

# **SANDOVAL TREASURER'S INVESTMENT COMMITTEE (STIC)**

## **REGULAR MEETING MINUTES**

2<sup>nd</sup> Floor Training Room – Sandoval County Administration Building

Tuesday, April 17, 2018 - 4:00pm – 5:00pm

### **1. CALL TO ORDER**

Meeting was called to order at 4:00 PM.

#### **Present:**

##### **Committee Members:**

Laura M. Montoya, County Treasurer  
Linda P. Gallegos, Deputy Treasurer  
Cassandra Herrera, Director of Finance  
Christopher Daniel, Community Member  
David Heil, County Commissioner  
Dianne Maes, County Manager  
Larry Polanis, STO Treasury Controller  
Mario Martinez, Community Member

##### **Treasurer Staff:**

Victoria Romero, Treasurer's Office  
Jennie Taylor, Treasurer's Office

##### **Committee Members Not Present:**

Don Chapman, County Commissioner

##### **Portfolio Manager:**

Paul Dickson, Vice President-Portfolio Manager, NMBT Wealth Management

**Other Members of the Public Present:** None.

**2. APPROVAL OF AGENDA** Motion to approve the April 17, 2018 agenda by Deputy Treasurer, Linda P. Gallegos; Second by Christopher Daniel; All in favor; Motion carries.

### **3. APPROVAL OF MINUTES**

Motion to approve the January 23, 2018 minutes by Larry Polanis, Second by Mario Martinez. All in favor; Motion carries.

### **4. INTRODUCTION**

#### **5. STATUS OF THE TREASURER'S OFFICE**

Treasurer Montoya stated that we are in second-half tax season and are short staffed. Our outreach program is going great. The Treasurer's office has been working on the Banking RFP and it will be going to the commission for approval. Articles are in the packet from Treasurer Montoya's involvement in a Task Policy Round Table with Congressman Lujan, House Minority Leader Nancy Pelosi and Charles Greer, President of NEA. Subjects include High Quality Liquid Assets and information regarding "taxing" online sales.

#### **6. STATUS OF COUNTY INVESTMENTS**

Treasurer Montoya explained that investment fees have been decreased by 1/3 from 2013 when she began her administration. Treasurer Montoya noted that Economic Development is no longer part of the General Fund account and has been segregated according to the direction of the county commission. Referencing the Investment Accounts Summary, Treasurer Montoya pointed out the items in light yellow are the accounts that cannot be co-mingled. The

bright yellow column is the total of these accounts. The two light blue are the Economic Development Funds. One account is with Wealth Management and the other is with State Treasurer's Local Government Investment Pool (LGIP). Light purple columns are General Fund and the dark purple column is the total. Chairman Heil mentioned the Indigent Fund should now be called HCAP.

Treasurer Montoya requested pooling cash together. The Library Bond is expected to be utilized by May 2018 but there is one asset left that may be swapped out with funds from Cash Management so that it may be held until maturity. The importance of avoiding intermingling a General Fund resource with a bond resource was reviewed by Treasury Controller Polanis. Trading for a like investment has been discussed with the auditors.

Director of Finance Herrera expressed a concern that HCAP money may not be able to be co-mingled. Portfolio Manager Dickson explained how each account would buy a share of the fund and all would share in the same returns. It would resemble how a mutual fund works, the money is not co-mingled but each would hold a certain amount of shares. It is distinct and it is on each ledger.

Mr. Daniels explained that in Bernalillo County it is simpler. Each fund has its cash balance. All cash is put in an Investment Clearing Fund. The fund is called 920 and all funds and income are put there. At the end of the year, any unrealized gain or loss is also distributed proportionately. They use an Asset Allocation approach.

Chairman Heil asked for clarification as to why the pooling approach is better. Dickson explained the advantages include diversification and liquidity. It is also easier to trade and do the accounting while still maintaining the visibility. All of his other municipal clients do it this way also.

At 4:19 p.m. County Manager Dianne Maes entered and a recap was presented by Dickson, Chairman Heil and Treasurer Montoya.

The Indigent Needs Account handout (HCAP) was reviewed. Treasurer Montoya pointed out that it is separated out by maturity dates. It was noted that the US Treasury Bond at 2.375% with a maturity date of 6/30/18 shows an unrealized loss of \$11,668.60. Dickson clarified that this is not an actual loss. This bond was purchased at a premium and this paper loss will disappear on 6/30/18 when the bond will mature at par. Treasurer Montoya reviewed that the Economic Development fund is expected to be used in the next one to two years. The HCAP and Library Bond will be gone soon also.

Dickson's presentation reviewed that half of all assets will be coming due. If every bond was called on schedule the yield to maturity would be 2.3%. Treasurer Montoya explained that she is maintaining the \$312,000 in a money market until she is clear from the administration what the needs are for cash. Treasurer Montoya will work with Director of Finance Herrera and County Manager Maes to determine the needs.

Dickson continued the review of accounts that will be maturing. There will be \$955,000 rolling off by October. There is only one position left in the Library Bond. Treasurer Montoya reviewed the AMI Kids account and the handout. The AMI Kids funds of \$164,339 will be moved to the bank account. That money will be utilized to pay a portion of AMI Kids rental payment each month and get reimbursed at a later date according to the new agreement approved by the commission, New Mexico Finance Authority (NMFA) and the State Board of Finance.

