

*State of New Mexico
Office of the State Treasurer*



*Local Government Investment Pool
Investment Policy*

May 20, 2014

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New Mexico State Treasurer

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I. Statement of Purpose/Statutory Authority:

The purpose of this investment policy is to provide guidance governing the investment functions of the State Treasurer's Office with regard to the Local Government Investment Pool ("LGIP").

The office of the State Treasurer is established by Article V, Section 1 of the New Mexico Constitution. The duties and responsibilities of the State Treasurer are further defined by Chapters 6 and 8 of the New Mexico Statutes.

Specific authority concerning the investment of the LGIP can be found at NMSA 1978, §6-10-10 and §6-10-10.1.

The State Treasurer's Office will submit this LGIP Investment Policy on behalf of the State Treasurer, to the State Board of Finance (Board) pursuant to its advice and consent role established at NMSA 1978, §6-10-10.

II. Definitions:

Authorized Investment Officers	Those individuals and third-party entities authorized by the State Treasurer to invest monies on behalf of the State of New Mexico.												
Custodian	A specialized financial institution, approved by the Board, responsible for the safekeeping of assets. The assets may be in electronic or physical form. Some additional responsibilities may include facilitating securities settlements and the collection of income on assets held in safekeeping.												
Duration	A measure of the sensitivity of an underlying security, or portfolio, to changes in interest rates.												
DVP	Delivery Versus Payment, a method of securities settlement where securities are simultaneously exchanged for payment.												
Fiscal Agent Bank	A bank or savings and loan association designated by the Board pursuant to NMSA 1978, §6-10-35, acting on behalf of the State of New Mexico, to perform various financial functions that include the collection for the State of New Mexico of all checks and other items received by the State of New Mexico and handling of the checking account of the State Treasurer. Monies held at the Fiscal Agent Bank are managed to a target balance after payment of checks, warrants, ACH volume and wire transfers processed by the State.												
Investment Grade Ratings	A rating within any of the following rating categories: <table border="1"><thead><tr><th><u>Rating Agency</u></th><th><u>Long-Term</u></th><th><u>Short-Term</u></th></tr></thead><tbody><tr><td>Standard & Poor's</td><td>A to AAA</td><td>A-1</td></tr><tr><td>Fitch</td><td>A to AAA</td><td>F1</td></tr><tr><td>Moody's</td><td>A3 to Aaa</td><td>P-1</td></tr></tbody></table>	<u>Rating Agency</u>	<u>Long-Term</u>	<u>Short-Term</u>	Standard & Poor's	A to AAA	A-1	Fitch	A to AAA	F1	Moody's	A3 to Aaa	P-1
<u>Rating Agency</u>	<u>Long-Term</u>	<u>Short-Term</u>											
Standard & Poor's	A to AAA	A-1											
Fitch	A to AAA	F1											
Moody's	A3 to Aaa	P-1											
Maturity Date	The date on which the principal amount of a debt instrument becomes due and is repaid to the investor, along with all remaining interest.												
WAM	Weighted Average Maturity. For a given portfolio, the average maturity of investment holdings weighted by the relative size of each position.												

III. Identification of Funds:

This Investment Policy applies only to the investment of the LGIP managed by the State Treasurer. The LGIP is a fund created by the New Mexico State Legislature to allow municipal, county, tribal and quasi-governmental bodies to remit money to the state treasurer to receive professional money management on a pooled basis.¹

IV. Objectives:

The LGIP will be invested in a manner that is in conformance with federal, state and other legal requirements.

In addition, the Authorized Investment Officers will observe the following priorities in making investment decisions, in the order described:

1. **Safety** – the first priority is the preservation and protection of the principal of the funds to be invested;
2. **Maintenance of Liquidity Needs** – the second priority is maintaining sufficient availability of cash, or the capacity to obtain it without sacrificing principal loss, in order to satisfy the reasonably anticipated, continuing operational requirements of the LGIP; and
3. **Maximum Return on Investments** – the third priority is maximizing investment return, consistent with the higher priorities accorded to the safety and liquidity of principal.

By statute, the LGIP is managed to an “AA” rating or better. The Chief Investment Officer and Authorized Investment Officers will comply with all rating agency criteria in order to maintain the LGIP’s statutory rating requirement.

The LGIP shall be invested with the objective of preserving a stable net asset value (NAV) of \$1.00 per share.

V. Standards of Care:

A. Delegation by the State Treasurer of Investment Authority

NMSA 1978, §6-10-10 allows for the State Treasurer to invest money held in demand deposits and not immediately needed for the operation of state government and also invest in certain other allowable securities and contracts.

