTATEMENTS**

**Reclassifications of Fiduciary Funds to Governmental Funds**

The fiscal year 2016 audit of the State's Comprehensive Annual Financial Report (CAFR) revealed numerous financial reporting inconsistencies among the separately issued department financial statements of the State and the State CAFR itself. More specifically, the audit identified numerous instances of inconsistencies in the fund type classifications reported in the separately issued department financial statements compared to the fund type classifications in the State's CAFR. In an effort to address this issue, as well as

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 15 RECLASSIFICATIONS/RESTATEMENTS (CONTINUED)**

**Reclassifications of Fiduciary Funds to Governmental Funds (Continued)**

numerous other issues that were identified during the audit and to improve the overall financial reporting of the State, the State Controller issued several new accounting policies. These new accounting policies required the Office to reclassify the Land Grant Permanent Fund, Severance Tax Permanent Fund, and the Tobacco Settlement Fund from fiduciary funds as presented in the Office's fiscal year 2016 financial statements to governmental funds. The reclassifications of these funds are consistent with the fund type reporting of these funds as reported in the State's CAFR. As a result of these fund type reclassifications in accordance with the accounting policies issued by the State Controller, the Office has restated the beginning net position of the fiduciary funds, the beginning fund balance of the governmental funds and the beginning net position of the governmental activities by the amount of \$19,351,482,183.

**Restatement of Land Grant Permanent Fund – State Land Office Transfers**

Prior to fiscal year 2017, the revenue recognition of the transfers related to land sales and royalties from the State Land Office (SLO) to the Land Grant Permanent Fund was recorded in the month and period of the respective transfer. The funds transferred each month represent land sales and royalties up to 3 months in arrears, which as a result, the financial statements of the State, historically have not recognized all earned revenues related to the these revenues in accordance with generally accepted accounting principles. In fiscal year 2017, the State changed the revenue recognition method as it relates to the distributions to the Land Grant Permanent Fund and is now recognizing all royalties earned for periods through June 30, 2017. This includes royalties received up to 55 days after fiscal year end and distributable up to 85 days after its fiscal year end. As a result of this correction of previously reported balances, the Office has restated the beginning fund balance of the governmental funds and the beginning net position of the governmental activities by the amount of \$94,561,104.

**Summary of Restated Net Positions and Fund Balance**

A summary of the restatements to the beginning fund balance and net position are as follows:

**Net Position - Fiduciary Funds**

June 30, 2016 Total Fiduciary Net Position	\$ 20,206,071,405
Reclassification - Land Grant Permanent Fund	(14,682,066,179)
Reclassification - Severance Tax Permanent Fund	(4,559,169,361)
Reclassification - Tobacco Settlement Permanent Fund	<u>(110,246,643)</u>
Total Restatement Due to Fund Reclassification	<u>(19,351,482,183)</u>
June 30, 2016 Total Fiduciary Net Position, Restated	<u><u>\$ 854,589,222</u></u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 15 RECLASSIFICATIONS/RESTATEMENTS (CONTINUED)**

**Summary of Restated Net Positions and Fund Balance (Continued)**

**Fund Balance - Governmental Funds**

June 30, 2016 Fund Balance - Governmental Funds	\$	-
Fiduciary Fund Type Reclassifications		19,351,482,183
Restatement - State Land Office Transfers - LGPF		94,561,104
June 30, 2016 Fund Balance - Governmental Funds, Restated	<u>\$</u>	<u>19,446,043,287</u>

**Net Position - Governmental Activities**

June 30, 2016 Net Position- Governmental Activities	\$	(166,579)
Fiduciary Fund Type Reclassifications		19,351,482,183
Restatement - State Land Office Transfers - LGPF		94,561,104
June 30, 2016 Net Position- Governmental Activities, Restated	<u>\$</u>	<u>19,445,876,708</u>

**NOTE 16 NEW PRONOUNCEMENTS**

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

**Statement No. 75**

***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

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

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

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

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 16 NEW PRONOUNCEMENTS (CONTINUED)**

**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.

**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.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
CHANGES IN LAND GRANT PERMANENT FUND HELD FOR BENEFICIARIES  
YEAR ENDED JUNE 30, 2017**

