

*State of New Mexico
Office of the State Treasurer*



*Local Government Investment Pool
Investment Policy*

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New Mexico State Treasurer

Table of Contents

I.	Statement of Purpose/Statutory Authority:.....	3
II.	Definitions:.....	3
III.	Identification of Funds:	4
IV.	Objectives:.....	4
V.	Standards of Care:.....	4
A.	Delegation by the State Treasurer of Investment Authority.....	4
B.	Ethics and Conflict of Interest.....	4
C.	Prudence	5
VI.	Controls:.....	5
A.	Custody	5
B.	Approved Broker-Dealers and Counterparties.....	5
C.	Competitive Transactions.....	6
D.	Internal Controls	6
E.	External Controls	7
F.	State Treasurer’s Investment Committee.....	7
VII.	Eligible and Ineligible Investments:.....	8
A.	Eligible Investments	8
B.	Ineligible Investments	9
C.	Repurchase Agreements	9
VIII.	Investment Parameters:.....	9
A.	Diversification.....	10
B.	Maturity Restrictions	11
C.	Portfolio Duration.....	11
D.	Credit Quality	11
IX.	Reporting:	11
A.	Specific Reporting Requirements:.....	12
B.	Performance Standards.....	12
C.	Quarterly Reporting	12
D.	Annual Reporting.....	12
X.	Approval:.....	13

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 (STO) with regard to the Local Government Investment Pool ("LGIP").

STO 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.

STO will submit this LGIP Investment Policy on behalf of the State Treasurer, to the State Board of Finance 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 State Board of Finance, 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 price 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 State Board of Finance pursuant to NMSA 1978, §6-10-35, acting on behalf of the State of New Mexico, to perform various financial functions. Fiscal agent bank functions include the collection of all monies received by the State of New Mexico and the management of STO's checking account. 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 agencies: <table><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>A2 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	A2 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	A2 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.

The Chief Investment Officer (CIO) and Authorized Investment Officers (AIOs) will observe the following priorities in making investment decisions, in the order described:

1. **Safety** – the first priority is the preservation of the principal of the funds to be invested;
2. **Liquidity** – 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. **Return**– 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, §6-10-10.1 allows for the creation of the Local Government Investment Pool within STO to invest money deposited by participating governments. The State Treasurer shall invest the Local Government Investment Pool as provided in NMSA 1978, §6-10-10.

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 CIO and AIOs. AIOs will report to the CIO and the CIO will report to the Deputy Treasurer. The CIO will maintain a current list of Authorized Investment Officers.

B. Ethics and Conflict of Interest

The Deputy Treasurer, CIO and AIOs 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 Whistleblower Policy;
- The Gift Act, NMSA 1978 §§10-16B-1 through 10-16B-4; and

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

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

- The Procurement Code, NMSA 1978 §§13-1-28 through 13-1-199.

The CIO and AIOs shall file personal disclosure forms as required by the Governmental Conduct Act and the State Treasurer's Code of Conduct.

C. Prudence

The Deputy Treasurer, CIO and AIOs 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 CIO and AIOs will exercise reasonable care, skill, diligence and prudence considering investments not in isolation, but in the context of the portfolio as a whole and as part of an overall investment strategy. That strategy shall incorporate the risk and return objectives articulated in this LGIP Investment Policy.

The CIO and AIOs, 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 CIO and AIOs, 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 LGIP will be free and clear of any lien and all transactions will be conducted in compliance with NMSA 1978, §6-10-10(O), which requires same day transfer of funds with the 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 LGIP at month-end including the book and market value of holdings.

The representatives of the Custodian responsible for, or in any manner involved with, the safekeeping and custody process of the LGIP shall be bonded in amounts required by the State Board of Finance under a custody agreement to protect from losses due to malfeasance and misfeasance.

B. Approved Broker-Dealers and Counterparties

To ensure the proper separation of duties from the investment functions, the State Cash Manager shall maintain a list of broker-dealers and counterparties approved to provide investment services to the LGIP specifically and the state generally. Eligible broker-dealers will need to meet all of the following conditions:

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

- The broker-dealer and its representatives must be registered pursuant to the New Mexico Uniform Securities Act⁴;
- The broker-dealer must be registered with the Financial Industry Regulatory Authority (FINRA);
- All broker-dealer representatives who have direct contact with securities trading between STO and the firm must have a FINRA Series 7 License, or equivalent certification.
- The broker-dealer representatives must have a minimum of five (5) years continuous employment history involving fixed income securities; and
- Counterparties must operate under the terms of a securities lending or repurchase agreement.

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 State Board of Finance for its advice and consent.

C. Competitive Transactions

The CIO and AIOs 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 STO, subject to diversification constraints;
- Every effort to obtain at least three bids or offers on a specific security will be conducted. If unobtainable, documentation of comparable securities accompanied by current market levels will be retained, to provide evidence of price transparency and trade execution at competitive levels.
- 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.

D. Internal Controls

The CIO 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 security settlement except for physical securities;
- Maintain clear delegation of investment authority;
- Ensure the separation of investing authority from cash activities and record-keeping;

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

- Ensure that all deposits are sufficiently collateralized per State Board of Finance Collateral Policy, 2.60.4 NMAC, or as required by the rating agency for the LGIP, whichever is greater;
- Require the use of approved objective criteria in selecting broker-dealers and financial institutions authorized to provide investment services to the state;
- Maintain documentation on investment procedures;
- 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 CIO shall notify the Deputy Treasurer, in conjunction with the AIOs, to determine what, if any, actions need to be taken.

E. External Controls

- STO 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 STO with 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.