To ensure effective investment management of public funds, the State Treasurer has delegated investment functions to an Investment Division reporting to the Deputy Treasurer. The Investment Division includes a Chief Investment Officer and Authorized Investment Officers. Authorized Investment Officers will report to the Chief Investment Officer and the Chief Investment Officer will report to the Deputy Treasurer. The Chief Investment Officer will maintain a current list of Authorized Investment Officers.

In addition to specific investment responsibilities, the Investment Division also tracks investments, provides securities settlement and cash transfer support and manages the collateral process for the depository relationships by entities within the state. The Investment Division also provides accounting support to the State Treasurer’s Office, including ongoing reconciliation of investment positions with the custody bank and internal and statewide accounting systems.

¹ Local Government Investment Pool, NMSA 1978, Section 6-10-10.1.

B. Ethics and Conflict of Interest

The Deputy Treasurer, Chief Investment Officer and Authorized Investment Officers shall adhere to standards of conduct as follows:

- The Governmental Conduct Act, NMSA §§ 10-16-1 through 10-16-18;
- The State Treasurer's Employee Code of Conduct²;
- The State Treasurer's Campaign Contributions Policy;
- The State Treasurer's Whistle Blower Policy;
- The Gift Act, NMSA 1978 §§10-16B-1 through 10-16B-4; and
- The Procurement Code, NMSA 1878 §§ 13-1-28 through 13-1-199.

All Authorized Investment Officers shall file personal disclosure forms as required by the Governmental Conduct Act and the State Treasurer's Code of Conduct.

C. Prudence

The Chief Investment Officer and Authorized Investment Officers shall perform investment duties in a manner consistent with this LGIP Investment Policy and the standard of a prudent investor³ in light of the purposes, terms, distribution requirements and other circumstances then prevailing as to the assets entrusted to them.

In the process of investing funds in the investment of the LGIP, the Chief Investment Officer and Authorized Investment Officers will exercise reasonable care, skill, diligence and prudence considering investments not in isolation, but in the context of the portfolio as a whole and of part of an overall investment strategy. That strategy shall incorporate the risk and return objectives articulated in this LGIP Investment Policy.

The Chief Investment Officer and Authorized Investment Officers, acting in accordance with New Mexico Statutes, written procedures, this LGIP Investment Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. Controls:

A. Custody

All investment securities purchased by the Authorized Investment Officers, held as collateral on repurchase agreements and bank deposits or held as collateral on securities lending arrangements shall be held in third-party safekeeping at a financial institution 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 NMSA 1978, Section 6-10-10(O), which requires same day transfer and settlement of securities.

The Custodian will provide reports that list all transactions that occurred within the LGIP during the month and all securities held for the State Treasurer at month-end including the book and market value of holdings.

² As required by NMSA 1978, §10-16-11.

³ Uniform Prudent Investor Act; NMSA 1978 §§45-7-601 through 45-7-612

The 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 amounts required by the Board under a custody agreement to protect from losses, from malfeasance and misfeasance.

B. Approved Broker-Dealers

The Chief Investment Officer will maintain a list of broker-dealers approved to provide investment services to the LGIP specifically and the state generally. Approved broker-dealers will be limited to those who meet all of the following conditions:

- Broker-dealer refers to the firm and individual employees of these firms that has direct contact with the State Treasurer's office;
- The broker-dealer must be a registered dealer pursuant to the New Mexico Uniform Securities Act⁴;
- The broker-dealer must be registered with the financial industry regulatory authority (FINRA);
- The broker-dealer must have a minimum of five (5) 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 Broker Dealer list will be submitted to the State Treasurer's Investment Committee for recommendation and will be approved by the State Treasurer. The list will be submitted to the Board for its advice and consent.

C. Authorized Financial Institutions and Other Investment Counterparties

The Chief Investment Officer will maintain a list of financial institutions and investment counterparties authorized to provide investment services to the LGIP specifically and the state generally. Authorized financial institutions and investment counterparties will be limited to those who meet any of the following conditions:

- Certified or designated bank, savings and loan associations or credit unions eligible to receive public money on deposit in New Mexico; or
- Direct issuers of eligible investments; or
- Eligible counterparties identified under the terms of a securities lending agreement.

D. Competitive Transactions

Authorized Investment Officers will conduct all securities transactions in a fair, open and transparent competitive process.