Exhibit 1

Beneficiary	Balance June 30, 2016	State Land Office Transfers	Distributions to Beneficiaries	Other Increases in Capital Accounts, Net	Balance June 30, 2017	Participation Percentage June 30, 2017
Carrie Tingley Hospital	\$ 203,961	\$ -	\$ (8,812)	\$ 25,880	\$ 221,029	0.001354 %
Charitable, Penal and Reform	115,731,138	886,342	(5,016,585)	14,736,905	126,337,800	0.773871
Public Schools	12,365,060,718	436,099,416	(541,553,064)	1,592,361,433	13,851,968,503	84.849044
Eastern New Mexico University	11,367,016	144,613	(493,586)	1,450,343	12,468,386	0.076374
Improvements to the Rio Grande	32,645,439	212,044	(1,414,189)	4,154,149	35,597,443	0.218049
Miners' Colfax Medical Center	130,068,668	1,301,138	(5,645,610)	16,586,407	142,310,603	0.871711
New Mexico Boys School	808,112	825	(34,947)	102,623	876,613	0.005370
New Mexico Highlands University	3,631,168	39,525	(157,623)	463,095	3,976,165	0.024356
New Mexico Institute of Mining and Technology	27,681,687	513,626	(1,204,282)	3,539,657	30,530,688	0.187013
New Mexico Military Institute	451,237,113	6,462,966	(19,588,299)	57,550,950	495,662,730	3.036140
New Mexico School for the Deaf	274,829,808	4,251,730	(11,943,794)	35,096,023	302,233,767	1.851307
New Mexico School for the Blind and Visually Impaired	274,243,367	4,254,577	(11,918,496)	35,021,733	301,601,181	1.847432
New Mexico State Hospital	48,146,904	1,947,715	(2,114,369)	6,217,157	54,197,407	0.331982
New Mexico State University	62,460,343	416,970	(2,705,732)	7,947,990	68,119,571	0.417261
Northern New Mexico Community College	2,940,187	39,641	(127,771)	375,428	3,227,485	0.019770
Penitentiary of New Mexico	277,361,167	4,431,335	(12,069,513)	35,465,900	305,188,889	1.869408
Public Buildings - Capitol	156,138,058	3,633,262	(6,798,552)	19,979,197	172,951,965	1.059402
The University of New Mexico	196,217,048	2,485,036	(8,514,456)	25,017,388	215,205,016	1.318220
The University of New Mexico Saline Lands	6,512,880	321,334	(285,455)	839,262	7,388,021	0.045255
Water Reservoirs	145,905,870	989,415	(6,320,881)	18,567,780	159,142,184	0.974812
Western New Mexico University	3,650,096	39,525	(158,442)	465,496	3,996,675	0.024481
Alternative Asset Fair Market Value Adjustments	69,130,765	-	-	2,603,142	71,733,907	0.439400
Due from Pools	26,094,666	-	-	6,129,915	32,224,581	0.197389
Prior Period Adjustment - Unallocated	-	-	-	94,561,104	94,561,104	0.579226
<b>Total</b>	<b>\$ 14,682,066,179</b>	<b>\$ 468,471,035</b>	<b>\$ (638,074,458)</b>	<b>\$ 1,979,258,957</b>	<b>\$ 16,491,721,713</b>	<b>100.00</b>



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
 DETAIL OF INTERAGENCY TRANSFERS  
 YEAR ENDED JUNE 30, 2017**

Exhibit 2

Agency Initiating Transfer/Fund	Transferring Cash Account	Agency Receiving Transfer/Fund	Receiving Cash Account
State Land Office	53900/26400 53900/77700	State Investment Office/ Land Grant Permanent Fund	33700/60100 33700/60100
A total of \$468,471,035 was received from the State Land Office for fiscal year 2017. The amount is adjusted for the prior period adjustment and change in revenue recognition process proposed by the Department of Finance & Administration. Funds transferred are from royalties and principal from land sales generated by the State Land Office (see Note 1).			
State Treasurer's Office/ Severance Tax Bonding Fund	39400/41000	State Investment Council Severance Tax Permanent Fund	33700/60200
A total of \$32 was transferred from the Severance Tax Bonding Fund during 2017. Funds transferred are remaining severance tax revenues after paying Severance Tax Bonding debt service (see Note1).			
State Investment Office/ Land Grant Permanent Fund	33700/60100	Land Grant Permanent Fund LGPF beneficiaries	Various
A total of \$638,074,458 was distributed for fiscal year 2017 to the various beneficiaries of the Land Grant Permanent Fund (see Note 1).			
State Treasurer's Office/ Severance Tax Permanent Fund	33700/60200	Department of Finance and Administration/ State General Fund	34101/85300
A total of \$200,442,327 was distributed for fiscal year 2017 to the various beneficiaries of the Severance Tax Permanent Fund (see Note 1).			
New Mexico Attorney General Tobacco Settlement Proceeds	Wire received	State Investment Office/ Tobacco Settlement Permanent Fund	33700/95200
A total of \$54,301,369 was received in fiscal year 2017 for the Tobacco Settlement Permanent Fund's portion of the Tobacco Settlement Proceeds (see Note 1). The difference between what was received and what was recorded in the Statement of Changes in Net Position is due to accrued amounts recorded as receivables at June 30, 2017.			
State Investment Office/ Tobacco Settlement Permanent Fund	33700/95200	Department of Finance and Administration/ Tobacco Settlement Program Fund	34100/69700
A total of \$37,049,878 was distributed for fiscal year 2017 to the Tobacco Settlement Program Fund (see Note 1). The difference between what was paid and what was recorded in the Statement of Changes in Net Position is due to accrued amounts recorded as due to other state agencies at June 30, 2017.			
Department of Finance and Administration/ Federal Taylor Grazing	34100/73800	State Investment Office/ Land Grant Permanent Fund	33700/60100
A total of \$84,079 was received from the Department of Finance and Administration for fiscal year 2017. Funds transferred are a distribution from the Federal Taylor Grazing Act.			
State Investment Office/ Tobacco Settlement Permanent Fund	34100/73800	Department of Finance and Administration/ State General Fund	33700/60100
The Tobacco Settlement Program Fund received a reversion from the Indian Affairs Department in the amount \$20,039. This reversion was transferred to the Tobacco Settlement Permanent Fund and is accounted for as Reversion Revenue.			

