

OFFICE OF THE STATE TREASURER

POLICIES AND PROCEDURES

INVESTMENT DIVISION	NUMBER: 0-00 REV: 0
SUBJECT: State Treasurer's Investment Policy	EFFECTIVE DATE: 11/15/11
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I. TOPIC: STATE TREASURER'S INVESTMENT POLICY

II. STATUTORY AUTHORITY: The responsibility for investing the public money is in the state treasurer's office (STO) under the constitution and laws of the state of New Mexico.

III. PURPOSE:

- A. Subject to the state treasurer's investment authority, a financial responsibility of the state treasurer is the enhancement of state revenues through the prudent investment of public money that is not immediately required for the operations of state government.
- B. In satisfying this financial responsibility, the state treasurer must also observe the fiscal obligation of maintaining sufficient liquidity in public assets to provide for the continuing functions of state government.
- C. While serving, the state treasurer is bound to satisfy the fundamental fiduciary obligation of preserving and protecting the principal of the public money within the state treasurer's investment authority.

IV. SCOPE OF THE INVESTMENT POLICY: This investment policy is a comprehensive guide governing the investment functions of the state treasurer with respect to public money of the state of New Mexico invested by the state treasurer in the exercise of statutory authority or invested on behalf of other agencies which have specific investment authority and for which the state treasurer acts as the investing authority. The public money includes the state general fund, the bond proceeds investment pool, bond debt service funds, and those pension and permanent funds and other special funds for which the state treasurer is the investing authority. The state board of finance exercises its statutory "advice and consent" function with respect to the state treasurer's investments primarily through approval of this policy and review of monthly reports as described in Section VI.R. The guidance formulated in this policy is to be observed by individuals and entities involved in any aspect of the administration or management of investments made by the state treasurer.

V. DEFINITIONS:

- A. "**Competitive bid for securities**" means the selection of securities through a solicitation or review and evaluation of online inventory offerings from various broker/dealers.
- B. "**Investment committee**" or "**committee**" means the state treasurer's investment committee (STIC); see also Section VI.C of this policy.
- C. "**Investment grade**" means, for purposes of this policy, a rating within any of the following rating ranges by at least two of the rating agencies:

Rating Agency	Long-Term	Short-term
Standard & Poor's	A- to AAA	A-1
Fitch	A- to AAA	F1
Moody's	A3 to Aaa	P-1

A rating from a rating agency not on the list shall not be considered.

- D. "**Investment portfolio**" means each separate fund managed by the state treasurer.

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VI. POLICY STATEMENT

A. Investment Policy Priorities: The state treasurer will observe the following priorities in making investment decisions:

1. Preservation of principal – to ensure the performance of basic governmental functions, the first priority must be accorded to the preservation and protection of the principal of the funds to be invested;
2. Maintenance of liquidity – the second level of priority must be accorded to maintaining sufficient liquidity to satisfy the reasonably anticipated, continuing operational requirements of state government; and
3. Maximum return – the third priority must be accorded to maximizing investment return, through budgetary and economic cycles, consistent with the higher priorities accorded to the security and liquidity of principal.

B. Standard of Investment:

1. The standard of prudence to be applied in the investment of public money by the state treasurer shall be the "prudent person" rule:

"Investments shall be made with the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. The state treasurer or the state treasurer's designee(s), acting in accordance with this policy and any other written procedures pertaining to the investment of public money and exercising due diligence, shall be relieved of personal responsibility, if any, for credit risk or market price changes of a particular security.

The loss of market value, reduced yield or return on a particular security must be reported to the state treasurer's investment committee (STIC) in accordance with this policy and the situation causing the loss of market value, reduced yield or return must be closely monitored and evaluated to ensure that any decision to hold or sell the particular security is based on the best publicly available information.

C. State Treasurer's Investment Committee (STIC): The investment committee shall monitor the efficacy, efficiency and currency of the investment policy.

1. The investment committee shall consist of five (5) voting members: the state treasurer, or designee; the treasurer's chief investment officer (or designee), who serves as the committee chair; the director of the state board of finance or designee; and two members that are participants in the private investment community or have expert knowledge or professional experience in the subject of public finance or public money investing, of which one member will be appointed by the state treasurer and approved by the state board of finance and one member will be appointed by the state board of finance and approved by the state treasurer. Each private sector member shall serve at the pleasure of the state board of finance or the state treasurer appointing the private sector member. The private sector members shall

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serve for a term of two (2) years after appointment and shall be eligible for reappointment to serve for consecutive two (2) year terms. Any vacancy created by a private sector member shall be filled in the same manner as original appointments.

2. The investment committee shall meet monthly to:

- a. review the investment policy, no less than annually, and recommend, if advisable, modifications in the investment policy from time to time;
- b. assess, no less than annually, the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio;
- c. determine, no less than annually, whether legislation affecting the investment activities of the state treasurer should be recommended;
- d. recommend investment procedures that may be useful or required in maintaining currency with public money investment practices;
- e. deliberate these topics: economic outlook, portfolio diversification and maturity structure, potential risks, and the target rate of return on the investment portfolio;
- f. identify potential violations of and suggest remedial actions to achieve conformity with the investment policy;
- g. recommend, no less than annually, action on depositories, custodians, broker/dealers and investment managers and advisors; and
- h. assess whether the investment policy is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

D. Internal Controls:

- 1. The state treasurer shall establish a system of internal controls governing the administration and management of the investment portfolios, which shall be reviewed annually by the investment committee no later than thirty (30) days after the completion of an audit performed by the independent auditor and submitted for review and approval to the state auditor. These shall include, but are not limited to a procedures manual for investing and handling public money.
- 2. The controls shall be designed to prevent and control losses of public money arising from fraud, error, misrepresentation, unanticipated market changes, conflicts of interest or imprudent actions.
- 3. Upon sufficient appropriation by the state legislature, the state board of finance shall provide for random audits, to be performed by an independent public accountant, that examines investment transactions to determine compliance with state statutes and constitutional provisions and compliance with this investment policy.

E. Ethics and Conflicts of Interest:

- 1. The state treasurer shall adopt and implement an employee code of conduct policy, a campaign contributions policy, and a whistle blower policy applicable to the public

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officers and employees subject to the state treasurer's policies and supervision. These policies shall be included in this investment policy as appendices. These policies may be updated according to the policies and procedures of the state treasurer's office. Any changes or updates implemented by the state treasurer shall be reported to the state board of finance at its next regularly scheduled meeting.

2. The state treasurer and employees involved in the investment process, in addition to complying with the applicable policies listed above and statutes, shall refrain from personal business activity that may impair their ability to make impartial investment decisions, or otherwise conflict with the selection of broker/dealers or investment advisors for best execution of the investment policy.
3. All broker/dealers and other securities professionals with the state treasurer's office shall become familiar with and comply with all policies of the office of the state treasurer and state laws including, but not limited to, the state treasurer's office campaign contributions policy and the following statutes, as they may be amended from time to time: the Campaign Reporting Act, §§ 1-19-25 NMSA 1978 *et seq.*; the Governmental Conduct Act, §§ 10-16-1 NMSA 1978 *et seq.*; the Gift Act, §§ 10-16B-1, NMSA 1978 *et seq.*; and the Procurement Code, §§ 13-1-28 NMSA 1978 *et seq.*

F. Investments Permitted by Policy:

1. The scope of investment authority of the state treasurer is defined by the applicable investment statutes and constitutional provisions, principally Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-14-10.1, NMSA 1978, as well as Article VIII, Section 4 of the New Mexico Constitution, specifying particular types of investments that may be made by the state treasurer, which establish certain prerequisites, limitations and other requirements relating to those investments. Moreover, the state treasurer, in his/her discretion, may further limit or restrict those investments.
2. The state treasurer and the state board of finance have determined that only the following statutorily authorized investments may be made and these investments shall be subject to further limitations or restrictions as follows:
 - a. **United States Government Obligations:** Securities backed by the full faith and credit of the U.S. Government including direct obligations of the U.S. Treasury, such as US treasury notes and bills and "Ginnie Mae" mortgage-backed certificates issues by the Government National Mortgage Association. Investments shall be limited to a maximum maturity of five (5) years at time of purchase, except securities for any advance refunding escrow which may be invested in securities with a maturity of more than five (5) years. These securities may be either fixed rate or variable rate.
 - b. **United States Government Agency Obligations:** Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises, but which are not backed by the full faith and credit of the U.S. Government. These securities include Federal Farm Credit Bank "FFCB", Federal Home Loan Bank "FHLB", Federal Home Loan Mortgage Association "FHLMC" and Federal National Mortgage Association "FNMA" and other names that qualify as instrumentalities of the U.S. government.

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Additionally, mortgage-backed certificates, collateralized mortgage obligations ("CMOs"), and debentures issued by "Freddie Mac" (Federal Home Loan Mortgage Corporation) and "Fannie Mae" (Federal National Mortgage Association) are allowable. Investments in US Government Agency Obligations shall be limited to a maximum maturity of five (5) years at time of purchase.