- All securities transactions shall be executed at the highest bid or lowest offer to the state.
- Three bids or offers will be obtained for all securities. If three bids or offers are unobtainable, documentation of comparable securities levels or market comparisons will be obtained and will be retained, in order to ensure records evidencing price transparency and competitive levels.

⁴ New Mexico Uniform Securities Act, NMSA 1978, §§58-13C-101 through 58-13C-701 (2009) and NMAC 12.11.2

- Offers or bids for securities may be received from approved broker-dealers or direct issuers by any of the following means:
 - By phone; or
 - By e-mail or other form of electronic communication; or
 - Through an electronic trading platform; or
 - Directly from issuers of eligible investments.

E. Internal Controls

The Chief Investment Officer will maintain sufficient internal controls to protect against the loss of public funds arising from negligence, theft, or misuse. These controls will require the CIO to:

- Communicate regularly with the Deputy Treasurer regarding investment activities, including any significant changes in market value or credit quality of investment positions;
- Require monthly reconciliation of internal investment accounting and reporting to all external statements provided by the custodian and other financial institutions;
- Monitor compliance with applicable state statutes;
- Require Delivery Versus Payment (DVP) security settlement except for physical securities;
- Maintain clear delegation of investment authority;
- Ensure the separation of investing authority from cash activities and record-keeping;
- Ensure that all deposits are sufficiently collateralized per Board Collateral Policy, 2.60.4 NMAC;
- Require the use of approved objective criteria in selecting broker-dealers and financial institutions authorized to provide investment services to the state;
- Maintain an investment procedures manual;
- Report violations of this policy to the State Treasurer in a timely manner;
- Require the use of agency approved objective criteria in awarding investment purchases and sales to authorized financial institutions and broker-dealers.
- Ensure assets are valued by marking holdings to current market prices, thereby representing the full liquidation value of the LGIP;
- Ensure the NAV per share is computed by dividing the total market value of the LGIP's investments, less any liabilities, by the total outstanding shares of the LGIP; and,
- If the market-based NAV deviates from the \$1.00 NAV by more than 0.15% (\$0.0015; equating to less than \$0.9985 or more than \$1.0015), the Chief Investment Officer shall notify the Deputy Treasurer, in conjunction with investment staff, to determine what, if any, actions need to be taken.

F. External Controls

- The State Treasurer's Office will retain all records related to LGIP investment activities pursuant to state law.
- As prescribed by the Audit Act⁵, the State Auditor or designated independent auditor will review the investment activities of the State Treasurer's office with

⁵ Audit Act, NMSA 1978, Sections 12-6-1 to-14 (1969, as amended through 2013).

regard to the LGIP to determine the compliance of those activities with this LGIP Investment Policy and state statutes.

- The market value of all funds held by the custodian will be calculated monthly and provided to the State Treasurer.

G. State Treasurer's Investment Committee

The State Treasurer may establish the State Treasurer's Investment Committee; an advisory committee to review investment reporting and any other matters of the State Treasurer's choosing. In the event the State Treasurer does not establish the State Treasurer's Investment Committee, the Board President may establish an advisory committee to review investment reporting and any other matters relating to the Board's advice and consent authority. Both the State Treasurer's Investment Committee and any advisory committee established by the Board pursuant to this paragraph are hereafter referred to as the "STIC" or "Investment Committee."

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 Board, 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 Board and one member will be appointed by the Board and approved by the State Treasurer. Each private sector member shall serve at the pleasure of the State Treasurer or the Board 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 two (2) year terms. Any vacancy created by a private sector member shall be filled in the same manner as original appointments.

VII. Eligible and Ineligible Investments:

A. Eligible Investments

Eligible Investments are only those securities and deposits specifically authorized by statute. Consistent with NMSA 1978 §6-10-10 and 6-10-10.1, the authorized investment officers may invest in the following:

- Cash at Banks, Savings and Loan Associations or Credit Unions whose deposits are insured by an agency of the United States;
- Securities issued by the United States government;
- Securities issued or guaranteed by United States government agencies or instrumentalities including mortgage obligations;
- Repurchase Agreements, subject to restrictions contained in Section VII, paragraph C of this LGIP Investment Policy;
- Securities Lending Arrangements;
- Commercial Paper rated "prime" quality by a nationally recognized rating service, and issued by corporations that are organized and operating in the United States;
- Corporate Bonds rated "A" or better by a nationally recognized rating service, and issued by corporations that are organized and operating in the United States;

