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NEW MEXICO STATE TREASURER'S OFFICE

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New Mexico Local Government Investment Pool (LGIP)

# LGIP Participant Manual

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TREASURER

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# NEW MEXICO LOCAL GOVERNMENT INVESTMENT POOL

This Manual is intended to summarize current policies of the New Mexico State Treasurer's Office and is not intended to establish any policies. Only policies adopted by the State Treasurer's Office in accordance with statute and the State Treasurer's Investment Policy control the management of the New Mexico Local Government Investment Pool (LGIP). This Manual is not intended to and does not give rise to any additional rights or remedies and is not a contract. The State Treasurer's Office reserves the right to change, delete or amend any policy or procedure unilaterally and without notice.

New Mexico LGIP deposits are not guaranteed or insured by any bank, the state of New Mexico, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency. New Mexico LGIP deposits involve certain investment risks. Yield and total return may fluctuate and are not guaranteed.

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# LGIP Participant Manual

## New Mexico LGIP

The state of New Mexico's participating government investment fund, known as the New Mexico Local Government Investment Pool or the LGIP, is established under NMSA 1978, Section 6-10-10.1. The LGIP is a short-term investment fund, consisting of deposits from governmental entities and Indian tribes or pueblos. The authorizing statute offers eligible participating governments a voluntary investment option that is intended to safely generate market returns by utilizing the purchasing power of a large, pooled fund.

The LGIP is held in the custody of the State Treasurer, who invests the pooled funds as allowed under state statute with the advice and consent of the State Board of Finance. The fund is managed internally by the State Treasurer's professional portfolio managers. Investment activity and performance are reported monthly to the State Board of Finance and to the State Treasurer's Investment Committee, also known as STIC. STIC is composed of the State Treasurer, the Treasurer's Chief Investment Officer, the director of the State Board of Finance, and two public members from the investment community selected by the Treasurer and the State Board of Finance. The State Treasurer's monthly investment reports are posted regularly on the State Treasurer's Office (STO) website at [www.nmsto.gov](http://www.nmsto.gov)

## State Treasurer's Investment Authority and Policy

The scope of the State Treasurer's investment authority is defined by the applicable investment statutes and constitutional provisions, principally NMSA 1978, Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-14-10.1, as well as Article VIII, Section 4 of the New Mexico Constitution. Statutes specify the particular types of investments that may be made by the State Treasurer and establish certain prerequisites, limitations and other requirements related to those investments. Moreover, the State Treasurer may further limit or restrict those investments.

Section 6-10-10.1 establishes guidelines applicable to the investment of funds deposited in the LGIP. This statute requires that the portion of the LGIP invested in short-term investments be rated by a nationally

recognized statistical rating organization and maintain a rating of AA or higher. If the rating received by the LGIP is lower than AA, the State Treasurer shall immediately submit a plan to the State Board of Finance detailing the steps that will be taken to obtain a AA or higher rating. The LGIP adheres to all criteria relevant to its rating category and provides to the rating agency any key policy or staff changes.

In addition to applicable state statutes, the State Treasurer's Investment Policy governs the investment functions of the State Treasurer. The Investment Policy is approved by the State Board of Finance and sets forth investment guidelines for all STO investments. Pursuant to the Policy, all investments made by the STO adhere to the fundamental principles of safety, liquidity, and return in that order.

The Investment Policy further requires the STO to diversify its investment portfolios. Assets are 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 investment and diversification limitations are imposed on the LGIP to comply with the Investment Policy and to maintain the fund rating:

- Allowable investments include U.S. Government obligations, commercial paper (with credit ratings of A-1, P-1, F1, or better), corporate bonds (rated A+ or better), asset-backed obligations, repurchase agreements, variable rate notes, New Mexico municipal bonds, and money market funds registered with the Securities and Exchange Commission (SEC).
- Investments in commercial paper, corporate bonds and asset-backed obligations shall not exceed 40 percent of total LGIP assets.
- Investments in commercial paper or corporate bonds of any single issuer shall not exceed 5 percent of the total LGIP portfolio. Investment in U.S. Agency securities issued by any single issuer shall be limited to 33.33 percent of the total LGIP portfolio.
- Investment in a SEC-registered, AAA-rated money market fund shall not represent more than 5 percent of the total assets of that fund and no more than 25 percent of the LGIP portfolio.
- Investment in repurchase agreements with a single A-1 rated counterparty shall be limited to 25 percent of total pool assets. Flexible repurchase agreements are not allowable investments for the LGIP portfolio.