- c. Commercial Paper:** Unsecured obligations with a maturity of up to 270 days at time of purchase issued by corporations organized and operating within the United States. The commercial paper shall have investment grade ratings and shall not be split-rated. If the rating declines below investment grade, the state treasurer shall notify the members of the investment committee in writing within two business days. Written notification may be done by email. The committee will recommend an appropriate course of action at its next regular meeting.
- d. Corporate Bonds:** Debt instruments issued by a corporation organized and operating in the United States with a maturity not exceeding five (5) years at time of purchase. Corporate bonds with maturities up to three (3) years shall be rated A1 or better at the time of purchase. Corporate bonds with maturities between three (3) and five (5) years shall be rated AA or better. If the rating declines below investment grade, the state treasurer shall notify the members of the investment committee in writing within two business days. Written notification may be done by email. The committee will recommend an appropriate course of action at its next regular meeting.
- e. Asset-Backed Obligations:** Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding five (5) years at time of purchase and rated AAA, or its equivalent, by all national rating agencies that rate the security. If the rating declines below AAA, or its equivalent, the state treasurer shall notify the members of the investment committee in writing within two business days. Written notification may be done by email. The committee will recommend an appropriate course of action at its next regular meeting.
- f. Repurchase Agreements:** Contracts for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the state.

 - i.** The contract at the time of purchase shall be fully secured by obligations of the United States, or its agencies or instrumentalities, or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract.
 - ii.** Section 6-10-10 (J) limits repurchase agreements (other than bond proceeds) to a maximum maturity of one (1) year with no exception or other provision for repurchase agreements that are VRNs, but flexible repurchase agreements shall be restricted to bond proceeds (with a maximum maturity of three (3) years). Providers of repurchase

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agreements and flexible repurchase agreements shall have an investment grade rating.

- iii. Subject to the prior approval of the state board of finance with respect to the custodial undertaking agreement, tri-party repurchase agreements are proper investments under this policy.
- iv. The state treasurer will enter into repurchase agreements only with approved primary reporting dealers, banks and other financial institutions having a net worth in excess of \$500 million provided that:
 1. Preference will be given to a provider that is rated in one of the top two rating categories by all national rating agencies, without regard to qualifier, numerical or otherwise;
 2. If during its term, the provider's net worth falls below \$500 million or its rating is withdrawn, suspended, or falls below the top two rating categories, without regard to qualifier, numerical or otherwise, the provider must supply a guarantee of, or assign the agreement to an institution meeting these requirements or collateralize the agreement in accordance with industry-published criteria within ten days after it receives notice from the state treasurer of the remedy the state treasurer requires. In the event the provider fails to provide the specified remedy in the timeframe noted, the provider must immediately repurchase all collateral and terminate the agreement with no penalty or premium to the state treasurer;
 3. A master repurchase agreement or other specific repurchase agreement, reviewed by independent legal counsel in each case, governs the transaction;
 4. The securities are held, free and clear of any lien, by the state's fiscal agent or its designee acting solely as agent for the state, and such fiscal agent or designee is (i) a federal reserve bank or (ii) a bank which is a member of the federal deposit insurance corporation and which has combined capital, surplus and undivided profits of not less than \$25 million;
 5. A perfected first security interest under the uniform commercial code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. of 31 C.F.R. 370.0 et seq. in such securities is created for the benefit of the state treasurer;
 6. The market value of the collateral including accrued interest must be equal to 102% of the amount of cash transferred by the state treasurer to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the market

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value of the collateral slips below 102% of the value of the cash transferred plus accrued interest, then additional cash and/or acceptable securities must be delivered as collateral to the third party custodian sufficient to cure any deficiency;

- 7. For repurchase agreements with terms to maturity of greater than one (1) day, the state treasurer will value the collateral securities continuously and require that if additional collateral is required then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, remedial action will be taken and the collateral securities may be liquidated; and
 - 8. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement. If the duration of the collateral is more than ten (10) years longer than the term of the repurchase agreement, then the collateral margin must be 103% to compensate for market risk.
- g. Bank, Savings and Loan Association or Credit Union Deposits:** Deposits are allowed in certified and designated New Mexico financial institutions, per the requirement in the New Mexico Constitution Article VIII, Section 4, whose deposits are insured by an agency of the United States. All deposits will comply with state statute and state board of finance policies related to interest rate and collateral requirements. CD deposits shall not be made with custodial banks. Deposits shall be limited to a maximum maturity of three (3) years. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.
- h. Variable Rate Notes:** Variable rate notes (VRNs) may be United States government obligations, commercial paper or repurchase agreements. The use of VRNs is considered to be prudent in the management of a portfolio provided that the following criteria are met:
- i. The ultimate maturity of the VRN is less than three years at the time of purchase.
 - ii. The VRN is indexed to a money market rate such as federal funds, the 3-month treasury bill or LIBOR, that correlates very highly (95% or greater) with overall changes in money market rates even under wide swings in interest rates.
 - iii. The VRN does not have a cap on the interest.
 - iv. The maximum amount of variable rate repurchase agreements will be limited to ten percent (10%) of a portfolio. This limit does not apply to United States Government or Government Agency Obligations in sections F.2.a and F.2.b above.

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- v. For each VRN held in the portfolio, the state treasurer or designee will prepare a written analysis for the monthly report to the state board of finance establishing the rationale for purchasing the VRN addressing particularly the actual correlation of the VRN rate to money market rates such as LIBOR, federal funds or short-term treasury bills over a historic period that encompasses both rising and falling interest rates. The analysis will also include a projection of yield and price volatility for interest rate movements of up 300 basis points to down 300 basis points. This written analysis will be presented to the investment committee and the state board of finance at the regularly scheduled meeting immediately following the purchase of the security.
- vi. For all non-government VRNs, the state treasurer or designee will use pricing services, pricing matrices and "theoretical" pricing models to calculate the market value of all non-government VRNs held in the portfolio and will regularly receive and record actual bids on all non-government VRNs. Any material variances between standard pricing and actual bids will be reported promptly to the investment committee. (A material variance is one in which the actual bid falls below .99 of the standard pricing or book value of the VRN.) Further, the value of actual bids received will be used to value the portfolio holding.
- i. **Municipal Securities:** Pursuant to 6-14-10.1, the state treasurer or designee may also invest in municipal securities that at time of purchase are investment grade and have a final maturity of up to three years. If the rating declines below investment grade the state treasurer shall notify the members of the investment committee in writing within one business day. The committee will recommend an appropriate course of action at its next regular meeting or may elect to meet sooner to determine a course of action.
- j. **Securities Issued by the State or a Political Subdivision of the State, or any Agency, Institution or Instrumentality of the State:** These include, but are not limited to, the New Mexico Mortgage Finance Authority, the New Mexico Finance Authority and the New Mexico Educational Assistance Foundation, if the statute authorizing the issuance of such securities expressly authorizes the state or the state treasurer to purchase such security.
- k. **Government Money Market Mutual Funds:**
Shares of an open-ended diversified investment company that:
 - i. is registered with the United States Securities and Exchange Commission;
 - ii. complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States securities and exchange commission applicable to money market mutual funds; assesses no fees pursuant to Rule 12b-1, or any successor rule, of the

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United States securities and exchange commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated. The state shall not, at any time, own more than five (5) percent of a government money market mutual fund's assets;

- iii. is invested only in United States Government and Agency Obligations and repurchase agreements secured by such obligations;
- iv. has assets under management of at least one billion dollars (\$1,000,000,000);
- v. the investments made by the state treasurer are less than five percent (5%) of the assets of the fund; and
- vi. is rated AAA or equivalent by a nationally recognized rating agency.

I. Local Government Investment Pool:

As permitted by section 6-10-10.1 NMSA 1978, general fund and bond proceeds fund balances may be invested in the Local Government Investment Pool (LGIP), up to thirty-five percent (35%) of the LGIP. Consistent with restrictions in section 6-10-10(N)(3), no more than five percent (5%) of the LGIP may be general fund assets.

- 3. In addition, the state treasurer may act as the investing authority, in accordance with this Investment Policy, for those agencies which have independent statutory authority to invest.

G. Unauthorized Investments/Investment Actions:

- 1. The state treasurer will not borrow funds for the sole purpose of investing those funds at a higher yield.
- 2. The state treasurer is not authorized by law to invest or as a matter of policy has determined not to invest in securities, assets, investment agreements or instruments except as specifically permitted in this investment policy. Accordingly, as examples only, the following securities, assets, investment agreements or instruments are presently impermissible:
 - a. common or preferred stock;
 - b. exchange traded future contracts;
 - c. inverse floaters;
 - d. whole-loan mortgage obligations;
 - e. interest only and principal only strips as they relate to asset-backed obligations;
 - f. currency swaps;
 - g. range notes and index amortizing notes;

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- h. reverse repurchase agreements; and
- i. short sales.

