

## ***State Treasurer's Office Broker -Dealer List for FY17***

### **PRIMARY BROKER-DEALERS**

- 1 Jefferies LLC
- 2 Barclay's Capital
- 3 HSBC Securities USA Inc
- 4 TD Securities
- 5 Mizuho Securities USA Inc
- 6 Cantor Fitzgerald
- 7 RBC Capital Markets LLC
- 8 BMO Capital Markets Corp
- 9 Deutsche Bank Securities - DBSI
- 10 Citigroup Global Markers Inc
- 11 RBS Securities Inc
- 12 UBS Securities
- 13 Wells Fargo Securities LLC

### **SECONDARY BROKER-DEALERS**

- 1 Academy Securities
- 2 BB&T Capital Markets
- 3 BOSCO, Inc
- 4 CastleOak Securities, LP
- 5 Daiwa Capital Markets America Inc
- 6 Drexel Hamilton LLC
- 7 FTN Financial
- 8 Guggenheim Securities LLC
- 9 Hilltop Securities
- 10 ICBC Financial Services
- 11 INTL FCStone Financial Inc
- 12 KeyBanc Capital Markets
- 13 Lawson Financial Corp
- 14 Loop Capital Markets
- 15 MFR Securities Inc
- 16 Mitsubishi UFJ Securities
- 17 Mutual Securities
- 18 Raymond James & Associates INC
- 19 Robert W. Baird & Co
- 20 Samuel A. Ramirez & Co, Inc.
- 21 Stifel
- 22 Vining Sparks IBG, LP.



STATE OF NEW MEXICO  
OFFICE OF THE TREASURER

THE HONORABLE TIM EICHENBERG  
State Treasurer

SAMUEL K. COLLINS  
Deputy State Treasurer

Memorandum

Date: April 29, 2016  
To: Treasurer Eichenberg  
From: Charmaine Cook, Chief Investment Officer *C. Cook*  
CC: Sam Collins, Deputy Treasurer  
Subject: Broker-Dealer Application and Selection Process for FY17

Background

Prior to 2015, all broker-dealers who submitted applications and met the basic criteria identified in the State Treasurer's Office (STO) Investment Policy were added to the authorized broker-dealer list for the following fiscal year. This methodology aimed to implement a simple and equitable process for selecting authorized broker-dealers. While successful in meeting this objective, the process also led to burdensomely large coverage with 64 broker-dealers and 140 representatives vying for attention and trade activity. Additionally, a review of STO's transaction history demonstrated a large portion of STO's coverage had low or no trade activity.

New Process for FY16

A new methodology for creating the annual approved Broker-Dealer List was employed for Fiscal Year 2016. In an effort to streamline the dealer list and minimize unnecessary coverage STO, in consultation with its investment advisor Government Portfolio Advisors, revised its broker-dealer application process for fiscal year 2016. The new process was developed with following objectives:

- 1) To create and maintain relationships with as many primary dealers as possible in order to maximize access to initial offerings and highly liquid bonds such as treasuries and agencies;
- 2) To create and maintain relationships with secondary dealers who are highly active in the market segments in which STO actively invests.

The new approach was intended to provide maximum usefulness to STO, and, at the same time, minimize the demands on the portfolio managers' time from a larger community of dealers and representatives. The resulting Broker-Dealer List for 2015 – 2016 contained 36 firms.

### **Strategy for FY17**

In the third quarter of FY16, staff performed an internal review of the abbreviated broker-dealer list for FY16 and deemed the new approach to be productive and effective. We have followed the same guidelines for creating a broker-dealer list for FY17.

### **Selection Criteria**

#### ***Step 1: Basic Criteria Review***

Applications received have been vetted for the required qualifications set out in the STO Investment Policy dated May 20, 2014. Criteria:

- The broker-dealer must be a registered dealer pursuant to the New Mexico Uniform Securities Act
- The broker-dealer must be registered with the Financial Industry Regulatory Authority (FINRA)
- The broker-dealer must have a minimum of five years continuous employment history involving fixed income securities; and
- All assigned individuals who have direct contact with securities trading between the State Treasurer's office and the firm must have a FINRA Series 7 License or equivalent certification.

The FINRA Broker-Check website was used to verify that each dealer and their brokers met the criteria listed above. The FINRA reports also include disciplinary actions, criminal convictions, civil judgments and arbitration awards, as well as pending actions and allegations. Per discussions with the Securities Division at RLD last year, it was determined that additional background or criminal investigations on the broker-dealers would not be necessary.

#### ***Step 2: Primary Dealers***

All primary dealers who submit applications and meet the basic criteria qualifications have been placed on the Proposed Broker-Dealer list.

#### ***Step 3: Specialized Secondary Dealers***

Applications from secondary dealers meeting the basic criteria qualifications have been assessed according to the following questions:

- Do we currently have a Repurchase Agreement with the dealer?
- Has the dealer expressed an interest in establishing a repo contract with STO?
- For broker-dealers authorized for FY 15 and/or FY16, was there any trade activity? The s from the monthly STIC binders served as references.
- Is the secondary dealer active in the investment sectors utilized by STO?

- Are they actively making markets electronically on Bloomberg for treasuries, agencies and corporates? This would include Boom, FIT, and AllQ.
- Do they have sufficient balance sheet capacity to make bids and offers on securities they are willing to position or actually own?
- Or are they using other dealers' balance sheets to source product? And only able to make a secondary market if they have an actual buyer?
- Have they demonstrated the depth of coverage to offer compelling value for STO's buying and selling needs?
- Do they offer portfolio management resources such as market commentaries, third party research, and rating reports?

The following resources were used for quantitative measures:

- Summary of Broker Participation Report, STIC binders
- Bloomberg Global Fixed Income League Tables for 2015 and Q1-2016
  - US investment grade corporate bonds and US agency bonds
- Bloomberg Report for NM Municipal bonds for 2015 and Q1-2016.

The STO Portfolio Managers were interviewed by the CIO and each secondary dealer application was discussed.

#### ***Step 4: RLD Review***

As a final vetting process, the Proposed Broker-Dealer List for FY17 will be sent to the Securities Division of RLD to see if there were any active inquiries or investigations in process. Because the content on the FINRA website is maintained on a daily basis, the RLD is an extra safeguard, and we do not anticipate that any new information will be obtained.

#### **Recommendation, Approval and Consent for the FY17 List**

The Proposed Broker-Dealer List FY17 was presented to the STIC Committee at the April 13<sup>th</sup> meeting for review and consideration. At the following STIC meeting on May 11<sup>th</sup>, the STIC Committee will be asked to vote to recommend approval of the list by Treasurer Eichenberg. If the List is approved by the Treasurer, it will then be presented to the Board of Finance at the May 17<sup>th</sup> meeting for advice and consent.

#### **Broker-Dealer Notification**

Broker-Dealers will be notified by email that they have either been approved or that they were not selected for the list this year. Notifications are planned for the week of May 23<sup>rd</sup> – 27<sup>th</sup>, and the list will become effective on July 1, 2016.