- The weighted average maturity, or WAM, of the portfolio shall be 60 days or less. Portfolio maturities are laddered to avoid undue concentration of assets in a specific maturity sector and to accommodate anticipated cash flow requirements.
- The portfolio shall maintain a minimum of 50 percent of total assets in A-1+ rated securities and a maximum of 50 percent in A-1 rated securities. Repurchase agreement counterparties must have a A-1 or better rating; money market funds used as investments must be AAA rated; commercial paper investments shall be rated A-1+.
- The State Treasurer's Investment Policy mandates that the Pool be invested to maintain a stable net asset value of \$1.00 per share. Should the portfolio experience a fluctuation in net asset value that drops below 0.9975 cents per share, the State Treasurer's Office is required by policy to notify the State Treasurer's Investment Committee.
- The final maturity of fixed-rate investments of the Pool shall not exceed 397 days, and the recorded maturity date of callable investments shall be the stated final maturity rather than the call date.
- The STO is required to procure or develop and maintain a shareholder accounting system for the Pool to account for deposits, withdrawals, and interest distributions. To meet this mandate, the STO has implemented the QED Information System, which is an investment accounting and tracking software application.
- Income is equal to accrued interest, plus or minus realized gains or losses, less an administrative fee. The administrative fee is recognized as revenue to the State General Fund. Section 6-10-10.1 directs the State Treasurer to use the administrative fee for the administration and management of the LGIP subject to appropriation by the state legislature.

## Participation in the LGIP

Section 6-10-10.1, NMSA 1978 allows eligible participating governments to make deposits in the LGIP with the approval of their governing bodies. Eligible participants include, but are not limited to, school districts, post-secondary educational institutions, special purpose districts, cities and counties, and Indian tribes and pueblos.

## Investment of Pool Funds

The scope of the State Treasurer's investment authority is defined by the applicable investment statutes and constitutional provisions, principally NMSA 1978, Sections 6-10-10, 6-10-25, 6-10-26, 6-10-37, 6-10-44 and 6-14-10.1, as well as Article VIII, Section 4 of the New Mexico Constitution. Statutes specify the particular types of investments that may be made by the State Treasurer and establish certain prerequisites, limitations and other requirements related to those investments. Moreover, the State Treasurer may further limit or restrict those investments. Section 6-10-10.1 establishes guidelines applicable to the investment of funds deposited in the LGIP.

## Management of Investment of Funds

The State Treasurer's Office Local Government Investment Pool Bureau manages the investments, tracks participant activity, and computes and distributes participant investment earnings. Investment earnings are based upon a participant's account balance and the average term that a deposit is held in the Pool. Professional investment portfolio managers coordinate and execute investment trades utilizing online trading platforms, Bloomberg and TradeWeb in compliance with the State Treasurer's Investment Policy.

## Interest on Investment

The Local Government Investment Pool Bureau provides daily an interest rate that estimates the daily return on LGIP deposits along with informational current rates for short-term investments offered by the

U.S. Treasury. The daily rate may be obtained by calling the STO at (505) 955-1171 or visiting the STO website at [www.nmsto.gov](http://www.nmsto.gov). Interest income is distributed monthly via automated clearing house (ACH) transaction or is reinvested no later than the fifth working day of the following month. Monthly income shall be equal to accrued interest, plus or minus realized gains or losses, less an administrative fee. The actual interest rate is a blended yield of the investment holdings determined at the end of the accounting period (month end). Interest is earned on the business day of deposit, once a deposit is verified to have been received into the LGIP bank account and has met all deposit requirements set forth by the LGIP Bureau. Once a withdrawal is processed the amount withdrawn no longer receives interest on said amount on the date of withdrawal.

## Net Asset Value

The State Treasurer's Investment Policy mandates that the LGIP be invested to maintain a stable net asset value of \$1.00 per share. Should

the portfolio experience a fluctuation in net asset value that drops below 0.9975 cents per share, the State Treasurer's Office is required by policy to notify the State Treasurer's Investment Committee. The LGIP is designed and managed to maintain a net asset value of \$1.00 and allows for investment of funds that may be needed by participants at any time.

## Separation of Participant Money from Other Public Money in the Investment Pool

Participating governments' invested funds are pooled for investment purposes but are accounted for and reported separately, as required by statute. All interest earned from investment of LGIP assets is distributed to a participant in an amount directly proportionate to their respective amount on deposit in the Pool and the length of time the amount on deposit is invested.

## Cost of Participation in the Pool

By law, the STO may charge a fee to participants in the LGIP. A nominal fee is assessed at the end of each month for administrative expenses and services necessary to operate the pool. The fee is assessed based on the average daily balance of the participant balance.

## Steps to Become a Participant

An eligible governing body must, by resolution, authorize participation in the LGIP. A copy of the resolution, an application form, and a certificate with signatures of persons authorized to conduct transactions are forwarded to the STO. Upon receipt of the completed documents, STO accepts a deposit into the LGIP. LGIP participant forms are available on the STO website at [www.nmsto.gov](http://www.nmsto.gov).

Before the funds of an eligible governing body may be invested or reinvested in the LGIP, it is the responsibility of the eligible governing body to comply with NMSA 1978, 6-10-36, if applicable, and any other statutes or policies that may apply to the eligible governing body.