H. Diversification: It is the policy of the state treasurer to diversify the investment portfolios. Investments shall be diversified to reduce the risk of loss resulting from an over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following diversification limitations, at the time of purchase, shall apply to each portfolio:

1. Investment maturities will be staggered to avoid undue concentration of assets in a specific maturity sector and to meet cash flow requirements.
2. Investment in callable debentures is permitted, but the amount invested in callable instruments should not exceed twenty-five percent (25%) of the total amount invested of each portfolio. Investment in callable investments is prohibited for tax and revenue anticipation note proceeds (and any other liquidity vehicle).
3. The maximum level of certificate of deposit (CD) deposits shall be \$400 million, with not more than \$30 million in any single financial institution with preference to banks in under-served areas. CD deposits may only be made in NM financial institutions per the requirement in the New Mexico Constitution Article VIII, Section 4.
4. Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed forty percent (40%) of the assets of each portfolio. Commercial paper and corporate bonds shall be limited, per issuer, to five percent (5%) of each portfolio.
5. Investments in United States agency obligations issued by any single agency shall be limited to thirty-five percent (35%) of a portfolio.
6. Investments in repurchase agreements from any single provider shall be limited to thirty-five percent (35%) of a portfolio.
7. Investments in commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government, with a final maturity not to exceed the expiration date of any such guarantee, shall not exceed forty percent (40%) of the assets of each portfolio. Commercial paper and corporate bonds guaranteed by the full faith and credit of the United States government shall be limited, per issuer, to twenty percent (20%) of each portfolio.
8. United States Government Agency issued mortgage-backed securities and collateralized mortgage obligations ("CMOs") shall be limited to 25% of a portfolio.
9. Securities issued by a municipal entity shall be limited to fifteen percent (15%) of a portfolio.
10. Securities issued by the State or a political subdivision of the State, or any agency, institution or instrumentality of the State shall be limited to 15% of the general fund portfolio.

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- I. Risk:** The state treasurer recognizes that any portfolio of marketable investment securities is subject to interest-rate risk. To limit the possibility of loss of principal due to interest rate fluctuations, the state treasurer will make reasonable efforts to match investments with anticipated cash requirements. The state treasurer or designee shall give particular emphasis to the following factors when selecting a specific security for inclusion in the portfolio:
- 1. Relative Yield to Maturity:** Comparison of return available from alternative investments for comparable maturity dates.
 - 2. Marketability:** Analysis of relative marketability of alternate investments in case of forced sale or possibility of future trades.
 - 3. Intermarket Yield Analysis:** Analysis of the spread relationship between sectors of the market, i.e. treasury bonds or bills versus agency bonds or discount notes, to take advantage of aberrations in yield differentials.
 - 4. Yield Curve Analysis:** Analysis of the slope of the yield curve to determine the most attractive maturities for earning maximum return with minimal risk.
 - 5. General Economic and Interest Rate Outlook:** Review and analysis of current literature on interest rate projections to assist in timing transactions and selecting appropriate maturities.
- J. Anticipated Cash Flow Requirements:** As prescribed by Section 8-6-3.1. B. (4) NMSA 1978, the cash manager will project the state's short term and long-term cash needs to determine the amount available for short term and long-term investment and report this information to the investment committee and the state board of finance monthly.
- K. Competitive Selection of Investment Instruments:**
1. It will be the policy of the state treasurer to transact all securities purchases or sales only through a formal and competitive process that obtains at least three offers or bids whenever possible. When purchasing a security, the state treasurer will accept the offer which provides (a) the highest rate of return within the maturity required and considering the credit quality of the investment; and (b) optimizes the investment objectives of the overall portfolio. When selling a security, the state treasurer or its agent will select the bid, which generates the highest sale price.
 2. Electronic trading is the preferred option for the purchase or sale of investment instruments.
 3. Offers or bids for securities may be received from approved broker/dealers or issuers of qualified securities as defined in Section VI.F by any of the following means:
 - a. by phone;
 - b. by e-mail or other form of electronic communication;
 - c. through an electronic trading platform;
 - d. from inventory listings supplied by approved broker/dealers; and

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- e. directly from issuers.
3. If electronic bidding is not a viable option, the state treasurer or designee may seek offers or bids using the approved broker dealer list. In this case, the state treasurer or designee shall:
 - a. determine a fair market price for the security being purchased or sold;
 - b. use a straight rotation - starting with the first dealer on the list and moving through the list, calling every dealer to obtain bids or offers; a minimum of three bids or offers shall be obtained;
 - c. select the most competitive bid or offer of those obtained; and
 - d. make every effort to execute each trade within thirty (30) minutes.
4. It will be the responsibility of the personnel involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions offering or bidding on securities, the authorized contact at the financial institution (except in the case of electronic trading), the rate or price quoted, description of the security, investment or bid selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase or the highest bid was not selected for sale, an explanation describing the investment objective prompting the investment/sale will be included in this record.
5. New issue agency offerings may be purchased from approved broker/dealers or directly from the issuing agency auction or through reverse inquiry without competitive solicitation if it is determined that no agency obligations meeting the state's requirements are available in the secondary market at a higher yield. It will be the responsibility of the personnel involved with each purchase to produce and retain written records of each transaction when competitive solicitation is not followed.
6. The state treasurer or designee (designees) shall authorize all investment transactions. Executed trade documents shall be reviewed for compliance and signed by the state treasurer or a designee; any single investment transaction of \$25 million or more shall require a second review and signature by another designee.
7. Whenever an order is placed to buy the same instrument for more than one portfolio, the order sheet must reflect the allocation (by amount or percentage) to each portfolio before the order sheet is time stamped, and no such allocations may be changed without the written approval of the state treasurer. All such approved changes to original allocations shall be reported to the investment committee at its next regular meeting.
8. All trade fails or compliance violations are to be documented in an error report on the day that they are discovered and shall disclose the reason for each error. Errors shall be summarized in a report to the investment committee even if corrected by the broker/dealer.

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9. The policy regarding the competitive selection of securities does not apply to certificates of deposit or direct purchases per subsection F.2.i where the rate is set by the state board of finance or other entity.

L. Trading:

1. The state treasurer shall monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and adjust the portfolio accordingly to achieve the investment objectives.
 - a. It will be acceptable for the state treasurer to take advantage of temporary aberrations in the market by trading securities of comparable quality to improve the portfolio to achieve investment objectives. It is understood that this activity may cause a book gain or loss on the sale of the owned investment.
 - b. It is the policy of the state treasurer to charge any book gains or losses against the interest income account during the current accounting period as prescribed by the governmental accounting standards board.
 - c. All such trades shall be reviewed and signed by the state treasurer or designee, noting the expected benefit to the portfolio, and reported to the investment committee.
2. When possible, all trades will be competitively bid following the competitive selection procedures described in Section VI.L.
 - a. Each executing broker/dealer must confirm the time of execution and price and disclose whether principal or agent.
 - b. If the use of electronic bidding is not possible, the decision shall be justified and the transaction fully documented.
3. No cross trades between portfolios are permitted, either directly or indirectly, except when such trades are not detrimental to either fund and must be reported to the investment committee. Any cross trades must be executed at a market rate.

M. Safekeeping and Custody:

1. All investment securities purchased by the state treasurer, held as collateral on repurchase agreements or held as collateral on securities lending arrangements shall be held in third-party safekeeping at a fiduciary qualified to act in this capacity. All securities held for the state treasurer's portfolios will be held free and clear of any lien and all transactions will be conducted in compliance with Section 6-10-10(P) NMSA 1978, which requires contemporaneous transfer and same day settlement. On a monthly basis, the custodian will provide reports, which list all transactions that occurred during the month and all securities held for the state treasurer at month-end including the book and market value of holdings.
2. The fiscal agent and representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the state treasurer shall be

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bonded in amounts required by the state board of finance under its custody agreement to protect from losses, from malfeasance and misfeasance.

N. Local Government Investment Pool (LGIP) Policy:

The Local Government Investment Pool (LGIP) policy can be found in Appendix A to this policy.