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 1 of 12

For fiscal year ended June 30, 2017, activity by participating agency was as follows:

Core Bonds Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
Clovis Community College Fund	\$ 711,766	\$ -	\$ -	\$ (222,593)	\$ 17,470	\$ 506,643
Eastern New Mexico University	2,424,969	-	-	-	87,471	2,512,440
John Carver Trust	95,638	-	-	-	3,450	99,088
Los Alamos County - Cemetery	110,482	-	-	-	3,985	114,467
Los Alamos County - General Fund	1,982,110	-	-	-	71,497	2,053,607
Los Alamos County - Permanent Fund	3,042,120	-	-	-	109,732	3,151,852
NM Children's, Youth & Family Department Next Generation Fund	1,246,729	-	-	-	44,971	1,291,700
NM Children's, Youth & Family Department Trust Fund	3,268,445	-	-	-	117,896	3,386,341
NM Commissioner of Public Lands - Oil and Gas	6,205,196	(2,700,000)	-	-	124,313	3,629,509
NM Department of Game and Fish	232,276	-	-	-	8,378	240,654
NM Higher Education Department	2,538,240	(1,955,000)	-	83,993	40,381	707,614
NM Highlands University - Endowment Fund	1,074,172	-	-	-	38,746	1,112,918
NM Institute of Mining and Technology - Employee Benefit Trust	312,542	-	-	-	11,274	323,816
NM Institute of Mining and Technology - Endowment Fund	15,593,303	(606,318)	122,247	-	559,953	15,669,185
NM Institute of Mining and Technology - Plant Debt Allocated Funds	15,310,884	-	-	-	552,279	15,863,163
NM Institute of Mining and Technology - Research Fund	8,418,869	(1,300,000)	-	-	304,590	7,423,459
NM Institute of Mining and Technology - Research Restricted Fund	-	-	1,687,866	-	71,387	1,759,253
NM Interstate Stream Comm. - Improvements on the Rio Grande	833,033	-	-	-	30,048	863,081
NM Interstate Stream Comm. - Irrigation Works Construction	5,892,375	-	-	-	212,544	6,104,919
NM Interstate Stream Comm. - Unit Fund	-	-	16,650,000	-	348,391	16,998,391
NM Military Institute - Capital Outlay	657,749	-	-	-	23,726	681,475
NM Military Institute - Legislative Scholarship	4,588,716	-	-	-	165,520	4,754,236
NM Military Institute - LFC/VC Maintenance Endowment	2,205,182	-	-	-	79,543	2,284,725
NM Military Institute - Operating	458,571	-	-	-	16,541	475,112
NM Military Institute - Patterson Account	1,944,084	-	-	-	70,125	2,014,209
NM Military Institute - Trust Scholarship	2,366,768	-	-	-	85,372	2,452,140
NM Mortgage Finance Authority	21,905,789	(2,800,000)	-	(10,804,786)	548,533	8,849,536
NM Mortgage Finance Authority - IFT Housing Trust Fund	10,708,067	(3,385,526)	1,856,551	-	359,846	9,538,938
NM Public Regulation Commission - Patients' Comp. Fund	24,161,672	-	-	-	871,536	25,033,208
NM Public Schools Insurance Authority - Benefits	7,424,622	-	-	-	267,814	7,692,436
NM Public Schools Insurance Authority - Risk	7,323,158	(4,350,000)	-	-	267,207	3,240,365
NM Retiree Health Care Authority	97,529,337	-	6,600,000	-	3,627,166	107,756,503
NM School for the Blind and Visually Impaired	4,734,620	-	-	-	170,783	4,905,403
San Juan College	2,133,097	-	-	-	76,943	2,210,040
NM Small Business Investment Corp.	3,051,479	(1,000,000)	6,000,000	-	210,984	8,262,463
Springer Municipal School District	27,593	-	-	-	996	28,589
<b>Total</b>	<b>\$ 260,513,653</b>	<b>\$ (18,096,844)</b>	<b>\$ 32,916,664</b>	<b>\$ (10,943,386)</b>	<b>\$ 9,601,391</b>	<b>\$ 273,991,478</b>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 2 of 12

U.S. Large Cap. Active Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
Los Alamos County - Cemetery	\$ 171,977	\$ -	\$ -	\$ -	\$ 38,766	\$ 210,743
Los Alamos County - General Fund	3,137,503	-	-	-	707,233	3,844,736
Los Alamos County - Permanent Fund	4,817,797	-	-	-	1,085,993	5,903,790
City of Las Cruces	7,709,242	-	-	-	1,737,762	9,447,004
NM Commissioner of Public Lands - Oil and Gas	4,123,535	-	-	-	929,498	5,053,033
NM Children's, Youth & Family Department Next Generation Fund	269,753	-	-	-	60,806	330,559
NM Children's, Youth & Family Department Trust Fund	695,420	-	-	-	156,757	852,177
NM Higher Education Department	808,540	(788,000)	-	-	113,266	133,806
NM Interstate Stream Comm. - Improvements on the Rio Grande	954,545	-	-	-	215,167	1,169,712
NM Interstate Stream Comm. - Irrigation Works Construction	6,903,259	-	-	-	1,556,083	8,459,342
NM School for the Blind and Visually Impaired	1,039,574	-	-	-	234,333	1,273,907
San Juan College	2,123,862	-	-	-	478,746	2,602,608
<b>Total</b>	<b>\$ 32,755,007</b>	<b>\$ (788,000)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,314,410</b>	<b>\$ 39,281,417</b>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 3 of 12