- Asset-Backed Obligations rated “AAA” or better by a nationally recognized rating service, and with a maturity of less than 5 years;
- Shares of an open-ended diversified investment company that is registered with the United States Securities and Exchange Commission; comply 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; assess 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; and that do not use swap and derivative products;
- Individual, common or collective trust funds of banks or trust companies that are invested only in United States Government and Agency obligations and repurchase agreements secured by such obligations; has assets under management of at least one billion dollars (\$1,000,000,000); that do not use swap and derivative products; and the investments made by the state treasurer are less than five percent (5%) of the assets of the fund.
- Securities issued by the State of New Mexico, its agencies, institutions, counties, municipalities, school districts, community college districts or other subdivisions of the state, or as otherwise provided by law; or
- Securities issued by states other than New Mexico or governmental entities in states other than New Mexico.

B. Ineligible Investments

To provide for the safety and liquidity of funds, the Local Government Investment Pool is specifically prohibited from investing in:

- Short Sales
- Whole Loan Mortgage Obligations
- Reverse Repurchase Agreements, except under a securities lending arrangement
- Inverse Floating Rate Notes
- Equity Securities
- Swaps and Derivatives

C. Repurchase Agreements

Repurchase Agreements are subject to additional restrictions:

- Transactions will be conducted only with approved dealers, the Fiscal Agent Bank, approved counterparties under a securities lending arrangement, or the master custodial bank, and under the terms of written master repurchase agreement or securities lending arrangement;
- Counterparties will have an Investment Grade Rating as provided in this policy;
- Transactions with any single counterparty will not exceed 35% of the portfolio;
- The maximum term of any repurchase agreement will be 1 year;
- Tri-Party Repurchase Agreement transactions may be entered into with a contracted custodial bank for this purpose, as long as all securities meet the requirements within this policy.

Securities accepted as collateral for repurchase agreements will be subject to the following additional restrictions:

- Securities placed as collateral for repurchase agreements, with maturity under 10 years, will be priced at 102% of market value, plus accrued income;
- Securities with a final maturity of 10 years or greater placed as collateral for repurchase agreements will be priced at 103% of market value, plus accrued income;
- Agency mortgage-backed securities placed as collateral for term repurchase agreements with a maturity longer than seven days will be priced at 105% of market value, plus accrued income;
- Term repurchase agreements with a maturity date that is longer than seven days are required to have daily pricing of collateral; and
- Only treasury and agency securities will be utilized as collateral for repurchase agreements.

VIII. Investment Parameters:

To provide for the safety and liquidity of funds, the investment of the LGIP will be subject to the restrictions listed below. These represent minimum investment restrictions under this LGIP Investment Policy and there may be separate procedures containing additional, more restrictive limitations for certain investment instruments. All restrictions are based on a settlement date basis.

Maximum percentages for a particular issuer, investment type or liquidity constraints may on occasion be exceeded due to unforeseen circumstances (e.g., due to fluctuations in fund balances). Exceptions will be reported to the Treasurer, the State Treasurer’s Investment Committee and the Board monthly.

A. Diversification

The following diversification limits shall apply to each portfolio:

<i>Allowable Securities</i>	<i>Diversification Limits</i>	<i>Further Limitations</i>
US Treasury Obligations	100%	
US Agency Obligations	100%	Per Issuer: 33%
US Agency Issued Mortgage Securities	25%	
Bank Demand Deposits		Per Issuer:
A1+ or F1+ - 1 Day	100%	50%
A1 or P1 or F1 - 1 Day	100%	25%
A1 or P1 or F1 - 2 to 5 Days	100%	10%
A1 or P1 or F1 - 6 Days +	100%	5%
Certificates of Deposit	25%	Per CD Issuer: 5%
Commercial Paper	20%	Per Issuer: 5%
Corporate Bonds	20%	Per Issuer: 5%
Asset Backed Obligations	40%	Per Issuer: 5%
Commercial Paper, Corporate Bonds, Medium Term Notes, and Asset Backed Obligations (<i>in aggregate</i>)	40%	Per Issuer: 5%
Open Ended 2a-7 Rated Fund	100%	Per Fund: 10%
Municipal Securities	15%	Per Issuer: 5%
Repurchase Agreements		Per Counterparty:
A1+ or F1+ - 1 Day	100%	35%
A1 or P1 or F1 - 1 Day	100%	25%
A1 or P1 or F1 - 2-5 Days	100%	10%
A1 or P1 or F1 - 6 Days +	100%	5%
Variable Rate Obligations	25%	Per Issuer:
US Treasury and GSE		25%
All Other		5%
Limited/Illiquid Securities	10%	See Above

B. Maturity Restrictions

The following maturity limits shall apply to each portfolio:

<i>Allowable Securities</i>	<i>Maturity Limits</i>
All Securities	397 Days
Commercial Paper	270 Days
Variable Rate Obligations	
US Treasury and GSE	762 Days
All Other	397 Days

C. Portfolio Duration

The Chief Investment Officer and Authorized Investment Officers will manage the LGIP to the approved benchmark duration in order to approximate short-term market returns. Benchmarks will be reviewed by the State Treasurer’s Investment Committee for recommendation and will be approved by the State Treasurer. A report will be provided to the Board on an annual basis.