O. Selection of Investment Advisors, Consultants/Managers: The state treasurer may use an investment advisor, consultant and/or manager for the investment of securities in accordance with the following rules:

1. The firm or individual shall be selected in accordance with the state's procurement code;
2. The firm and individual shall be registered under the Investment Adviser Act of 1940;
3. The contract shall be reviewed and legal sufficiency certified by the state treasurer's legal counsel and approved by the department of finance and administration;
4. Prior to execution and prior to any renewal of each and every contract, the state treasurer must obtain approval by the state board of finance. Approval of a contract requires that the investment advisor, consultant and/or manager must provide in writing to the state treasurer's office:
 - a. A continuing certification that the investment advisor, consultant and/or manager is familiar with and complies with all policies of the office of the state treasurer and state laws regarding ethics, disclosure and conflicts of interest, including, but not limited to, the state treasurer's office campaign contributions policy and the following statutes, as they may be amended from time to time: the Campaign Reporting Act, §§ 1-19-25 NMSA 1978 *et seq.*; the Governmental Conduct Act, §§ 10-16-1 NMSA 1978 *et seq.*; the Gift Act, §§ 10-16B-1, NMSA 1978 *et seq.*; and the Procurement Code, §§ 13-1-28 NMSA 1978 *et seq.*
 - b. Disclosure of any campaign contributions totaling in the aggregate \$250 in the last two years made by the investment advisor, consultant and/or manager, any board member of the investment advisor, consultant and/or manager firm, or any member of the investment advisor's, consultant's and/or manager's family to the state treasurer, or to any employee of the state treasurer's office or any member of the state board of finance who is an elected official or campaigning for elected office. The state treasurer's office shall provide to the investment advisor, consultant and/or manager a form for the disclosure of such contributions and;
5. The investment advisor, consultant or manager shall report quarterly, in writing, to the investment committee. The report shall (i) establish performance benchmarks for the state treasurer's portfolios, if performance benchmarks are not established by the state treasurer, and (ii) review recommended investments, portfolio strategies and/or performance against established benchmarks. The report shall be included in the state treasurer's next monthly report to the state board of finance. Performance

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benchmarks established by the state treasurer or the investment advisor, consultant and/or manager must be approved by the state board of finance.

- P. Performance Benchmarks:** The investment portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the state.
1. Short-term funds and funds that must maintain a high degree of liquidity will be compared to an appropriate short-term index that has been approved by the state board of finance.
 2. Medium term investment and other funds that have longer terms shall be compared to indices of similar duration that have been approved by the state board of finance.
 3. Investment returns (to include total return) shall be calculated by the state treasurer and reported to the investment committee and the state board of finance on a quarterly basis. Returns will be reported and compared to appropriate benchmarks for the most recent period and the trailing twelve month period.
 4. Upon sufficient appropriation by the state legislature, an independent investment consultant, selected by the state treasurer and approved by the board of finance, shall calculate quarterly investment performance against established benchmarks and report the evaluation results to the investment committee and the state board of finance.
- Q. Selection of Depositories and Securities Brokers/Dealers:** When selecting depositories and securities broker/dealers, consideration will be given to minimizing risk, protecting investment capital and obtaining the best purchase or sale price. The following guidelines will be used in selecting depositories and securities broker/dealers.
1. **Depositories:** In selecting financial institutions for the deposit of state funds, the state treasurer will consider the credit worthiness of the institutions as per the most recent risk assessment report required under the collateral policy adopted by the state board of finance (NMAC 2.60.4).
 - a. The state treasurer through its collateral compliance and risk assessment program will monitor the financial institutions' credit characteristics and financial history throughout the period in which the state funds are deposited.
 - b. Each depository will be required at all times to collateralize the state deposits at the level required by the collateral policy and the depository agreement adopted by the state board of finance.
 2. **Securities Broker/Dealers:**
 - a. Broker/dealer firms, including brokers, dealers and/or individual employees of these firms, that have direct contact with the state treasurer's office through those firms, will be selected by the investment committee and approved by the state board of finance according to the services they offer as well as the firm's ability to offer competitive prices on securities transactions. (NMAC 12.11.2)

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- b.** In instances when an electronic trading platform is not used and in accordance with Section VI.L, if identical bids or offers are received, preference will be given to broker/dealers with offices in New Mexico that can demonstrate:
 - i.** their ability to meet the requirements outlined in this section; and
 - ii.** their ability to compete with institutional trading desks.
- c.** The broker/dealers list will be reviewed and approved by the investment committee and the state board of finance no less than annually.
- d.** The list of approved broker/dealers will contain no fewer than nine (9) firms, at least four (4) of which are primary dealers.
- e.** To be considered, broker/dealers must meet the following criteria:
 - i.** The firm must be a registered dealer pursuant to the Securities Act of New Mexico, Section 58-13-15 NMSA 1978.
 - ii.** The firm must be registered as a dealer under the Securities Exchange Act of 1934.
 - iii.** The firm and assigned broker must be registered with the national association of securities dealers (FINRA).
 - iv.** The firm and assigned broker must have been engaged in the fixed income security business for at least the past five (5) consecutive years.
 - v.** The assigned broker must have a current FINRA Series 7 License.
- f.** The firm and assigned broker must be approved by the investment committee.
- g.** Modifications to the broker/dealers list may be necessary. In order to facilitate investment activity, the state treasurer may recommend changes for final approval by the investment committee and for review and approval by the state board of finance at the next scheduled meeting.
- h.** The state treasurer, through a written letter, shall notify broker/dealer firms, that the state treasurer's office and the state board of finance has authority to follow up on specific bid or offer transactions and that broker/dealers must maintain bid or offer information for a period of three (3) years.
- i.** The state treasurer shall conduct a background search through the regulation and licensing department, securities division on each individual broker for criminal activity, regulatory actions by government agencies, and/or revocations or suspensions of license. In the event that such activities are reported in an individual broker's background search, the state treasurer shall notify the investment committee and the state board of finance at the time that broker is considered for approval. The state treasurer shall monitor each approved individual broker for continued compliance and annually repeat the background search from the time when the broker was approved.

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3. An annual review of the financial condition and registration of broker/dealers will be conducted by the state treasurer.
 4. No members or affiliates of any firm, including any of its brokers, dealers or traders, may contract with the state treasurer to provide investment advice or consultation to the state treasurer during the time the firm and any of its brokers, dealers, or traders are on the broker/dealers list.
 5. For inclusion on the approved broker/dealer list, a firm and its assigned brokers, dealers or traders must provide in writing to the state treasurer's office:
 - a. A continuing certification that the broker/dealer firm and the assigned broker are familiar with and comply with all policies of the office of the state treasurer and state laws regarding ethics, disclosure and conflicts of interest, including, but not limited to, the state treasurer's office campaign contributions policy and the following statutes, as they may be amended from time to time: the Campaign Reporting Act, §§ 1-19-25 NMSA 1978 *et seq.*; the Governmental Conduct Act, §§ 10-16-1 NMSA 1978 *et seq.*; the Gift Act, §§ 10-16B-1, NMSA 1978 *et seq.*; and the Procurement Code, §§ 13-1-28 NMSA 1978 *et seq.*
 - b. Disclosure of any campaign contributions totaling in the aggregate \$250 in the last two years made by the broker/dealer firm, any board member of the broker/dealer firm, the assigned broker, or any member of the assigned broker's family to the state treasurer, or to any employee of the state treasurer's office or any member of the state board of finance who is an elected official or campaigning for elected office. The state treasurer's office shall provide to each broker/dealer a form for the disclosure of such contributions.
- R. Reporting Requirements:** The state treasurer shall prepare and submit to the state board of finance a "monthly investment report".
1. The Report shall summarize the following:
 - a. a listing of the portfolio in terms of investment securities, balances, maturities, return and other features deemed relevant;
 - b. the book and market value of all holdings;
 - c. a report of primary issues purchased and report of secondary issues purchased or sold;
 - d. a report of all commissions paid in dollars on repurchase agreements and on each transaction where the commission is disclosed;
 - e. for each approved portfolio, returns on a monthly, quarterly, fiscal year-to-date and three-year basis versus approved benchmarks;
 - f. the total investment earnings by fund for the reporting period;
 - g. report of holdings of variable rate and structured notes;
 - h. the investment strategies employed during the period;

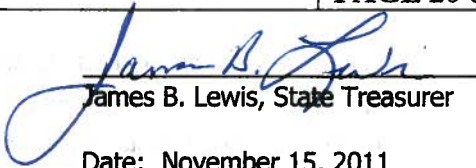
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Secretary

Date: November 15, 2011


James B. Lewis, State Treasurer

Date: November 15, 2011

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Appendix A

Local Government Investment Pool (LGIP) Policy

- I. TOPIC: STATE TREASURER'S OFFICE LGIP INVESTMENT POLICY
- II. STATUTORY AUTHORITY
PURPOSE STATEMENT
- III. POLICY STATEMENT
 - A. Investment Policy Priorities
 - B. Standard of Investment
 - C. State Treasurer's Investment Committee (STIC)
 - D. Internal Controls
 - E. Ethics and Conflicts of Interest
- IV. INVESTMENTS PERMITTED BY POLICY
- V. INVESTMENT PARAMETERS AND RESTRICTIONS
 - A. Diversification Policy
 - B. Maturity Constraints Policy
- VI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS
- VII. TRADING
- VIII. SAFEKEEPING AND CUSTODY
- IX. SELECTION OF INVESTMENT ADVISORS, CONSULTANTS/MANAGERS
- X. PERFORMANCE BENCHMARKS
- XI. SELECTION OF DEPOSITORIES AND SECURITIES BROKERS/DEALERS
- XII. REPORTING REQUIREMENTS
- XIII. APPROVAL AND MODIFICATION OF POLICY

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I. TOPIC: STATE TREASURER'S OFFICE LOCAL GOVERNMENT INVESTMENT POOL INVESTMENT POLICY

This policy of the New Mexico State Treasurer's Office (STO) establishes guidelines applicable to the investment of funds deposited in the Local Government Investment Pool (LGIP) authorized by Section 6-10-10.1 NMSA 1978. The investment objectives of the pool shall be to adhere to the fundamental principles of safety, liquidity and return, in that order.