U.S. Large Cap. Index Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
Los Alamos County - Cemetery	\$ 179,326	\$ -	\$ -	\$ -	\$ 32,280	\$ 211,606
City of Las Cruces	4,272,637	-	-	-	769,101	5,041,738
Los Alamos County - General Fund	3,274,959	-	-	-	589,513	3,864,472
Los Alamos County - Permanent Fund	4,945,044	-	-	-	890,139	5,835,183
Eastern New Mexico University	6,272,028	-	-	-	1,129,004	7,401,032
NM Higher Education Department	1,054,531	(1,023,000)	-	-	135,642	167,173
NM Commissioner of Public Lands - Oil and Gas	4,026,433	-	-	-	724,783	4,751,216
NM Department of Game and Fish	375,138	-	-	-	67,527	442,665
NM Highlands University - Endowment Fund	1,839,736	-	-	-	331,164	2,170,900
NM Institute of Mining and Technology - Employee Benefit Trust	755,216	-	-	-	135,943	891,159
NM Institute of Mining and Technology - Endowment Fund	23,409,433	(2,178,790)	190,326	-	3,973,237	25,394,206
NM Institute of Mining and Technology	9,156,678	-	-	-	1,648,259	10,804,937
NM Institute of Mining and Technology - Research Restricted Fund	-	(208,246)	2,531,798	-	281,707	2,605,259
NM Interstate Stream Comm. - Unit Fund	-	-	9,250,000	-	598,736	9,848,736
NM Military Institute - Capital Outlay	668,227	-	-	-	120,285	788,512
NM Military Institute - Legislative Scholarship	4,819,940	-	-	-	867,619	5,687,559
NM Military Institute - LFC/VC Maintenance Endowment	2,240,246	-	-	-	403,258	2,643,504
NM Military Institute - Operating	466,014	-	-	-	83,885	549,899
NM Military Institute - Patterson Account	1,975,071	-	-	-	355,525	2,330,596
NM Military Institute - Trust Scholarship	2,404,548	-	-	-	432,834	2,837,382
NM Mortgage Finance Authority	6,221,782	(1,200,000)	-	(709,853)	858,366	5,170,295
NM Public Regulation Commission - Patients' Comp. Fund	3,402,752	-	-	-	612,517	4,015,269
NM Public Schools Insurance Authority - Benefits	4,339,194	-	-	-	781,082	5,120,276
NM Public Schools Insurance Authority - Risk	4,279,916	(2,500,000)	-	-	753,125	2,533,041
NM Retiree Health Care Authority	95,707,828	-	6,600,000	-	17,636,511	119,944,339
Springer Municipal School District	36,187	(9,000)	-	-	6,240	33,427
Clovis Community College Fund	1,618,641	-	-	222,593	311,957	2,153,191
John Carver Trust	373,470	-	-	-	67,227	440,697
<b>Total</b>	<b>\$ 188,114,975</b>	<b>\$ (7,119,036)</b>	<b>\$ 18,572,124</b>	<b>\$ (487,260)</b>	<b>\$ 34,597,466</b>	<b>\$ 233,678,269</b>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 4 of 12

U.S. Small/Mid Cap. Active Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
Los Alamos County - Cemetery	\$ 125,093	\$ -	\$ -	\$ -	\$ 31,348	\$ 156,441
Los Alamos County - General Fund	2,270,839	-	-	-	569,071	2,839,910
Los Alamos County - Permanent Fund	3,460,391	-	-	-	867,173	4,327,564
City of Las Cruces	6,197,975	-	-	-	1,553,210	7,751,185
Eastern New Mexico University	1,571,020	-	-	-	393,697	1,964,717
NM Department of Game and Fish	91,780	-	-	-	23,000	114,780
NM Higher Education Department	2,179,372	(2,485,000)	-	-	438,265	132,637
NM Highlands University - Endowment Fund	439,936	-	-	-	110,248	550,184
NM Institute of Mining and Technology - Employee Benefit Trust	134,277	-	-	-	33,650	167,927
NM Interstate Stream Comm. - Unit Fund	-	-	2,960,000	-	176,088	3,136,088
NM Military Institute - Capital Outlay	190,634	-	-	-	47,773	238,407
NM Military Institute - Legislative Scholarship	1,393,021	-	-	-	349,090	1,742,111
NM Military Institute - LFC/VC Maintenance Endowment	639,126	-	-	-	160,165	799,291
NM Military Institute - Operating	132,936	-	-	-	33,314	166,250
NM Military Institute - Patterson Account	563,460	-	-	-	141,203	704,663
NM Military Institute - Trust Scholarship	685,986	-	-	-	171,908	857,894
NM Retiree Health Care Authority	12,206,030	-	990,000	-	3,123,306	16,319,336
NM Public Regulation Commission - Patients' Comp. Fund	1,386,033	-	-	-	347,339	1,733,372
NM Public Schools Insurance Authority - Benefits	1,472,024	-	-	-	368,889	1,840,913
NM Public Schools Insurance Authority - Risk	1,451,917	(1,500,000)	-	-	315,976	267,893
NM School for the Blind and Visually Impaired	1,054,591	-	-	-	264,280	1,318,871
San Juan College	1,451,888	-	-	-	363,843	1,815,731
Springer Municipal School District	38,246	-	-	-	9,585	47,831
<b>Total</b>	<b>\$ 39,136,575</b>	<b>\$ (3,985,000)</b>	<b>\$ 3,950,000</b>	<b>\$ -</b>	<b>\$ 9,892,421</b>	<b>\$ 48,993,996</b>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 5 of 12

