

## CIO corner

Spring/Summer 2016

**ROBERT “VINCE” SMITH, CIO, NEW MEXICO STATE INVESTMENT COUNCIL,** DISCUSSES THE IMPORTANCE OF ASSET ALLOCATION, THE SHIFT FROM INTERNAL TO EXTERNAL ASSET MANAGEMENT AND THE OPPORTUNITIES IN INCOME-PRODUCING ASSETS BEYOND BONDS.

**Q: You’ve been an investment officer at four different state plans over the course of a 30-year career. What skills does someone need to be an effective leader and CIO of a public pension plan?**

**SMITH:** The first thing that comes to mind is persistence and a thick skin. The best public fund CIOs have long and high quality multi-asset investment experience, of course, but also knowledge of how government works and a strong personal desire to be in the public fund space.

**Q: In 2010, when you took on your current role, it was a difficult juncture for the New Mexico State Investment Council.**

**SMITH:** The fund hit a low point in late 2009 with the eruption of a pay-to-play scandal following the deleterious effects of the financial crisis on a high risk portfolio. These things led the New Mexico Legislature to reform the Council in 2010. I arrived in September of that year.

**Q: What changes were made to the investment portfolio?**

**SMITH:** We essentially started from scratch. Critical to getting it all done was the deep involvement of the State Investment Council. We rewrote the investment policy and targeted an asset allocation more befitting of a sovereign wealth fund. We lowered the return target from 8.5% to a more manageable 7.5%, and it’s now down to 7.0%. The portfolio went from 40% of assets managed in-house to zero percent today. We now target half as much U.S. equity as the previous allocation called for. We have less traditional fixed income. Probably most important, though, is that most of that has rotated toward assets that can produce income, other than fixed income assets such as real estate and real return assets (this includes timberland, infrastructure, energy and farmland, as well as related financial assets).

**Q: That’s a dramatic shift from internal to external management. What was your thinking?**

**SMITH:** We employ quite a top-down investment process. We think that orienting ourselves to higher order decisions— broad portfolio strategy, asset allocation and asset class construction—means more to generating returns than do lower order tasks such as security selection. We develop a broad view of the macroeconomic and the financial market environment, looking out over a seven- to 10-year horizon. Based on that, we go about the process of asset selection and allocation to build characteristics into the portfolio that we think will be advantaged in the environment we foresee.

### PROFILE

**Robert “Vince” Smith, CIO**  
New Mexico State Investment Council (NMSIC)



#### Education:

Economics & Finance; Montana State University

#### First job:

Public Markets Investment Analyst, Montana Board of Investments

#### Date started with New Mexico State Investment Council:

September 2010

#### Hobbies:

Hiking, fishing, outdoor activities

#### Favorite movie:

Anything without even a hint of Richard Gere, Hugh Grant, Ryan Gosling, Channing Tatum or Matthew McConaughey

#### Favorite books:

I’m about 80% of the way through the “100 Most Influential Books Ever Written” list

#### Favorite motorcycle:

I exclusively ride Triumph; 2012 Rocket III Touring is my current ride

**Q: How often do you revisit this broad view?**

**SMITH:** Continuously on the investment team, annually at the Council level. We revisit asset allocation every three years. We last reallocated in 2014, making some small changes to the large reallocation made in 2011.

**Q: What is the current target allocation?**

**SMITH:** We have 22% allocated to U.S. equity, 19% to fixed income, 18% to international equity, 12% to private equity, 12% to real return assets, 10% to real estate and 7% to hedge funds. Our focus is reduced publicly traded equity exposure, increased ability to generate income and reduced portfolio volatility.

**Q: Tell us about your hedge fund allocation.**

**SMITH:** When I turned up, the office had committed to 16 hedge funds-of-funds and literally held hundreds of hedge fund positions. If you were one of the 6,000 or so hedge fund managers that existed in 2009, it was a pretty good idea to call New Mexico, apparently. We've been rationalizing that portfolio. We took it down to three hedge fund-of-fund managers to gain initial control and are now moving to a direct-investment model.

**Q: How do you think about infrastructure?**

**SMITH:** We see it among the group of assets that can produce a fairly steady income while maintaining relatively low volatility in its valuation. Low interest rates have hamstrung bond portfolios from doing what they have traditionally done for us—produce income, liquidity and some protection against the volatility of our equity portfolio. We can either accept the state of our bond portfolios or do something about it. Infrastructure is one of our solutions.

**Q: It's a tough environment to find income.**

**SMITH:** It's going to be a pretty tricky area for quite some time. I think success won't be defined by not missing opportunities but more by avoiding mistakes. One thing is for sure: If you don't have a good fixed income person on your team, find one.

**Q: In your judgment, what separates a good asset manager from a very good asset manager?**

**SMITH:** I just came from a conference that addressed the topic of "asset management plus." It could be the line separating a good from a very good going forward is the additional service that managers can provide to asset owners like us.

**Q: The Council is a big believer in transparency.**

**SMITH:** We are. Transparency is a particularly high profile issue here in New Mexico. The Council is among just a handful of public funds that webcast their meetings.

**Q: How do you think public plans can best meet the serious challenges they face?**

**SMITH:** That's the billion dollar question, isn't it? Or actually, how many billions are public funds in aggregate short now? I think continued professionalization, particularly of the investment offices, can mean an awful lot. Public funds, and the global financial markets that we invest in, have grown increasingly difficult to manage over my career, and we should hold no illusions that it will get any easier.

**Q: What gives you the greatest satisfaction in your job?**

**SMITH:** I've been a professional investor in the global financial markets for almost 30 years now, and I wouldn't trade this job for any other on the planet. But the public service component is most satisfying. The fact that the earnings we generate ultimately accrue to the public—providing services, reducing taxes and bettering the quality of lives—confers a satisfaction that cannot be purchased or imitated.

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