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**TITLE 2 PUBLIC FINANCE**  
**CHAPTER 60 INVESTMENT AND DEPOSIT OF PUBLIC FUNDS**  
**PART 25 NEW MEXICO STATE INVESTMENT COUNCIL STATEMENT OF INVESTMENT POLICY**

**2.60.25.1 ISSUING AGENCY:** State Investment council.  
[Recompiled 10/01/01]

**2.60.25.2 SCOPE:** [RESERVED]  
[Recompiled 10/01/01]

**2.60.25.3 STATUTORY AUTHORITY:** [RESERVED]  
[Recompiled 10/01/01]

**2.60.25.4 DURATION:** [Permanent.]  
[Recompiled 10/01/01]

**2.60.25.5 EFFECTIVE DATE:** [Filed December 13, 1990]  
[Recompiled 10/01/01]

**2.60.25.6 OBJECTIVE:** [RESERVED]  
[Recompiled 10/01/01]

**2.60.25.7 DEFINITIONS:** [RESERVED]  
[Recompiled 10/01/01]

**2.60.25.8 INTRODUCTION:**

A. As established by the New Mexico State Constitution and statutes, the New Mexico state investment office (office) manages two permanent trust funds under the directions of the New Mexico state investment council (council) and the state investment officer (SIO). These trust funds are the permanent fund (PF) and the severance tax permanent fund (STPF).

B. The state investment council was established by an act of the 23rd legislature which was approved on March 28, 1957, and subsequently ratified by the citizens of New Mexico in the general election of 1958. According to the terms of this legislation, responsibility for the investment of the PF was transferred to the state investment officer, subject to the policy direction of the council. The state investment office became operational in January, 1959 as the administrative arm of the council.

C. Statutory authority for investment of the STPF by the council became effective July 1, 1983. The transition from the office of the state treasurer was completed on April 1, 1985, when the \$573 million certificate of deposit program was transferred to the state investment office.

D. It is the function of the office to provide, under the guidance of the council, the investment expertise and necessary support services for the PF and the STPF. The agency is responsible for the prudent investment of these funds in diversified sectors of the securities markets in order to maximize the total return of the funds while minimizing all forms of risk. The types of securities allowable for investment are defined by statute and may be further constrained by policy and objectives implemented by the council and the SIO.

E. This document is a summary of the applicable statutory provisions and the current policies established by the council and SIO.

[Recompiled 10/01/01]

**2.60.25.9 PURPOSE OF THE FUNDS:**

A. Permanent Fund: The purpose of the permanent fund is to hold in trust royalties and other funds received from state lands and to make distributions of income earned on these funds to the common schools and other designated institutions of the state. Since the fund is considered to be a common trust, it is invested in accordance with the prudent man rule and fiduciary law. The state investment council, as a fiduciary, has a duty to

act solely in the interest of the fund's beneficiaries. A steady stream of income that maintains its value in real (inflation adjusted) dollars must be provided for the beneficiary institutions, while the real value of the corpus must be maintained for future generations who will need the fund's income to support these institutions.

B. Severance Tax Permanent Fund:

(1) The purpose of the state of New Mexico severance tax permanent fund is to hold in trust that part of state revenues derived from excise taxes which have been or shall be designated severance taxes imposed upon the severance of natural resources within the state, in excess of that amount which has been or shall be reserved by statute for the payment of principal and interest on outstanding bonds to which severance tax revenue has been or shall be pledged, and to make distributions of the income earned on these funds to the general fund. Since the fund is a permanent trust fund, it shall be invested in accordance with the prudent man rule with the state investment officer and council acting as fiduciaries.

(2) The state investment council, as a fiduciary, has the responsibility and authority to establish policies for the investment of the severance tax permanent fund. The objective of the market rate portfolio in the severance tax permanent fund is to provide a steady stream of income that maintains its value in real (inflation adjusted) dollars, while maintaining the real value of the corpus for future generations. The objective of the differential rate portfolio in the severance tax permanent fund is to stimulate the economy of New Mexico on a continuing basis by maintaining a diversified portfolio of New Mexico investments, which expands business activity, promotes the creation and preservation of jobs, and provides a reasonable yield, as intended by the differential rate statutes.