Non U.S. Developed Markets Index Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
Eastern New Mexico University	\$ 846,635	\$ -	\$ -	\$ -	\$ 171,083	\$ 1,017,718
City of Las Cruces	2,120,633	-	-	-	428,526	2,549,159
Los Alamos County - Cemetery	82,318	-	-	-	16,634	98,952
Los Alamos County - General Fund	1,494,842	-	-	-	302,070	1,796,912
Los Alamos County - Permanent Fund	2,271,693	-	-	-	459,052	2,730,745
NM Children's, Youth & Family Department Next Generation Fund	51,047	-	-	-	10,315	61,362
NM Children's, Youth & Family Department Trust Fund	142,205	-	-	-	28,736	170,941
NM Department of Game and Fish	43,556	-	-	-	8,802	52,358
NM Institute of Mining and Technology - Employee Benefit Trust	90,967	-	-	-	18,382	109,349
NM Higher Education Department	675,402	(454,000)	-	-	79,913	301,315
NM Interstate Stream Comm. - Unit Fund	-	-	6,290,000	-	593,459	6,883,459
NM Military Institute - Capital Outlay	197,299	-	-	-	39,869	237,168
NM Military Institute - Legislative Scholarship	1,461,343	-	-	-	295,300	1,756,643
NM Military Institute - LFC/VC Maintenance Endowment	661,533	-	-	-	133,679	795,212
NM Military Institute - Operating	137,529	-	-	-	27,791	165,320
NM Military Institute - Patterson Account	583,188	-	-	-	117,848	701,036
NM Military Institute - Trust Scholarship	709,942	-	-	-	143,461	853,403
NM Public Regulation Commission - Patients' Comp. Fund	1,490,854	-	-	-	301,264	1,792,118
NM Public Schools Insurance Authority - Benefits	2,712,090	-	-	(432,881)	481,710	2,760,919
NM Public Schools Insurance Authority - Risk	2,675,028	(1,400,000)	-	(426,965)	473,495	1,321,558
NM Retiree Health Care Authority	50,315,313	-	3,960,000	-	10,502,493	64,777,806
NM School for the Blind and Visually Impaired	1,016,563	-	-	-	205,422	1,221,985
San Juan College	2,778,325	-	-	-	561,429	3,339,754
Springer Municipal School District	36,783	-	-	-	7,433	44,216
NM Highlands University - Endowment Fund	199,232	-	-	-	40,260	239,492
<b>Total</b>	<u>\$ 72,794,320</u>	<u>\$ (1,854,000)</u>	<u>\$ 10,250,000</u>	<u>\$ (859,846)</u>	<u>\$ 15,448,426</u>	<u>\$ 95,778,900</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 6 of 12

Non U.S. Emerging Markets Index Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
Eastern New Mexico University	\$ 67,860	\$ -	\$ -	\$ -	\$ 15,744	\$ 83,604
Los Alamos County - Cemetery	22,832	-	-	-	5,297	28,129
Los Alamos County - General Fund	423,637	-	-	-	98,285	521,922
Los Alamos County - Permanent Fund	636,707	-	-	-	147,718	784,425
NM Children's, Youth & Family Department Next Generation Fund	10,006	-	-	-	2,321	12,327
NM Children's, Youth & Family Department Trust Fund	32,282	-	-	-	7,490	39,772
NM Department of Game and Fish	18,662	-	-	-	4,330	22,992
NM Higher Education Department	341,959	(295,000)	-	(83,994)	37,032	(3)
NM Military Institute - Capital Outlay	54,518	-	-	-	12,648	67,166
NM Military Institute - Legislative Scholarship	374,599	-	-	-	86,908	461,507
NM Military Institute - LFC/VC Maintenance Endowment	182,812	-	-	-	42,413	225,225
NM Military Institute - Operating	38,000	-	-	-	8,816	46,816
NM Military Institute - Patterson Account	161,172	-	-	-	37,392	198,564
NM Military Institute - Trust Scholarship	196,194	-	-	-	45,518	241,712
NM Public Regulation Commission - Patients' Comp. Fund	1,062,488	-	-	-	246,501	1,308,989
NM Public Schools Insurance Authority - Benefits	-	-	-	432,881	56,351	489,232
NM Public Schools Insurance Authority - Risk	-	(250,000)	-	426,965	52,862	229,827
NM Retiree Health Care Authority	62,771,623	-	4,950,000	-	15,012,628	82,734,251
NM School for the Blind and Visually Impaired	770,362	-	-	-	178,727	949,089
San Juan College	1,295,292	-	-	-	300,513	1,595,805
Springer Municipal School District	31,291	-	-	-	7,259	38,550
NM Highlands University - Endowment Fund	100,380	-	-	-	23,289	123,669
<b>Total</b>	<b>\$ 68,592,676</b>	<b>\$ (545,000)</b>	<b>\$ 4,950,000</b>	<b>\$ 775,852</b>	<b>\$ 16,430,042</b>	<b>\$ 90,203,570</b>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 7 of 12

Credit and Structured Finance Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
NM Retiree Health Care Authority	\$ 47,567,632	\$ -	\$ 3,300,000	\$ -	\$ 5,456,384	\$ 56,324,016
Total	<u>\$ 47,567,632</u>	<u>\$ -</u>	<u>\$ 3,300,000</u>	<u>\$ -</u>	<u>\$ 5,456,384</u>	<u>\$ 56,324,016</u>



**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 8 of 12

Participant:	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Absolute Return Pool						
NM Retiree Health Care Authority	\$ 22,594,042	\$ -	\$ 1,650,000	\$ -	\$ 2,100,719	\$ 26,344,761
Total	<u>\$ 22,594,042</u>	<u>\$ -</u>	<u>\$ 1,650,000</u>	<u>\$ -</u>	<u>\$ 2,100,719</u>	<u>\$ 26,344,761</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 9 of 12