## Risk

All investments purchased for the LGIP have a credit rating of A or better to ensure the highest level of safety. All U.S. Government securities are rated AAA and commercial paper qualifying for investment is rated A-1+. The STO is required by law to have overnight repurchase agreements secured at 102 percent by U.S. Treasury and Agency securities. Additionally, the LGIP requires that repurchase counterparties



be rated A-1 or better.

New Mexico LGIP deposits are not guaranteed or insured by any bank, the State of New Mexico, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency. New Mexico LGIP deposits involve certain investment risks. Yield and total return may fluctuate and are not guaranteed. Prior to making investment decisions, participants should consider market risk, interest rate risk, and credit risk in determining whether an investment is appropriate.

A detailed description of risk reportable under GASB Statement No. 40 is available to download from the STO website at [www.nmsto.gov](http://www.nmsto.gov), at the "New Mexico LGIP" tab and the "GASB 40 Disclosure" subtab.

## Custodian for New Mexico LGIP

The state's fiscal agent bank contracts with a third-party custodian to hold all purchased securities along with the required pledged collateral on the overnight repurchase agreements.

## Ratings

Section 6-10-10.1 requires the portion of the LGIP invested in short-term investments be rated by a nationally recognized statistical rating organization and maintain a rating of AA or higher. If the rating received by the LGIP is lower than AA, the State Treasurer shall immediately submit a plan to the State Board of Finance detailing the steps that will be taken to obtain a AA or higher rating.

The ongoing rating process involves a review of the STO's internal controls, investment policies and procedures, portfolio inventory, and the fund manager's experience. The New Mexico LGIP is rated AAAM. The LGIP adheres to all criteria relevant to its rating category and provides to the rating agency any key policy or staff changes.

## Independent Auditor

The STO is subject to annual review and audit by an independent auditor and the New Mexico State Auditor. The annual audit reports for the fiscal years ended June 30, 2011, through June 30, 2014 are downloadable from the STO website at [www.nmsto.gov](http://www.nmsto.gov).

## Availability of Participant Funds

When depositing money in excess of \$20 million into the LGIP, participants must notify the LGIP bureau of the length of time the deposit will be in the Pool. Participant funds of amounts less than \$30 million may be withdrawn the business day following notification to the

STO. Withdrawal requests between \$30 million and \$60 million require notification of two business days. Withdrawals between \$60 million and \$100 million requires notification of five business days. Withdrawals in excess of \$100,000 requires notification of ten business days. Only those persons authorized on a participant's LGIP application shall conduct transactions for a participant's account. All forms associated with participant deposits or withdrawals are available on the STO website at [www.nmsto.gov](http://www.nmsto.gov).

The following procedures must be followed in order for participants to deposit or withdraw funds from the LGIP portfolio.

Notification of the intent to submit a transaction form must be provided to STO via phone, email, or fax.

Contribution and withdrawal forms must be completed, signed by the authorized person, and sent to STO via fax or email.

Participants are responsible for providing accurate banking instructions to the LGIP Bureau. Participants are also responsible for updating account information a minimum of once a year. Participants should also ensure that their contact information is updated as necessary.

### Contributions

Once a participant provides the proper documentation to LGIP, the participant must contact their respective financial institution to implement the transaction. When the STO receives funds from the participant's financial institution, a deposit is made into the LGIP bank account. The transaction is then entered into the participant's LGIP account and the funds are available for withdrawal.

### Withdrawals

Once a participant provides the proper documentation of a withdrawal to the LGIP Bureau, the request will be reviewed for acceptance by the LGIP Accountant. Upon acceptance, the LGIP Accountant will process the request through the LGIP Financial system.

The LGIP Bureau will transfer funds based on the banking information provided to the LGIP Bureau. All of the following withdrawal guidelines must be followed by LGIP participants:

## Withdrawal Guidelines

- Amounts less than \$30 million may be withdrawn within 24 hours of notice to the STO;
- Amounts of \$30 million to \$60 million require notice of 2 business days to the STO;
- Amounts of \$60 million to \$100 million require notice of 5 business days to the STO.
- Amounts in excess of \$100 million requires notification of 10 business days to the STO.

Funds are withdrawn from the Pool one business day prior to transfer to maintain the liquidity of the Pool for all participants.

With prior approval by the LGIP Bureau Chief or a designee, participant withdrawals made within the 24-hour limitation will be treated as an emergency withdrawal. Participants will be charged an emergency withdrawal fee to cover the cost of the emergency wire. Emergency withdrawal requests must follow the withdrawal procedure outlined above and must include a letter explaining the emergency. The LGIP Bureau reserves the right to decline any emergency withdrawals.

## Stability Protection

Notwithstanding the withdrawal guidelines, the STO reserves the right to limit participant withdrawals if the State Treasurer determines that doing so is required to ensure the stability of the LGIP.

## STO Contact Information:

- LGIP Bureau Fax: (505) 955-1182
- LGIP Email: nmsto.lgip@state.nm.us
- Victoria Hutchison, LGIP Participant Coordinator  
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Email: Victoria.Hutchison@state.nm.us
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