D. Credit Quality

The following issuer credit rating limits shall apply for the LGIP:

<i>Investment Type</i>	<i>Credit</i>	
	<i>Short-Term</i>	<i>Long-Term</i>
US Treasury Obligations		
US Agency Obligations		
US Agency Issued Mortgage Securities		
Supranational Obligations	A1+ or P1 or F1+	AAA
Bank Demand Deposits	A1or P1 or F1	A
Bank Certificates of Deposit	A1 or P1 or F1	A
Asset-Backed Obligations	A1+ or P1 or F1+	AAA
Commercial Paper	A1or P1 or F1	A
Corporate Bonds	A1or P1 or F1	A
Open-Ended 2a-7 rated fund	AAAm	
Municipal Securities	A1 or MIG1 or F1	A
Repurchase Agreements	A1 or P1 or F1	A
Variable Rate Obligations		
US Treasury and GSE		
All other	A1 or P1 or F1	A
Limited/Illiquid Securities	A1 or P1 or F1	A

IX. Reporting:

The Chief Investment Officer shall prepare a monthly investment report for the State Treasurer. For purposes of reporting, the LGIP Report may be combined with the reports of other assets under the management of the State Treasurer pursuant to the State Treasurer’s Investment Policy.

An executive summary will be prepared in a manner that will allow the State Treasurer to ascertain whether investment activities during the reporting period are in compliance with this LGIP Investment Policy, the State Treasurer’s Investment Policy and New Mexico statutes.

The Chief Investment Officer will submit and present the monthly investment report, on behalf of the State Treasurer, to the Board and will post the report on the State Treasurer's website and otherwise make it available to the public.

A. Specific Reporting Requirements:

The report will include, at a minimum, the following:

- An asset listing showing par value, cost, market value, type of investment, issuer, and interest rate of securities held;
- The total market value and amortized cost of all pool assets and the average 30-day yield, as of month-end;
- WAM to Reset ("WAM (R)"), and WAM to Final, ("WAM (F)"), of the LGIP compared to the maximums allowable per the appropriate rating agency;
- WAM and effective duration of the portfolio compared to applicable approved benchmarks;
- Average portfolio credit quality;
- Total rate of return for the LGIP for the last one month, three months, and twelve months with applicable approved benchmark returns for the same periods;
- Sensitivity or Shock analysis;
- Transaction listing of the LGIP for the reporting period;
- A report of primary issues purchased and report of secondary issues purchased or sold;
- Transaction summaries for the reporting period and fiscal-year-to-date that include trade volumes, distributions by type of investment and counterparty; and
- LGIP Investment compliance review.

B. Performance Standards

- The LGIP will be structured to obtain a market average rate of return taking into account investment risk constraints and cash flow needs.
- The LGIP will be compared to an approved benchmark that appropriately models an expected risk and return profile.

C. Quarterly Reporting

On a quarterly basis, the Chief Investment Officer shall prepare a quarterly investment report that describes the investment strategy for the LGIP employed during the past quarter and the strategy planned for the next quarter. Information will be reported to the State Treasurer's Investment Committee and to the Board.

D. Annual Reporting

At the next regular State Treasurer's Investment Committee meeting after September 30 of each year, the Chief Investment Officer shall present an annual investment report on the LGIP that describes the investment strategy employed during the past year and the strategy planned for the next fiscal year. The report shall include annual comparisons of portfolio return to performance benchmarks for the preceding fiscal year.

X. Approval:

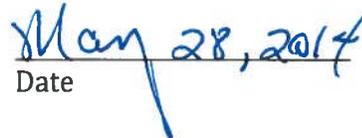
New Mexico State Treasurer's Office:


James B. Lewis
New Mexico State Treasurer


Date

By affixing the signature below, the State Board of Finance hereby exercises its advice and consent pursuant to NMSA 1978, §6-10-10.


President, State Board of Finance


Date