[Recompiled 10/01/01]

**2.60.25.10 INVESTMENT PHILOSOPHY AND OBJECTIVES:**

A. Principal Objectives: Based upon the two purpose statements in Section II [now Section 2.60.25.9 NMAC] above, the principal objectives of both funds are:

(1) the preservation of capital in real terms, while providing reasonable levels of income distribution to the beneficiaries;

(2) to obtain maximum returns within reasonable and acceptable levels of risk for all market rate investments; and

(3) to maintain a prudent and diversified portfolio of differential rate investments that stimulate the economy of the state while providing reasonable diversification and yield. In keeping with the permanent trust fund nature of both funds, all market rate investment objectives are based on a long term investment horizon.

B. Other Basic Goals and Objectives: The following goals and objectives are based on modern financial and portfolio theory and are common to both funds:

(1) Diversification is one of the fundamental principles of modern portfolio theory which focuses on minimizing risk and maximizing return. In accordance with this principle, the SIC's portfolios will be constructed by the individual portfolio managers to attain prudent diversification in all equity and fixed income holdings while remaining within statutory and constitutional limitations.

(2) Consistent with the need for adequate diversification, the SIC's investment policy is based on the assumption that the volatility of the combined portfolio will be similar to that of the market. Consequently, it is expected that the total portfolio volatility, in the aggregate, will be reasonably close to the volatility of a commitment-weighted composite of the market indexes selected for performance evaluation purposes.

(3) Due to the permanent nature of the funds and the limitations on allowable investments imposed by the Constitution and statutes on both funds, it is anticipated that the quality levels in both funds will be maintained at or above the average quality of the indexes they are compared with. The overriding objective for both funds is preservation of principal, and this will generally translate over time into higher average allocations to government and other high quality securities. Riskier investments such as equity and venture capital will be monitored closely to insure that the long term expected returns justify the implied risks.

(4) Due to the long term time horizon of both funds and the monthly distribution of all cash dividend and interest income (adjusted for accounting amortization and accretion), cash availability or liquidity (the cash positions in the two funds) is not a significant factor in determining asset allocations or acceptable investments. The liquidity (or marketability) of the securities in the funds' portfolios is a concern, and it is expected that the characteristics of the securities held by the council will individually and collectively approximate the characteristics of the market in general. Investment policy will be designed to avoid large swings in annual distributable income as much as market conditions will permit. The actual distributable income growth rate will depend primarily on:

(a) the revenues (new money) received into the corpus of both funds, and

(b) the asset allocations as determined by council policy.

C. Performance: Fund performance is measured by comparison with broad market indexes appropriate to each asset class. The following indexes are currently used for this purpose:

(1) ASSET CLASS	INDEX
Equities	Standard & Poor's 500
Fixed Income	Shearson Lehman Aggregate
Cash Equivalents	Average 90-day U.S. T-bill rate

(2) These benchmarks will be used to evaluate the performance of both funds. In the STPF, only the market rate portion is evaluated, since market prices are generally unreliable or not available for the differential rate investments. The general goals are to exceed the performance of each of these indexes. Managing against specified benchmarks provides clearly defined objectives and measures of performance. The benchmarks also provide a starting point for formulating strategy. The appropriateness of the selected indexes will be periodically reviewed as the composition of the SIC portfolios change over time.

[Recompiled 10/01/01]

**2.60.25.11 ASSET ALLOCATION:** The most important component of investment strategy is the portfolio asset mix, or the resource allocations between the various classes of securities available to the council for investment purposes.

A. Current Asset Allocations and Authorization: The council has currently authorized the SIO to increase the equity holdings to 30 percent of the book value of the PF and 20 percent of the book value of the STPF, and has directed that such weightings should be achieved by the end of fiscal year (FY) 81 (June 30, 1993). Equity holdings in the STPF are currently limited to 20 percent by statute. The council established these goals based on 1) the advise of the SIO, 2) the results of two asset allocations studies, and 3) the need to maintain current levels of income distributions to the beneficiaries. At the present time, the equity holdings in the two funds are substantially below the book value limitations listed above.