- A.** The pool shall be invested in order to maintain a stable net asset value of \$1.00 per share. The weighted average maturity of investments in the pool shall not exceed 60 days.
- B.** The state treasurer's office shall procure or develop and maintain a shareholder accounting system to account for deposits, withdrawals and interest distributions.
- C.** The state treasurer shall monitor the net asset value (NAV) per share.
 - 1.** Assets shall be valued using the amortized cost method which assumes a constant rate of amortization to maturity of any premium or discount.
 - 2.** The net asset value per share shall be computed by dividing the total value of investments in the pool, less any liabilities, by the total outstanding shares of the pool.
 - 3.** The state treasurer shall report the market value of pool assets at month-end and the monthly average yield at month-end to the state board of finance and to the investment committee. If the difference between the NAV at market and the NAV at amortized cost (\$1.00) is greater than 0.15%, the state treasurer shall notify the members of the investment committee in writing within one business day. Investment staff will correct the difference within 5 business days. STIC will be notified of the action and its correction at the next meeting of the committee and staff will recommend an appropriate course of action in order to address the deviation and to restore the net asset value per share at market to within 0.15% of \$1.00.
- D.** The state treasurer shall have the LGIP rated annually by a nationally recognized rating agency. Investments of the pool shall be made in a manner that maintains an "AA" or equivalent rating or better.
- E.** The state treasurer shall invest the local government investment pool (LGIP) as provided in Section 6-10-10 NMSA 1978 regarding the investment of state funds in investments with a maturity at the time of purchase that does not exceed 397 days or 762 days for floating rate notes.
- F.** Consistent with statute, deposits by the state treasurer on behalf of the general fund and the bond proceeds funds shall not exceed thirty-five percent (35%) of the total amount in the LGIP at any time.
- G.** Stress Testing should be performed at least monthly and should show the impact in each of the following scenarios: Parallel interest rate shifts of plus/minus 200 bps in 25-bp increments; Asset decreases (ie redemptions) of 10%, 15%, 20%, 25% and the percentage of the largest historical five business day net redemptions for the fund; downgrade of the largest issuer exposure; widening and narrowing of credit spreads.

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II. STATUTORY AUTHORITY

The responsibility for investing the funds deposited in the LGIP lies with the state treasurer's office (STO) and conforms with the statutory and constitutional requirements of the State of New Mexico. Section 6-10-10.1 NMSA 1978 establishes the "participating government investment fund" and it refers to Section 6-10-10 NMSA 1978 to address how funds should be managed.

III. PURPOSE STATEMENT

The purpose of this policy is to establish useful and prescribed guidelines for the prudent management of the funds in the LGIP. This statement also describes the realistic parameters and goals in investing those public funds.

- A. This policy aims to establish reasonable expectations, objectives and guidelines in the investment process of the LGIP. Creating this framework will set expectations of generally acceptable returns at a level of risk suitable to the stated funds, while meeting the obligation of maintaining sufficient liquidity for all participants.
- B. The goal of the investment policy and the corresponding investment function is to clarify the prescribed duties delegated to the State Treasurer with regards to the investment of LGIP funds.
- C. This statement is intended to serve as general guidance and provide for maximum risk constraints to individuals so authorized. The Treasurer has liberty to make amendments as deemed necessary. Policy amendments also require the approval of the State Board of Finance.

IV. POLICY STATEMENT

The LGIP will be managed to comply with the standards of one of the highest principal stability rating as determined by rating agencies. These standards limit allowable investment vehicles and maximum and average maturities, the effect of which is to minimize both market and credit risk. According to section 6-10-10.1 NMSA 1978, the pool must be rated 'AA' or better.

A. Investment Policy Priorities:

The objectives of the state treasurer's investment practices for the LGIP, in priority of order will be legality, safety, liquidity and return.

1. **Legality:** Investments in the pool will adhere to all restrictions on the investments established by 6-10-10 NMSA 1978 and this policy.
2. **Safety of Capital:** Investments shall be managed in a manner that seeks to ensure preservation of principal in each individual investment in the pool. The policy issues directed at protecting the principal are:
 - a. Diversification - limiting the LGIP's exposure to each type of security and limiting the LGIP's exposure to each issuer of debt; and
 - b. Quality - determining the minimum credit requirement of each type of security.
3. **Liquidity:** The portfolio shall remain sufficiently liquid to enable the funding of cash needs from participants. The policy issues directed to provide for liquidity include:

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- a. The maximum average days to maturity will be constrained to 60 days, except for rating agency provisions regarding floating rate funds;
 - b. The maximum single maturity date of any one security to 397 days, except for FRNs as allowed by the rating agencies; and
 - c. The fund will be limited to highly liquid securities.
4. **Return:** The portfolio shall be managed with the objective of obtaining a market rate of return. The policy issues directed to provide for market return include:
- a. Attaining market rate of return taking into account the investment constraints and liquidity requirements; and
 - b. A majority of the investments shall be limited to low risk securities in anticipation of earning a fair return relative to the risk being taken.

B. Standard of Investment:

1. The standard of prudence to be applied in the investment of public money by the state treasurer shall be the "prudent person" rule:
"Investments shall be made with the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."
2. The state treasurer or the state treasurer's designee(s), acting in accordance with this policy and any other written procedures pertaining to the investment of public money and exercising due diligence, shall be relieved of personal responsibility, if any, for credit risk or market price changes of a particular security.

The loss of market value, reduced yield or return on a particular security must be reported to the state treasurer's investment committee (STIC) in accordance with this policy and the situation causing the loss of market value, reduced yield or return must be closely monitored and evaluated to ensure that any to hold or sell the particular security is based on the best publicly available information.

C. State Treasurer's Investment Committee (STIC): The investment committee shall monitor the efficacy, efficiency and currency of the investment policy.

1. The investment committee shall consist of five (5) voting members: the state treasurer, or designee, who serves as committee chair, the treasurer's chief investment officer (with the state cash manager as alternate), the director of the state board of finance or designee, and two members that are participants in the private investment community or have expert knowledge or professional experience in the subject of public finance or public money investing, of which one member will be appointed by the state treasurer and approved by the state board of finance and one member will be appointed by the state board of finance and approved by the state treasurer. Each private sector member shall serve at the pleasure of the state board of finance or the state treasurer appointing the private sector member. The private sector members shall serve for a term of two (2) years after appointment and shall be eligible for reappointment to serve for consecutive

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two (2) year terms.. Any vacancy created by a private sector member shall be filled in the same manner as original appointments.

2. The investment committee shall meet monthly to:

- a.** Review the investment policy, no less than annually, and recommending, if advisable, modifications in the investment policy from time to time;
- b.** Assess, no less than annually, the utility and efficacy of established internal controls as loss prevention measures with respect to the investment portfolio;
- c.** Determine, no less than annually, whether legislation affecting the investment activities of the state treasurer should be recommended;
- d.** Recommend investment procedures that may be useful or required in maintaining currency with public money investment practices;
- e.** Deliberate these topics: economic outlook, portfolio diversification and maturity structure, potential risks, and the target rate of return on the investment portfolio;
- f.** Identify potential violations of and suggest remedial actions to achieve conformity with the investment policy;
- g.** Recommend, no less than annually, action on depositories, custodians, broker/dealers and investment managers and advisors; and
- h.** Assess whether the investment policy is being properly implemented by the individuals and entities involved in the administration and management of investment activities.

D. Internal Controls:

- 1.** The state treasurer shall establish a system of internal controls governing the administration and management of the investment portfolio, which shall be reviewed annually by the investment committee no later than thirty (30) days after the completion of an audit performed by the independent auditor and submitted for review and approval to the state auditor. These shall include, but are not limited to a procedures manual for investing and handling public money.
- 2.** The controls shall be designed to prevent and control losses of public money arising from fraud, error, misrepresentation, unanticipated market changes, conflicts of interest or imprudent actions.
- 3.** Upon sufficient appropriation by the state legislature, the state board of finance shall provide for random audits, to be performed by an independent public accountant, that examines investment transactions to determine compliance with state statutes and constitutional provisions and compliance with this investment policy.

E. Ethics and Conflicts of Interest:

- 1.** The state treasurer shall adopt and implement an employee code of conduct policy, a campaign contributions policy, and a whistle blower policy applicable to the public officers and employees subject to the state treasurer's policies and supervision. These policies shall be included in this investment policy as appendices. These policies may be updated

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according to the policies and procedures of the state treasurer's office. Any changes or updates implemented by the state treasurer shall be reported to the state board of finance at its next regularly scheduled meeting.