National Private Equity Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
NM Retiree Health Care Authority	\$ 50,150,805	\$ -	\$ 3,300,000	\$ -	\$ 7,983,758	\$ 61,434,563
Total	<u>\$ 50,150,805</u>	<u>\$ -</u>	<u>\$ 3,300,000</u>	<u>\$ -</u>	<u>\$ 7,983,758</u>	<u>\$ 61,434,563</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 10 of 12

Real Estate Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
NM Retiree Health Care Authority	\$ 27,815,334	\$ -	\$ 1,650,000	\$ -	\$ 2,209,403	\$ 31,674,737
Total	<u>\$ 27,815,334</u>	<u>\$ -</u>	<u>\$ 1,650,000</u>	<u>\$ -</u>	<u>\$ 2,209,403</u>	<u>\$ 31,674,737</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 11 of 12

Core Bonds Pool	Beginning Balance June 30, 2016	Withdrawals	Contributions	Net Transfers In (Out)	Net Investment Income	Ending Balance June 30, 2017
Participant:						
NM Mortgage Finance Authority	\$ -	\$ (2,000,000)	\$ -	\$ 11,514,640	\$ (108,866)	\$ 9,405,774
Total	<u>\$ -</u>	<u>\$ (2,000,000)</u>	<u>\$ -</u>	<u>\$ 11,514,640</u>	<u>\$ (108,866)</u>	<u>\$ 9,405,774</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXTERNAL INVESTMENT TRUST FUNDS (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

Exhibit 3 – Page 12 of 12

<u>Non-US Emerging Active Pool</u>	<u>Beginning Balance June 30, 2016</u>	<u>Withdrawals</u>	<u>Contributions</u>	<u>Net Transfers In (Out)</u>	<u>Net Investment Income</u>	<u>Ending Balance June 30, 2017</u>
Participant:						
NM Interstate Stream Comm. - Unit Fund	\$ -	\$ -	\$ 1,850,000	\$ -	\$ 195,866	\$ 2,045,866
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,850,000</u>	<u>\$ -</u>	<u>\$ 195,866</u>	<u>\$ 2,045,866</u>

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE**  
**SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS**  
**JUNE 30, 2017**

Exhibit 4 – Page 1 of 3

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
<i>Interest in State General Fund Investment Pool</i>				
N.M. State Treasurer's Office	Fund 173 - General Administrative Fund	Interest in SGFIP	\$ 11,722,939	\$ 11,722,939
N.M. State Treasurer's Office	Fund 60100 - Land Grant Permanent Fund	Interest in SGFIP	91,084,786	91,084,786
N.M. State Treasurer's Office	Fund 60200 - Severance Tax Permanent Fund	Interest in SGFIP	1,936,014	1,936,014
N.M. State Treasurer's Office	Fund 95200- Tobacco Settlement Permanent Fund	Interest in SGFIP	20,039	20,039
	<i>Total Interest in State General Fund Investment Pool</i>		<u>104,763,778</u>	<u>104,763,778</u>
<i>Cash and Cash Equivalents</i>				
JP Morgan	Land Grant Permanent Fund	Money Market	181,017,193	181,017,193
JP Morgan	Severance Tax Permanent Fund	Money Market	47,370,312	47,370,312
JP Morgan	Tobacco Settlement Permanent Fund	Money Market	127,897,962	127,897,962
JP Morgan	Water Trust Fund	Money Market	278,628	278,628
JP Morgan	Alliance Bernstein Non-U.S. Developed Mkts. Index	Money Market	2,416,646	2,416,646
JP Morgan	Alliance Bernstein Non-U.S. Emerging Mkts. Index	Money Market	412,667	412,667
JP Morgan	Blackrock Small/Mid Cap	Money Market	456,175	456,175
JP Morgan	Blackrock Emerging Mkts.Opportunity Fund	Money Market	7,100,982	7,100,982
JP Morgan	Blackrock (Core Bonds Pool)	Money Market	100,572,542	100,572,542
JP Morgan	Blackrock FTSE Developed Ex-US Minimum Variance	Money Market	1,274,710	1,274,710
JP Morgan	Blackrock MSCI EAFE IMI Sector Neutral Quality Index	Money Market	544,582	544,582
JP Morgan	Blackrock MSCI EAFE IMI Enhanced Value Index	Money Market	1,205,403	1,205,403
JP Morgan	Blackrock MSCI EAFE IMI Momentum Index	Money Market	727,576	727,576
JP Morgan	Blackrock MSCI Ex-USA IMI Custom Factor	Money Market	2,092,076	2,092,076
JP Morgan	Brown Brothers Harriman	Money Market	66,009,357	66,009,357
JP Morgan	Cash Accounts	Money Market	41,545	41,545
JP Morgan	Cortina Asset Management	Money Market	2,582,214	2,582,214
JP Morgan	Credit and Structured Finance Cash	Money Market	39,872,899	39,872,899
JP Morgan	Credit Suisse (Real Asset Pool)	Money Market	9,226,308	9,226,308
JP Morgan	Donald Smith Co.	Money Market	28,330,253	28,330,253
JP Morgan	GAM (Unconstrained)	Money Market	50,687,267	50,687,267
JP Morgan	Harvest MLP (Real Asset Pool)	Money Market	(766,816)	(766,816)
JP Morgan	Absolute Return Pool	Money Market	3,028,476	3,028,476
JP Morgan	ING (Real Asset Pool)	Money Market	11,461,479	11,461,479
JP Morgan	JP Morgan Asset Management	Money Market	13,679,102	13,679,102
JP Morgan	JP Morgan Asset Management (Short Term Duration)	Money Market	788,585	788,585
JP Morgan	Large Cap Active Cash accounts	Money Market	3,506,350	3,506,350
JP Morgan	Loomis Sayles (Core Plus Bond Fund)	Money Market	7,498,851	7,498,851
JP Morgan	Loomis Sayles Unconstrained	Money Market	16,849,165	16,849,165
JP Morgan	LSV Int'l Lrg.Cap. Value Equity	Money Market	8,981,296	8,981,296
JP Morgan	MFS Int'l Growth Equity	Money Market	4,026,313	4,026,313
JP Morgan	Neuberger Berman	Money Market	8,043,372	8,043,372
JP Morgan	NT Russell 1000 EW	Money Market	1,053,086	1,053,086
JP Morgan	NT Russell 1000 Index	Money Market	5,405,369	5,405,369
JP Morgan	NT Russell 2000	Money Market	11,437	11,437
JP Morgan	NT Russell Fundamental (Alt Weighted Index)	Money Market	29,563,839	29,563,839
JP Morgan	NT Russell Top 200	Money Market	1,478,335	1,478,335
JP Morgan	NT S&P 600	Money Market	75,097	75,097
JP Morgan	NT FTSE RAFI (Alt Weighted Index)	Money Market	6,220,761	6,220,761
JP Morgan	PIMCO (Core Plus Bond Fund)	Money Market	(4,351,814)	(4,351,814)
JP Morgan	PIMCO Unconstrained Pool	Money Market	2,618,093	2,618,093
JP Morgan	Private Equity Pool	Money Market	76,305,950	76,305,950
JP Morgan	Prudential (Core Plus Bond Fund)	Money Market	27,046,459	27,046,459