B. Strategic Asset Allocation Targets and Ranges: It has been recognized by the council that the two state permanent funds should have asset allocations similar to other major endowment funds in order to protect the corpus of the funds against inflation. The selected strategic asset allocation targets and ranges are as follows (based on market value):

(1) ASSET CLASS	TARGET	RANGE
(a) Cash and Equivalents.	5 percent	0 - 15 percent
(b) Equities	35 percent	30 - 40 percent
(c) Fixed Income	60 percent	55 - 65 percent

(2) These asset classes are defined as follows:

(a) Cash Equivalents - investments in fixed income securities with maturities of one year or less, including treasury bills and notes, commercial paper, banker's acceptances, repurchase agreements, certificates of deposit, and the state treasurer's overnight deposit program.

(b) Equities - common and preferred stocks and convertible issues representing ownership interests in corporations;

(c) Fixed Income - investments in securities with an obligated fixed rate of interest, including bonds, notes, debentures, mortgages, or other obligations or evidence of indebtedness.

(3) There are many other specific investments authorized in the New Mexico Constitution and statutes. For strategic asset allocation purposes, however, they generally can be categorized under one of the above classifications. The Constitution and statutes also contain specific percentage limitations on the various investment classes, and those limitations are presented in the following sections of this document where appropriate. The asset allocation ranges stated above conform with all current statutory and constitutional limitations.

(4) The asset allocation ranges and targets listed above also represent a long term perspective. Net new cash flows shall in general be directed to the most attractive and undervalued asset classes. For the near future, the equity class will receive the majority of available allocations as long as the equity market is attractive. Because of rapid and unanticipated market shifts and this bias towards selecting the best values, the actual allocations in certain periods may fall outside the desired ranges. Any divergences should be short term in nature and the actual allocation of assets shall be periodically compared to the above targets. During periods when the various sectors are essentially equal in perceived value, the staff will attempt to move the overall allocations back within the desired ranges and towards the target levels.

C. The Investment Committee: On a quarterly basis, the investment committee, which consists of the state investment officer, deputy state investment officer, and the equity, fixed income, and differential rate investment officer principals, will meet to discuss overall asset allocations. For each meeting, the investment committee members will have formed opinions on interest rates, inflation, secular trends in the economy, the current stage of the business cycle, and the outlook for economic expansion or recession. The investment committee and/or other staff will hold additional meetings weekly or as necessary to evaluate the funds' performance.  
[Recompiled 10/01/01]

**2.60.25.12 GENERAL POLICIES AND PROCEDURES:** The following general operating policies and procedures will be observed by the council staff in implementing the directives contained in this document. Specific operating procedures for daily investment office activities will be found in the state investment office operations manual.

A. The investment office staff will follow the prudent man rule as defined in Article XII, Section 7 of the New Mexico Constitution in conducting all investment related activities.

B. The investment office staff may not delegate authority for making independent investment decisions to any agent or entity under contract to or doing business with the state investment council or office.

C. All transactions undertaken by the council staff shall be for the sole benefit of the funds' beneficiaries.

D. The council staff will maintain a separate broker policy which will define the standards and requirements for broker/dealers doing business with the council. This policy will be available for distribution to the public as desired.

E. A professional investment counseling firm (or firms) (advisor) shall be retained by the state investment office. The selected advisor(s) shall have expertise in all investment activities utilized by the state investment office.

F. The office shall employ the services of a professional performance measurement consultant to independently compute the performance of both funds.

G. The office will comply with the intent of the New Mexico statutes and all applicable provisions of the Open Meetings Act.