2. The state treasurer and employees involved in the investment process, in addition to complying with the applicable policies listed above and statutes, shall refrain from personal business activity that may impair their ability to make impartial investment decisions, or otherwise conflict with the selection of broker/dealers or investment advisors for best execution of the investment policy.
3. All broker/dealers and other contractors with the state treasurer's office shall become familiar with and comply with all policies of the office of the state treasurer and state laws including, but not limited to, the state treasurer's office campaign contributions policy and the following statutes, as they may be amended from time to time: the Campaign Reporting Act, §§ 1-19-25 NMSA 1978 *et seq.*; the Governmental Conduct Act, §§ 10-16-1 NMSA 1978 *et seq.*; the Gift Act, §§ 10-16B-1, NMSA 1978 *et seq.*; and the Procurement Code, §§ 13-1-28 NMSA 1978 *et seq.*

V. INVESTMENTS PERMITTED BY POLICY

The scope of investment authority of the state treasurer is defined by the applicable investment statutes and constitutional provisions, principally Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-14-10.1, NMSA 1978, as well as Article VIII, Section 4 of the New Mexico Constitution, specifying particular types of investments that may be made by the state treasurer, which establish certain prerequisites, limitations and other requirements relating to those investments. Moreover, the state treasurer, in his/her discretion, may further limit or restrict those investments.

The state treasurer and the state board of finance have determined that only the following statutorily authorized investments may be made in the LGIP and these investments shall be subject to further limitations or restrictions as follows:

A. Security Type by Issuer:

1. **United States Government Obligations:** Securities backed by the full faith and credit of the U.S. Government including direct obligations of the U.S. Treasury (such as U.S. Treasury Bonds) and obligations of U.S. Government agencies. These securities may be either fixed rate or variable rate.
 - a. **Maximum Maturity** – The maximum maturity of an issue shall be 397 days, at the time of the investment or 762 days for floating rate notes;
 - b. **Maximum Exposure** – The maximum exposure in the portfolio is unlimited;
 - c. **Maximum Exposure Per Issuer** – The maximum exposure to the LGIP for an individual issuer shall be:
 - i. **Treasury or full faith and credit** – Unlimited, Treasury securities are considered the highest quality;
 - ii. **Agency (GSE's)** – No more than one third of the fund holdings shall be invested in any single Agency issuer; and
 - d. **Minimum Credit Requirement** – None.

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- 2. Fully Guaranteed Issues of the U.S. Government:** Bank debt may be issued under the Temporary Liquidity Guaranteed Program (TLGP), which have the full faith and credit backing of the U.S. Government and are FDIC guaranteed. If new securities are issued with the same guarantee, they will be placed under this category.

 - a. Maximum Exposure – The maximum exposure to this category is 40%; and
 - b. Maximum Exposure per Issuer – The maximum single issuer exposure is 5%.
- 3. Corporate Medium Term Note Obligations** – Debt instruments issued by a corporation organized and operating in the United States. Corporate notes with maturities up to 397 days shall be rated A1 or better at the time of purchase. If the rating declines below the minimum rating (as defined above), the state treasurer shall notify the members of the investment committee in writing within two business days. Written notification may be done by email. The deviation shall be cured using the guidelines published by any rating agency then rating the fund.

 - a. Maximum Maturity – The maximum maturity of an issue shall be 397 days, at the time of the investment;
 - b. Maximum Exposure – The maximum exposure in the portfolio is limited to 20%;
 - c. Maximum Exposure Per Issuer – The maximum exposure to the fund for an individual issuer shall be no more than 5% of the fund holdings; and
 - d. Minimum Credit Requirement – A1 or better.
- 4. Commercial Paper** – Unsecured obligations with a maturity of up to 270 days at time of purchase issued by corporations organized and operating within the United States. The commercial paper shall have investment grade ratings and shall not be split-rated. If the rating declines below investment grade, the state treasurer shall notify the members of the investment committee in writing within two (2) business days. Written notification may be done by email. The investment committee will recommend an appropriate course of action at its next regular meeting. In addition to looking at the credit rating, credit research and due diligence shall be conducted on companies which issue to the paper.

 - Maximum Maturity – The maximum maturity of an issue shall be 270 days, at the time of the investment;
 - Maximum Exposure – The maximum exposure in the portfolio is 20%;
 - Maximum Exposure Per Single Issue – 5% per issue;
 - Maximum Exposure Per Issuer – The maximum exposure to the LGIP for an individual issuer shall be full faith and credit, FDIC guaranteed – 5%; and
 - Unsecured – No more than 5% of the fund holdings shall be invested in any single unsecured issuer.
- 5. Repurchase Agreements** – Contracts for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the state. Repurchase agreements for the local government investment pool (LGIP) shall be limited to a maximum maturity of thirty (30) days, although any underlying United States government obligations pledged as collateral may have maturities extending beyond the term of the repurchase agreements. However,

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repurchase agreements with maturities more than five (5) days in the LGIP, excluding repurchase agreements with a put feature option (the ability for the investor to terminate the investment at par) shall be limited to no more than 10 percent of the fund assets.

- a. The contract at the time of purchase shall be fully secured by obligations of the United States or its agencies or instrumentalities, having a market value of at least one hundred two percent of the amount of the contract;
- b. Section 6-10-10 (J) limits repurchase agreements to a maximum maturity of one (1) year with no exception or other provision for repurchase agreements that are VRNs.. Providers of repurchase agreements and flexible repurchase agreements shall have an investment grade rating;
- c. Subject to the prior approval of the state board of finance with respect to the custodial undertaking agreement, tri-party repurchase agreements are proper investments under this policy; and
- d. The state treasurer will enter into repurchase agreements only with approved primary reporting dealers, banks and other financial institutions having a net worth in excess of \$500 million provided that:
 - i. Preference will be given to a provider that is rated in one of the top two rating categories by at least two national rating agencies, without regard to qualifier, numerical or otherwise;
 - ii. If during its term, the provider's net worth falls below \$500 million or its rating is withdrawn, suspended, or falls below the top two rating categories, without regard to qualifier, numerical or otherwise, the provider must supply a guarantee of, or assign the agreement to an institution meeting these requirements or collateralize the agreement in accordance with industry-published criteria within ten days after it receives notice from the state treasurer of the remedy the state treasurer requires. In the event the provider fails to provide the specified remedy in the timeframe noted, the provider must immediately repurchase all collateral and terminate the agreement with no penalty or premium to the state treasurer;
 - iii. A master repurchase agreement or other specific repurchase agreement, reviewed by independent legal counsel in each case, governs the transaction;
 - iv. The securities are held, free and clear of any lien, by the state's fiscal agent or its designee acting solely as agent for the state, and such fiscal agent or designee is (i) a federal reserve bank or (ii) a bank which is a member of the federal deposit insurance corporation and which has combined capital, surplus and undivided profits of not less than \$25 million;
 - v. A perfected first security interest under the uniform commercial code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. of 31 C.F.R.

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370.0 et seq. in such securities is created for the benefit of the state treasurer;

- vi. The market value of the collateral including accrued interest must be equal to 102% of the amount of cash transferred by the state treasurer to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the market value of the collateral slips below 102% of the value of the cash transferred plus accrued interest, then additional cash and/or acceptable securities must be delivered as collateral to the third party custodian sufficient to cure any deficiency;
- vii. For repurchase agreements with terms to maturity of greater than one (1) day, the state treasurer will value the collateral securities continuously and require that if additional collateral is required then that collateral must be delivered within one business day. If a collateral deficiency is not corrected within this time frame, remedial action will be taken and the collateral securities may be liquidated; and
- viii. The collateral on all repurchase agreements will have a maturity date that exceeds the term of the repurchase agreement.
 - Maximum Maturity – The maximum maturity of an issue shall be 397 days, at the time of the investment.
 - Maximum Exposure – The maximum exposure in the portfolio is 10%.
 - Maximum Exposure Per Broker/Dealer – 35% per issue.
 - Eligible Broker Dealers – Broker/dealers shall be primary dealers of the Federal Reserve Bank of New York. Issuers must sign a PSA/SIFMA Master Repo Agreement or a tri-party agreement. The Agreement must specify a minimum margin percentage of 102% and also provide for daily mark-to-market of the collateral by the custodian bank. Additional requirements of the state treasurer's office may be required at any time.
 - Eligible Collateral – The securities eligible for collateral are obligation of the United States, or its agencies or instrumentalities that have the full faith and credit of the U.S. Treasury. The collateral shall not have a maturity that exceeds the 397 days.
 - Delivery of Collateral – Broker/Dealers shall delivery to the state's fiscal agent and the securities shall be held free and clear of any lien.

- 6. Bank, Savings and Loan Associations or Credit Union Deposits** - Deposits are allowed in certified and designated New Mexico financial institutions, per the requirement in the New Mexico Constitution Article VIII, Section 4, whose deposits are insured by an agency of the United States. All deposits will comply with state statute and state board of finance policies related to interest rate and collateral requirements. A deposit in any credit union shall be limited to the amount insured by an agency of the United States.