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)  
JUNE 30, 2017**

Exhibit 4 – Page 2 of 3

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
<i>Cash and Cash Equivalents, continued</i>				
JP Morgan	Real Asset Pool	Money Market	\$ 72,930,849	\$ 72,930,849
JP Morgan	Real Estate Pool	Money Market	53,004,983	53,004,983
JP Morgan	Seizert Capital	Money Market	4,268,431	4,268,431
JP Morgan	Tax Reclaims	Money Market	72,652	72,652
JP Morgan	Unconstrained Pool	Money Market	11,320	11,320
JP Morgan	Transition Accounts	Money Market	521,887	521,887
JP Morgan	T. Rowe Price Int'l Core Equity	Money Market	3,797,740	3,797,740
JP Morgan	T. Rowe Price Lrg Cap. Active	Money Market	12,265,557	12,265,557
JP Morgan	Templeton Int'l Sm.Cap. Equity	Money Market	17,460,433	17,460,433
JP Morgan	Wellington Lrg. Cap. Active	Money Market	8,060,598	8,060,598
JP Morgan	William Blair	Money Market	2,106,388	2,106,388
<i>Total Cash and Cash Equivalents</i>			1,067,140,920	1,067,140,920
<i>Investments on Deposit</i>				
JP Morgan	Alliance Bernstein Non-U.S. Developed Mkts. Index	Equity	720,624,506	720,624,506
JP Morgan	Alliance Bernstein Non-U.S. Emerging Mkts. Index	Equity	131,846,424	131,846,424
JP Morgan	Blackrock Sm./Mid. Enhanced	Equity	151,732,394	151,732,394
JP Morgan	Blackrock FTSE Developed Ex-US Opportunity Fund	Equity	346,853,537	346,853,537
JP Morgan	Blackrock (Core Bonds Pool)	Core Bonds	857,906,459	857,906,459
JP Morgan	Blackrock MSCI Sector Neutral Quality Index	Equity	7,157	7,157
JP Morgan	Blackrock MSCI World Ex-USA Custom Factor Index	Equity	535,917,905	535,917,905
JP Morgan	Blackrock FTSE Developed Ex-US Min Variance	Equity	214,304,168	214,304,168
JP Morgan	Blackrock EAFE IMI Momentum Index	Equity	57,472	57,472
JP Morgan	Blackrock EAFE IMI Enhanced Value	Equity	15,507	15,507
JP Morgan	Blackrock Transition	Equity	194,576	194,576
JP Morgan	Brown Brothers Harriman	Equity	546,459,425	546,459,425
JP Morgan	Cortina Asset Management	Equity	91,747,156	91,747,156
JP Morgan	Credit Suisse (Real Asset Pool)	Floating Rate	143,297,259	143,297,259
JP Morgan	Citi Transition	Equity	570,368,046	570,368,046
JP Morgan	Donald Smith Co.	Equity	157,264,964	157,264,964
JP Morgan	GAM (Unconstrained)	Fixed Income	278,933,431	278,933,431
JP Morgan	Harvest MLP (Real Asset Pool)	MLP	401,533,601	401,533,601
JP Morgan	ING (Real Asset Pool)	Floating Rate	174,623,566	174,623,566
JP Morgan	JP Morgan Asset Management	Equity	260,800,703	260,800,703
JP Morgan	JP Morgan Asset Management	Short Term Duration	376,536,143	376,536,143
JP Morgan	Loomis Sayles (Core Plus Bond Fund)	Core Plus Bonds	615,801,917	615,801,917
JP Morgan	Loomis Sayles Unconstrained	Fixed Income	209,728,610	209,728,610
JP Morgan	LSV Int'l Lrg.Cap. Value Equity	Equity	502,127,297	502,127,297
JP Morgan	MFS Int'l Growth Equity	Equity	359,406,393	359,406,393
JP Morgan	Neuberger Berman	Equity	205,070,807	205,070,807
JP Morgan	NT Russell 1000	Equity	65,409,477	65,409,477
JP Morgan	NT S&P 600	Equity	17,854,009	17,854,009
JP Morgan	Northern Trust S&P 500 Index	Equity	2,029,707,516	2,029,707,516
JP Morgan	NT Russell Fundamental (Alt Weighted Index)	Equity	870,153,943	870,153,943
JP Morgan	NT Russell Top 200	Equity	68,578,518	68,578,518
JP Morgan	NT FTSE RAFI (Alt Weighted Index)	Equity	322,714,745	322,714,745
JP Morgan	PIMCO (Core Plus Bond Fund)	Core Plus Bonds	1,049,970,350	1,049,970,350
JP Morgan	PIMCO Unconstrained Pool	Fixed Income	170,198,638	170,198,638
JP Morgan	Prudential (Core Plus Bond Fund)	Core Plus Bonds	592,684,163	592,684,163
JP Morgan	Seizert Capital	Equity	102,020,091	102,020,091
JP Morgan	T. Rowe Price Int'l Core Equity	Equity	519,431,775	519,431,775
JP Morgan	T. Rowe Price Lrg Cap. Active	Equity	656,434,426	656,434,426
JP Morgan	Templeton Int'l Sm.Cap. Equity	Equity	429,011,880	429,011,880
JP Morgan	Wellington Lrg. Cap. Active	Equity	382,606,934	382,606,934
JP Morgan	William Blair	Equity	179,190,630	179,190,630
<i>Total Investments on Deposit</i>			15,309,126,518	15,309,126,518