[Recompiled 10/01/01]

**2.60.25.13 CASH INVESTMENT:**

A. Constitutional and Statutory Restrictions: The only short term securities purchased are those specifically authorized in the New Mexico statutes. Currently, commercial paper (CP), repurchase agreements (repos), and banker's acceptances (BA) are specifically identified in Sections 6-8-19 and 7-27-5.1 NMSA 1978. If in doubt as to whether a particular type of security is authorized, legal opinions are solicited from the state attorney general's office. CP must be rated prime by a national rating service. Repos must be collateralized at 102 percent or higher by obligations of the United States or other securities backed by the United States, and may only be purchased from broker/dealers that have a minimum net worth of \$500 million. Banker's acceptances must be rated prime and issued by money center banks. Medium term notes (MTN) and other bonds must be rated at least A in the permanent fund (Section 6-8-9 NMSA 1978), and at least BBB in the severance fund (Section 7-27-5.1 NMSA 1978).

B. Council Goals and Policies:

(1) The council has adopted the following goals for the management of the short term investment program (STIP) portfolios:

(a) safety and preservation of STIP capital through the maintenance of well-diversified portfolios of short term investments with high credit quality;

(b) maintenance of STIP liquidity to support the long term investment programs; and

(c) maximization of STIP current income.

(2) Achievement of these goals by the state investment office will be pursued under the following policies:

(a) All corporate bonds purchased by the council under the STIP will be rated A or better.

(b) Stripped securities, or other securities that have abnormally low initial coupons, balloon payments, or other characteristics that make them difficult to price are not acceptable as collateral for repos.

(c) All possible fixed income trades will be done on a competitive basis to obtain the best possible pricing and execution.

[Recompiled 10/01/01]

**2.60.25.14 EQUITY INVESTMENT:**

A. Constitutional and Statutory Restrictions:

(1) The New Mexico state permanent fund may invest in "common and preferred stocks and convertible issues of any corporation organized and operating within the United States; provided that it has a minimum net worth of twenty-five million dollars (\$25,000,000) and securities listed on one or more national stock exchanges; and provided further that the fund shall not own more than five percent of the voting stock of any company. Common stocks should represent a diversified portfolio with an above average current yield and the prospect for dividend increases and capital appreciation" (Section 6-8-9 F. NMSA 1978). Such investments are subject also to the restriction that common stocks purchased must be those of corporations having a 10 year consecutive dividend history at the date of purchase (New Mexico Constitution, Article XII, Section 7).

(2) Dividend income shall be distributed to the permanent fund's beneficiaries but capital gain proceeds shall be retained as part of the fund. (Section 6-8-12 NMSA 1978).

(3) Commissions paid for the purchase and sale of any security shall not exceed brokerage rates prescribed and approved by national stock exchanges or by industry practice. (Section 6-8-9 NMSA 1978).

(4) Similar statutes apply to the severance tax permanent fund and are contained in Section 7-27-5.1 NMSA 1978. The STPF is additionally limited in that common stocks, at the time of purchase, may not exceed 20 percent of the book value of the fund.

B. Council Goals and Policies:

(1) The council has adopted the following goals for the management of the equity portfolios:  
(a) maintenance of a well-diversified portfolio of common stocks with good quality and liquidity characteristics; and  
(b) maximization of the portfolio's total return to include an above average dividend yield.  
(2) Achievement of these goals by the state investment office will be pursued under the following policies:

(a) Common stocks shall be chosen from a universe having the following characteristics:  
(i) U.S. incorporated;  
(ii) securities listed on the NYSE;  
(iii) minimum market capitalization of \$500 million;  
(iv) minimum owner's equity of \$25 million.  
(b) The number of stocks in the portfolio shall range from 40 to 70 with no single stock representing more than 5 percent of the portfolio's total current market value.  
(c) The average dividend yield on the portfolio over time should exceed that of the market in general; and  
(d) The portfolio shall be diversified by industry in line with the S&P 500's industry weightings based on market capitalization, with an allowable variance of plus or minus 100 percent except for industries representing more than 5 percent of the S&P 500 which will not be weighted less than 50 percent of the S&P 500's weight.