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- Maximum Maturity – The maximum maturity of an issue shall be 397 days, at the time of the investment.
- Maximum Exposure – The maximum exposure in the portfolio is 25% per depository.

7. Government Money Market Mutual Funds – Shares of an open-ended diversified investment company that:

- a. is registered with the United States Securities and Exchange Commission;
- b. complies with the diversification, quality and maturity requirements of Rule 2a-7, or any successor rule, of the United States securities and exchange commission applicable to money market mutual funds;
- c. assesses no fees pursuant to Rule 12b-1, or any successor rule, of the United States Securities and Exchange Commission, no sales load on the purchase of shares and no contingent deferred sales charge or other similar charges, however designated, provided that the state shall not, at any time, own more than five (5) percent of a money market mutual fund's assets;
- d. is invested only in United States Government and Agency Obligations and repurchase agreements secured by such obligations; and
- e. is rated AAA or equivalent by a nationally recognized rating agency.
 - Maximum Maturity -There is no stated maturity on 2-a7 funds;
 - Maximum Exposure – The maximum exposure in the portfolio is 25% of total assets in the pool; and
 - Maximum Exposure Per Single Fund – 5% per fund.

B. Security Type by Structure: various security structures are available in the market place and will result in different risk and return results in changing interest rate environments. For the purpose of this policy the following definitions shall apply:

- 1. Floating Rate Note:** securities which at all times can reasonably be expected to have a market value that approximates their amortized cost. This would include those securities which reset based on indices such as Fed Funds or prime lending rates.
- 2. Variable Rate Notes:** securities which any reset date can reasonably be expected to have a market value that approximates their amortized cost. This would include those that reset based on indices such as LIBOR or US treasury bills.
- 3. Callable Notes:** securities that have call dates either one time, quarterly or continuous.
 - Policy Constraints:
 - Floating rate/variable rate 20%
 - Callable Securities 20%
 - Securities shall generally be held until maturity with the following exceptions:
 - A security with declining credit may be sold early to minimize loss of principal.

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- A security swap that would improve the quality, yield or target duration in the portfolio.
- Liquidity needs of the portfolio required that the security be sold.

VI. INVESTMENT PARAMETERS AND RESTRICTIONS

- A. Diversification Policy:** The fund will diversify its investments by security type, issuer and maturity with the intention to minimize risk.

The maximum constraints as follows:

U.S. Treasury Securities		100%
GSE – Federal Agency		100%
Per Issuer		33.3%
Full Faith and Credit Backed Securities		33.3%
Corporate Securities (AA)		20%
Commercial Paper		20%
Repurchase Agreement		100%
Per Issuer		35%
Bank Deposits Per Bank		25%
Government Money Market Funds		25%
Per Issuer		5%

B. Maturity Policy:

1. **Weighted Average Maturity and Weighted Average Life:** The fund will adhere to managing the portfolio to provide for liquidity which will not exceed 60 days on a weighted average maturity basis. The Weighted Average Life of the securities held will not exceed 120 for government securities and 90 days for all other security types.
 - a. A variable rate or floating rate security will be deemed to have a maturity equal to the period remaining to the next reset for purposes of calculating weighted average maturity. For the purpose of calculating weighted average life, the final maturity of the security should be used.
2. **Maximum Final Maturity:** The maximum final maturity of any security will not exceed 397 days, with the following exceptions:
 - a. Securities utilized for repurchase agreements;
 - b. A variable rate security which on any reset date can reasonably be expected to have a market value that approximates its amortized cost, maximum final maturity of 2 years;
 - c. A floating rate security which at all times can reasonably be expected to have a market value that approximates its amortized cost, maximum final maturity of 762 days; and
 - d. The maximum maturity of the variable rate and floating rate securities meeting the requirements listed above will not exceed 762 days.

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VII. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

- A.** It will be the policy of the state treasurer to transact all securities purchases or sales only through a formal and competitive process that obtains at least three offers or bids whenever possible. When purchasing a security, the state treasurer will accept the offer which provides (a) the highest rate of return within the maturity required and considering the credit quality of the investment; and (b) optimizes the investment objectives of the overall portfolio. When selling a security, the state treasurer or its agent will select the bid, which generates the highest sale price. Electronic bidding is the preferred option for the purchase or sale of investment instruments.
- B.** Offers or bids may be received from approved broker/dealers or issuers of qualified securities by any of the following means:
 - a.** by phone;
 - b.** by e-mail or other form of electronic communication;
 - c.** through an electronic trading platform;
 - d.** from inventory listings supplied by approved broker/dealers; and
 - e.** directly from issuers.
- C.** If electronic bidding is not a viable option, the state treasurer or designee may seek offers or bids using the approved broker dealer list. In this case, the state treasurer or designee shall:
 - a.** determine a fair market price for the security being purchased or sold;
 - b.** use a straight rotation - starting with the first dealer on the list and moving through the list, calling every dealer to obtain bids or offers; a minimum of three bids or offers shall be obtained;
 - c.** select the most competitive bid or offer of those obtained; and
 - d.** make every effort to execute each trade within thirty (30) minutes.
- D.** It will be the responsibility of the personnel involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions offering or bidding on securities, the authorized contact at the financial institution (except in the case of electronic trading), the rate or price quoted, description of the security, investment or bid selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase or the highest bid was not selected for sale, an explanation describing the investment objective prompting the investment/sale will be included in this record.
- E.** New issue agency offerings may be purchased from approved broker/dealers or directly from the issuing agency auction or through reverse inquiry without competitive solicitation if it is determined that no agency obligations meeting the state's requirements are available in the secondary market at a higher yield. It will be the responsibility of the personnel involved with each purchase to produce and retain written records of each transaction when competitive solicitation is not followed.

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- F.** The state treasurer or designee (designees) shall authorize all investment transactions. Executed trade documents shall be reviewed for compliance and signed by the state treasurer or a designee; any single investment transaction of \$25 million or more shall require a second review and signature by another designee.
- G.** All trade fails or compliance violations are to be documented in an error report on the day that they are discovered and shall disclose the reason for each error. Errors shall be summarized in a report to the investment committee even if corrected by the broker/dealer.

VIII. TRADING

- A.** The state treasurer shall monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and adjust the portfolio accordingly to achieve the investment objectives.
 - 1.** It will be acceptable for the state treasurer to take advantage of temporary aberrations in the market by trading securities of comparable quality to further improve the overall rate of return on the portfolio. It is understood that this trading activity may cause a book loss on the sale of the owned investment.
 - 2.** It is the policy of the state treasurer to charge any book losses against the interest income account during the current accounting period as prescribed by the governmental accounting standards board.
 - 3.** All such trades shall be reviewed and signed by the state treasurer or designee, noting the expected benefit to the portfolio, and reported to the investment committee.
- B.** When possible, all trades will be competitively bid following the competitive selection procedures.
 - 1.** Each executing broker/dealer must confirm the time of execution and bid and disclose whether principal or agent.
 - 2.** If the use of electronic bidding is not possible, the decision shall be justified and the transaction fully documented.
- C.** No cross trades between portfolios are permitted, either directly or indirectly, except when such trades are not detrimental to either fund and are approved by the investment committee. Any cross trades must be executed at a market rate.

IX. SAFEKEEPING AND CUSTODY

- A.** All investment securities purchased by the state treasurer, held as collateral on repurchase agreements or held as collateral on securities lending arrangements shall be held in third-party safekeeping at a fiduciary qualified to act in this capacity. All securities held for the state treasurer's portfolios will be held free and clear of any lien and all transactions will be conducted in compliance with Section 6-10-10(P) NMSA 1978, which requires contemporaneous transfer and same day settlement. On a monthly basis, the custodian will provide reports, which list all transactions that occurred during the month and all securities held for the state treasurer at month-end including the book and market value of holdings.
- B.** The fiscal agent and representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the state treasurer shall be bonded in

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amounts required by the state board of finance under its custody agreement to protect from losses, from malfeasance and misfeasance.