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS (CONTINUED)  
JUNE 30, 2017**

Exhibit 4 – Page 3 of 3

Depository Institution	Account Name	Deposit Type	Balance per Books	Balance per Statement
<i>Other Investments</i>				
JP Morgan	Private Equity Pool	Private Equity	\$ 1,811,981,105	\$ 1,811,981,105
JP Morgan	Regional Private Equity	Private Equity	304,069,266	304,069,266
JP Morgan	Real Asset Pool	Real Asset Investments	1,257,198,810	1,257,198,810
JP Morgan	Real Estate Pool	Real Estate Investments	1,892,280,171	1,892,280,171
JP Morgan	Economically Targeted Investments	Government Sponsored Entities	38,870,665	38,870,665
JP Morgan	Private Equity Stock Distribution - National	Direct Equity and Bond Investments	778,498	778,498
JP Morgan	Private Equity Stock Distribution - Regional	Direct Equity and Bond Investments	2,695,358	2,695,358
JP Morgan	Credit & Structured Finance Pool	Structured Credit	878,807,792	878,807,792
JP Morgan	Absolute Return Pool	Hedge Investments	876,842,764	876,842,764
	<i>Total Other Investments</i>		<u>7,063,524,429</u>	<u>7,063,524,429</u>
	Total Investments		<u>22,372,650,947</u>	<u>22,372,650,947</u>
	Total Cash and Investments		<u>\$ 23,544,555,645</u>	<u>\$ 23,544,555,645</u>
<b>Reconciliation to the Financial Statements</b>				
	<u>Governmental Activities</u>			
	Investment in State General Fund Investment Pool		\$ 104,763,778	
	Cash Equivalents		1,048,375,918	
	Investments		<u>21,338,088,529</u>	
		Total Governmental Activities	22,491,228,225	
	<u>Fiduciary Funds</u>			
	Cash Equivalents		18,765,002	
	Investments		<u>1,034,562,418</u>	
		Total Fiduciary Funds	<u>1,053,327,420</u>	
		Total Cash and Investments	<u>\$ 23,544,555,645</u>	





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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the budgetary comparison for the general fund, and the aggregate remaining fund information of the State of New Mexico Investment Council - Investment Office (the Office), a department of the State of New Mexico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 20, 2017.

**Internal Control Over Financial Reporting**

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

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
November 20, 2017

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no findings for the year ended June 30, 2017.

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2017**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2016-001 Per Diem and Mileage Act - Corrective Action Taken**

**STATE OF NEW MEXICO INVESTMENT COUNCIL - INVESTMENT OFFICE  
EXIT CONFERENCE  
JUNE 30, 2017**

An exit conference was held with the Office on November 16, 2017. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

**NEW MEXICO STATE INVESTMENT COUNCIL**

Peter B. Frank, Audit Committee Chairman  
Jim Goodwin, Audit Committee Member  
Duffy Rodriguez, DFA Cabinet Secretary Designate (by phone)  
Steven K. Moise, State Investment Officer  
Brent H. Shipp, CFO  
Evan L. Land, General Counsel  
Charles V. Wollmann, Director of Communications  
Kerri Segell, Executive Assistant  
Nicole Gallegos, Investment Accounting Manager  
Victoria L. Edwards, Administrative Accountant  
Jodi McGinnis, Communications Legislative and Client Relations Analyst

**CLIFTONLARSONALLEN LLP**

Matt Bone, CPA, CGMA, CGFM, Principal

**PREPARATION OF FINANCIAL STATEMENTS**

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