[Recompiled 10/01/01]

**2.60.25.15 FIXED INCOME INVESTMENT:**

A. Constitutional and Statutory Restrictions: The New Mexico Constitution and statutes contain numerous provisions to insure the safety of the two funds' assets. These provisions include limits on quality, types of securities, and total corporate securities. Bonds must be rated at least A in the PF (Section 6-8-9 NMSA 1978), and at least BBB in the STPF (Section 7-27-5.1 NMSA 1978). No more than 50 percent of the funds may be invested in corporate securities (both stocks and bonds). The majority of the fixed income portfolios consist of government and corporate bonds with very high quality ratings. Both Funds currently have an average quality rating of AA+ or better. If any questions arise concerning the eligibility of a particular security type for investment, an opinion is obtained from the state attorney general's office.

B. Council Goals and Policies:

(1) The council has adopted the following goals for the management of the fixed income portfolios:  
(a) preservation of capital through the maintenance of a well-diversified portfolios of fixed income investments with high credit quality; and  
(b) maximization of the portfolios' current income.

- (2) Achievement of these goals by the state investment office will be pursued under the following policies:
- (a) all corporate bonds purchased by the council will be rated A or better;
  - (b) asset backed or other collateralized securities rated AA or better are authorized;
  - (c) extending duration to maximize yield to maturity when feasible; Current income is essential to the funds' beneficiaries, and current income may be increased by lengthening duration when the yield curve is positively sloped. It is therefore reasonable to expect that the funds' durations, average maturities, and price risk or variation will normally be greater than the fixed income benchmark portfolio; and
  - (d) All possible fixed income trades will be done on a competitive basis to obtain the best possible pricing and execution.
- [Recompiled 10/01/01]

**2.60.25.16 DIFFERENTIAL RATE INVESTMENT:**

A. Constitutional and Statutory Restrictions: The severance tax permanent fund may be invested in a series of investments that are identified in Section 7-27-5 NMSA 1978 as "differential rate" investments. Differential rate (DR) investments are defined as those investments intended to stimulate the economy of New Mexico. DR investments are authorized in Sections 7-27-5.2 through 7-27-5.5, 7-27-5.7, and 7-27-5.13 through 7-27-5.17 NMSA 1978. As a permanent trust fund and in accordance with Section 6-8-7 NMSA 1978, differential rate investments, as with all investments of the fund, are subject to the prudent man rule and must provide reasonable diversification and reasonable yield.

B. Council Goals and Policies:

- (1) The council has adopted the following goals for the management of the differential rate portfolio:
  - (a) to insure that credit quality is maintained and risk is minimized;
  - (b) to maintain a diversified portfolio of investments that are distributed among the various programs and throughout the state and its economic sectors;
  - (c) to stimulate the economy of New Mexico on a continuing basis;
  - (d) to expand business activity in the state;
  - (e) to promote the creation and preservation of jobs; and
  - (f) to provide a reasonable yield.
- (2) Achievement of these goals by the state investment office will be pursued under the following policy: The state investment office shall develop investment guidelines and procedures providing requirements that must be met under the various differential rate programs. Each of the guidelines and procedures shall be adopted in accordance with the state's Administrative Procedures Act, other relevant statutes, and council policy. Each differential rate investment program is unique and requires separate guidelines and procedures to administer. The guidelines for each DR program will incorporate the specific requirements that are specified by statute and will also conform to industry practices for that type of investment. The staff must therefore conduct independent research and analysis on each separate security type to understand the risks involved. Each DR investment should then be structured to minimize all anticipated risks and to meet all New Mexico and federal legal requirements. Finally, all investments must be properly documented for auditing purposes. These steps will insure a reasonable probability of achieving the goals and objectives of the differential rate programs.

[Recompiled 10/01/01]

**HISTORY OF 2.60.25 NMAC:**

Pre-NMAC History: The material in this Part was derived from that previously filed with the State Records Center and Archives:

Rule 85-3, Statement of Objectives for the State Permanent Fund, 12-6-85.

SIC Rule 90-3, New Mexico State Investment Council Statement of Investment Policy, 12-13-90.

History of Repealed Material: [RESERVED]