F. 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.

- The Investment Committee shall consist of five (5) voting members: the State Treasurer, or designee; a member of the Treasurer's staff upon appointment by the Treasurer or designee; the director of the State Board of Finance, or designee; and two members who 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. The member of the Treasurer's staff shall be selected in a manner consistent with maintaining a separation of responsibilities between the STO investment managers and the members of the committee.
- Each private sector member shall serve at the pleasure of the State Treasurer or the State Board of Finance appointing the private sector member. The private sector members shall serve for a term of two (2) years after appointment and shall be

⁵ Audit Act, NMSA 1978, §§12-6-1 to-14.

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 CIO and AIOs 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 and are certified or designated as eligible to receive public money on deposit in New Mexico;
- 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, defined in this policy as investment grade, issued by corporations that are organized and operating in the United States and are included on STO's approved issuer list;
- Corporate Bonds rated investment grade, as defined in this policy, by a nationally recognized rating service, issued by corporations that are organized and operating in the United States and are included on STO's approved issuer list;
- Asset-Backed Obligations rated "AAA" or better by a nationally recognized rating service, and with a maturity of less than 397 days;
- Shares of open-ended diversified investment companies that are 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 do not use swap and derivative products. STO shall not, at any time, own more than five percent (5%) of a money market mutual fund's assets.
- 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; have assets under management of at least one billion dollars (\$1,000,000,000); do not use swap and derivative products; and the investments made by STO 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 and rated investment grade as defined by this policy; or
- Securities issued by states other than New Mexico or governmental entities in states other than New Mexico and rated investment grade as defined by this policy.

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 currently approved dealers and counterparties included on the broker-dealer list, the Fiscal Agent Bank, or the master custodial bank, operating under the terms of a master repurchase agreement or securities lending arrangement;
- Each approved repo counterparty must have a net worth in excess of five hundred million dollars (\$500,000,000).
- Transactions with any single counterparty will not exceed 35% of the portfolio;
- The maximum term of any repurchase agreement will be 1 year; and
- 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 a final maturity less than 10 years, will be priced at 102% of market value, plus accrued income;
- Securities placed as collateral for repurchase agreements, with a final maturity of 10 years or greater, 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, including agency mortgage-backed obligations, 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 current market value.

Maximum percentages for a particular issuer, investment type or liquidity constraint 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 State Board of Finance monthly. Steps will be taken to remedy any breaches that may put the LGIP’s rating at risk of falling below the required AA or better rating.

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 Primary Issuers – <i>FNMA, FHLMC, FFCB, FHLB</i> Secondary Issuers – <i>All Other Agencies</i>	100%	Per Primary Issuer: 33% Per Secondary Issuer: 5% except TVA – 10%
US Agency Issued Mortgage-Backed Securities	25%	
Bank Demand Deposits (Business Days)		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%
A2 or P2 or F2 - 1 Day	10%	2.5%
A3 or lower and nonrated - 1 Day	10%	0.25%
Certificates of Deposit	25%	Per CD Issuer: 5%
Commercial Paper, Corporate Bonds, Medium Term Notes, and Asset-Backed Obligations (<i>In Aggregate</i>)	40%	Per Corporate Issuer: 5% Per Asset-Backed Issue: 5%
Open Ended 2a-7 Rated Fund US Treasury and Agency Only	100%	Per Fund: 10%
Municipal Securities Pre-refunded 100% escrowed with US Government related securities	15% 15%	Per Issuer: 5%
Repurchase Agreements (Business Days)		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%
A2 or P2 or F2 - 1 Day	10%	5%
Variable Rate Obligations US Treasury and GSE All Other	25%	Per Issuer: 25% 5%
Limited/Illiquid Securities (<i>In Aggregate</i>)	10%	Nonmarketable securities with maturities greater than 5 business days.

B. Maturity Restrictions

The following maturity limits shall apply to each portfolio:

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

C. Portfolio Duration

The CIO and AIOs will manage the LGIP within the weighted average maturity (WAM) required by the LGIP’s rating agency. The appropriate performance benchmark for the LGIP will be reflective of its short-term investment objective. The benchmark will be reviewed by the State Treasurer’s Investment Committee for recommendation and will be approved by the State Treasurer and the State Board of Finance annually.

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-Backed Securities		
Bank Demand Deposits - Collateralized	See Above	
Bank Certificates of Deposit	A1 or P1 or F1	A/A2
Asset-Backed Obligations	A1+ or P1 or F1+	AAA/Aaa
Commercial Paper	A1 or P1 or F1	A/A2
Corporate Bonds	A1 or P1 or F1	A/A2
Open-Ended 2a-7 rated fund US Treasury and Agency Only	AAA _m or Aaa- _{mf} or Aa _{ammf}	
Municipal Securities	A1 or MIG1 or F1	A/A2
Repurchase Agreements	See Above	
Variable Rate Obligations		
US Treasury and GSE		
All other	A1 or P1 or F1	A/A2
Limited/Illiquid Securities	A1 or P1 or F1	A/A2

IX. Reporting:

The CIO 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 CIO will submit and present the monthly investment report, on behalf of the State Treasurer, to the State Board of Finance 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 and WAM to Final of the LGIP compared to the maximums allowable per the appropriate rating agency;
- 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 analysis on a quarterly basis;
- Transaction listing of the LGIP for the reporting period;
- A report of primary issues purchased and 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 CIO 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 the State Board of Finance.

D. Annual Reporting

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

X. Approval:

New Mexico State Treasurer's Office:



Tim Eichenberg
New Mexico State Treasurer

12-21-17

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

1-2-2018

Date