X. SELECTION OF INVESTMENT ADVISORS, CONSULTANTS/MANAGERS

The state treasurer may use an investment advisor, consultant and/or manager for the investment of securities in accordance with the following rules:

- A.** The firm or individual shall be selected in accordance with the state's procurement code;
- B.** The firm and individual shall be registered under the Investment Adviser Act of 1940;
- C.** The contract shall be reviewed and legal sufficiency certified by the state treasurer's legal counsel and approved by the department of finance and administration;
- D.** Prior to execution and prior to any renewal of each and every contract, the state treasurer must obtain approval by the state board of finance. Approval of a contract requires that the investment advisor, consultant and/or manager must provide in writing to the state treasurer's office:
 - 1.** A continuing certification that the investment advisor, consultant and/or manager is familiar with and complies with all policies of the office of the state treasurer and state laws regarding ethics, disclosure and conflicts of interest, including, but not limited to, the state treasurer's office campaign contributions policy and the following statutes, as they may be amended from time to time: the Campaign Reporting Act, §§ 1-19-25 NMSA 1978 *et seq.*; the Governmental Conduct Act, §§ 10-16-1 NMSA 1978 *et seq.*; the Gift Act, §§ 10-16B-1, NMSA 1978 *et seq.*; and the Procurement Code, §§ 13-1-28 NMSA 1978 *et seq.*;
 - 2.** Disclosure of any campaign contributions totaling in the aggregate \$250 in the last two years made by the investment advisor, consultant and/or manager, any board member of the investment advisor, consultant and/or manager firm, or any member of the investment advisor's, consultant's and/or manager's family to the state treasurer, or to any employee of the state treasurer's office or any member of the state board of finance who is an elected official or campaigning for elected office. The state treasurer's office shall provide to the investment advisor, consultant and/or manager a form for the disclosure of such contributions, and
- E.** The investment advisor, consultant or manager shall report quarterly, in writing, to the investment committee. The report shall (i) establish performance benchmarks for the state treasurer's portfolios, if performance benchmarks are not established by the state treasurer, and (ii) review recommended investments, portfolio strategies and/or performance against established benchmarks. The report shall be included in the state treasurer's next monthly report to the state board of finance. Performance benchmarks established by the state treasurer or the investment advisor, consultant and/or manager must be approved by the state board of finance.

XI. PERFORMANCE BENCHMARKS

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The investment portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the participants.

- A.** Short-term funds and funds that must maintain a high degree of liquidity will be compared to an appropriate short-term index that has been approved by the state board of finance.
- B.** Investment returns (to include total return) shall be calculated by the state treasurer and reported to the investment committee and the state board of finance on a quarterly basis. Returns will be reported and compared to appropriate benchmarks for the most recent period and the trailing twelve month period.
- C.** Upon sufficient appropriation by the state legislature, an independent investment consultant, selected by the state treasurer and approved by the board of finance, shall calculate quarterly investment performance against established benchmarks and report the evaluation results to the investment committee and the state board of finance.

XII. SELECTION OF DEPOSITORIES AND SECURITIES BROKERS/DEALERS

When selecting depositories and securities broker/dealers, consideration will be given to minimizing risk, protecting investment capital and obtaining the best purchase or sale price. The following guidelines will be used in selecting depositories and securities broker/dealers.

- A. Depositories:** In selecting financial institutions for the deposit of state funds, the state treasurer will consider the credit worthiness of the institutions as per the most recent risk assessment report required under the collateral policy adopted by the state board of finance. (NMAC 2.60.4)
 - 1.** The state treasurer through its collateral compliance and risk assessment program will monitor the financial institutions' credit characteristics and financial history throughout the period in which the state funds are deposited.
 - 2.** Each depository will be required at all times to collateralize the state deposits at the level required by the collateral policy and the depository agreement adopted by the state board of finance.
- B. Securities Broker/Dealers:**
 - 1.** Broker/dealer firms, including brokers, dealers and/or individual traders, that have direct contact with the state treasurer's office through those firms, will be selected by the investment committee and approved by the state board of finance according to the services they offer as well as the firm's ability to offer competitive prices on securities transactions. (NMAC 2.11.2)
 - 2.** In instances when an electronic trading platform is not used and in accordance with Section VI.L, if identical bids or offers are received, preference will be given to broker/dealers with offices in New Mexico that can demonstrate:
 - a.** their ability to meet the requirements outlined in this section; and
 - b.** their ability to compete with institutional trading desks.

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3. The broker/dealers list will be reviewed and approved by the investment committee and the state board of finance semi-annually.
4. The list of approved broker/dealers will contain no fewer than nine (9) firms, at least four (4) of which are primary dealers.
5. To be considered, broker/dealers must meet the following criteria:
 - a. The firm must be a registered dealer pursuant to the Securities Act of New Mexico, Section 58-13-15 NMSA 1978;
 - b. The firm must be registered as a dealer under the Securities Exchange Act of 1934;
 - c. The firm and assigned broker must be registered with the national association of securities dealers (FINRA);
 - d. The firm and assigned broker must have been engaged in the fixed income security business for at least the past five (5) consecutive years;
 - e. The assigned broker must have a current FINRA Series 7 License; and
 - f. The firm and assigned broker must be approved by the investment committee.
6. Modifications to the broker/dealers list may be necessary. In order to facilitate investment activity, the state treasurer may recommend changes for final approval by the investment committee and for review and approval by the state board of finance at the next scheduled meeting.
7. The state treasurer, through a written letter, shall notify broker/dealer firms, that the state treasurer's office and the state board of finance has authority to follow up on specific bid or offer transactions and that broker/dealers must maintain bid or offer information for a period of up to three (3) years.
8. The state treasurer shall conduct a background search through the regulation and licensing department, securities division on each individual broker for criminal activity, regulatory actions by government agencies, and/or revocations or suspensions of license. In the event that such activities are reported in an individual broker's background search, the state treasurer shall notify the investment committee and the state board of finance at the time that broker is considered for approval. The state treasurer shall monitor each approved individual broker for continued compliance and annually repeat the background search from the time when the broker was approved.
9. An annual review of the financial condition and registration of broker/dealers will be conducted by the state treasurer.
10. No members or affiliates of any firm, including any of its brokers, dealers or traders, may contract with the state treasurer to provide investment advice or consultation to the state treasurer during the time the firm and any of its brokers, dealers, or traders are on the broker/dealers list.
11. For inclusion on the approved broker/dealer list, a firm and its assigned brokers, dealers or traders must provide in writing to the state treasurer's office:

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- a. A continuing certification that the broker/dealer firm and the assigned broker are familiar with and comply with all policies of the office of the state treasurer and state laws regarding ethics, disclosure and conflicts of interest, including, but not limited to, the state treasurer's office campaign contributions policy and the following statutes, as they may be amended from time to time: the Campaign Reporting Act, §§ 1-19-25 NMSA 1978 *et seq.*; the Governmental Conduct Act, §§ 10-16-1 NMSA 1978 *et seq.*; the Gift Act, §§ 10-16B-1, NMSA 1978 *et seq.*; and the Procurement Code, §§ 13-1-28 NMSA 1978 *et seq.*; and
- b. Disclosure of any campaign contributions totaling in the aggregate \$250 in the last two years made by the broker/dealer firm, any board member of the broker/dealer firm, the assigned broker, or any member of the assigned broker's family to the state treasurer, or to any employee of the state treasurer's office or any member of the state board of finance who is an elected official or campaigning for elected office. The state treasurer's office shall provide to each broker/dealer a form for the disclosure of such contributions.

XIII. REPORTING REQUIREMENTS

The state treasurer shall prepare and submit to the state board of finance a "monthly investment report".

A. The Report shall summarize the following:

1. a listing of the portfolio in terms of investment securities, balances, maturities, return and other features deemed relevant;
2. the book and market value of all holdings;
3. report of primary issues purchased and report of secondary issues purchased or sold;
4. report of all commissions paid in dollars on repurchase agreements and on each transaction where the commission is disclosed;
5. for each approved portfolio, returns on a monthly, quarterly, fiscal year-to-date and three-year basis versus approved benchmarks;
6. the total investment earnings by fund for the reporting period;
7. report of holdings of variable rate and structured notes;
8. the investment strategies employed during the period;
9. recent market conditions, economic developments and anticipated investment conditions;
10. any areas of policy concern warranting possible revisions of current or planned investment policies;
11. a projection of the state's short-term and long-term cash needs;
12. all transactions where there were fewer than three bids or offers;
13. all sale transactions resulting in a book loss;

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14. all transaction errors; and

15. all changed allocations.

- B.** The report shall include an appendix that discloses all transactions during the month. The monthly and annual investment reports submitted to the state board of finance shall contain sufficient information to permit the independent investment consultant hired pursuant to Section VI.P to evaluate the performance of the investment program.
- C.** The state treasurer's office shall also post the state treasurer's monthly reports to the state board of finance on the STO website.
- D.** Pursuant to Section 6-10-26 NMSA 1978, the state treasurer shall prepare and submit to the state board of finance for approval a quarterly investment program that describes the investment strategy employed during the past quarter and the strategy planned for the next quarter. In addition, this investment program report will specify asset allocation goals, average maturity targets and other portfolio guidelines designed to achieve stated investment goals and objectives.
- E.** At the next meeting after September 30 of each year, the state treasurer shall present an annual investment program report, in addition to the quarterly investment program report, to the state board of finance. The report shall include separate quarterly and annual comparisons of portfolio return to performance benchmarks for the preceding fiscal year and summarize the year's investment activity.

XIV. APPROVAL AND MODIFICATION OF POLICY

This investment policy will be effective upon approval by the state board of finance, in the exercise of its advice and consent, and may be revised from time to time upon recommendation of the state treasurer and approval by the state board of finance. A comprehensive review and approval process should be undertaken periodically at the discretion of the state treasurer or upon the recommendation of the state board of finance. This process should be undertaken at least every two (2) years and any proposed changes to the policy shall be submitted for public comment.