The bond reserve account was reviewed. The \$175,000 amount is rolling off this year, which is 2/3 of the total account. Dickson will consult with the Treasurer what she would like done with these funds. The overall portfolio is short right now. There is nothing past 2022 for maturities. The yield curve is so flat that we are giving up a little by staying short

and maintains our flexibility. Today the yield curve is at the flattest level since the Great Depression. Some are talking of a recession but Mr. Dickson does not think this will be the case. The upside is we can now buy a T-Bill close to 2% and a money market is paying 1 to 1.25%.

Review of the returns on the performance sheet shows that we are beating our bench marks looking back six months to one year. Overall for the one year, all accounts are in the black. There is still the expectation that the Fed will hike rates a couple more times this year. The other concern is the federal deficit and what it may mean to bonds. The result normally is higher rates. Higher rates mean lower returns but the ability to capture longer term income.

## **7. STATUS OF THE TREASURER'S OFFICE**

### **Laura M. Montoya, Treasurer**

Treasurer Montoya requested the committee's advice on the investment policy. One particular portion of the investment policy is about the Fund Manager vs. the Portfolio Manager and the change in the wording. She took the legal opinion which she received from Dorsey in 2015 that stated you can be in more than one role at a time. Then the municipal advisor rule came out and the licensing for that stated you had to take a test. The difference between when you work under, for example, Wealth Management where you're working in a bank or a trust department versus a broker. There were several comments of concern regarding the new language that was proposed under the "Professional Fund Manager" role.

There was concern regarding the "roles" of a "Professional Fund Manager" and a "Portfolio Manager." Chairman Heil stated that in the 2009 investment Policy, it defines the Professional Fund Manager and also the Portfolio Manager. So back in 2009 it says that the Portfolio Manager was a *hire*. Then in 2015, it does not say *hire*, it says *retains*. So his question is why you need a Professional Fund Manager and a Portfolio Manager definition in this policy? If we establish a policy of not hiring, but rather contracting through that service, we wouldn't need to have both those definitions. If you look at both of those definitions of the job requirements, they are very similar with a few exceptions. The Chairman would prefer that it is decided if it is a Professional Fund Manager or a Portfolio Manager and just have one in this investment policy instead of two.

Treasurer Montoya explained that in the 2008 policy (that Chairman Heil had previously referred to as 2009) both the Professional Fund Manager and Portfolio Manager existed. The Financial Advisor actually worked in the Treasurer's Office. That is when the cost was 40 basis points for a Financial Advisor that was paid out of the assets. In April 2014, the former County Manager did a new contract for \$9,200 a month for a Financial Advisor. Because the title went with it, the Treasurer and the current administration came up with a new title and chose "Portfolio Manager." This was approved by the Board of Finance separately and then Wealth Management Advisory services was hired. It was placed in the Investment Policy for the Board of Finance to approve at a later date. The wording for this Portfolio Manager is very different from the original 2008 Investment Policy when there was a Portfolio Manager that worked full-time in the Treasurer's office. The Treasurer has no preference in what they call the person: Portfolio Manager, Investment Advisor or Fund Manager.

Comptroller Polanis stated that Rob Burpo once served as the Financial Advisor within the Treasurer's Office. If you had mutual funds, you had fund managers and above that you had LPL's Portfolio Manager. Above that you had Financial Advisors. Depending if you had a mutual fund, you had three tiers of fees that you had to go through because all of them charged a fee. Now you have an investment professional; choose your name. Chairman Heil concurred that they should choose their name rather than have both a Portfolio Manager and Fund Manager. Mr. Daniel indicated that they have been given a lot of detail regarding designation of positions. He works for the City of Albuquerque and in the ordinance it states that the authority lies with the investment committee which is appointed by the CAO. That investment committee then designates a Portfolio Manager, whether it is external or internal. In an investment policy it has some general language about what the investment oversight committee's responsibilities are and what the Investment Manager's responsibilities are but it does not state if it is an external or internal advisor. It does state that they can hire an external advisor.

Treasurer Montoya pointed out that a lot of municipalities are like that because they do not have an elected Treasurer so it is very different to compare. The elected Treasurer is the Chief Investment Officer and the Banker by Statute. It is uniquely different. Mr. Dickson stated that traditionally a lot of municipalities would, if they didn't do it internally, hire a bank to manage their assets or a trust department like his would manage the assets for them. The change was when broker/dealers were getting involved managing assets for municipalities, there was this issue that traditionally broker/dealers were not fiduciaries; they did not fall under the fiduciary standard. So they thought if some of these broker/dealers are going to be handling the assets, we need to make sure they act in the benefit of the public sector. That is why they passed the Municipal Advisor Rule, so that if you're a broker/dealer, you are going to have to take a test and attest that you are going to be a fiduciary and manage appropriately. The role that NM Bank and Trust is a Trust Department; they are already a fiduciary and not a broker so they do not fall under that category. Mr. Daniel indicated that if you use a fiduciary, whether it is a registered investment advisor, or what have you, and you use one externally, they should be a fiduciary. Chairman Heil stated that if you decide to use a broker/dealer, they need to act as a fiduciary so you are not being charged for a commission on every transaction. Their compensation is based on how well the fund does; not on how quickly they can turn the account. Mr. Dickson agreed that he is in favor of the Municipal Advisor Rule if you are dealing with a broker because that is the only thing that is going to protect you. Treasurer Montoya clarified that they are not dealing with brokers directly. Mr. Dickson said that if they decide to adopt that policy they will have to. Treasurer Montoya indicated that is her point as that is not the direction they want to take. Instead, it should go through the Chief Investment Officer, who is the Treasurer. Mr. Dickson stated that if you go through the Municipal Advisor under the rule, then you will have to go to the broker/dealer process. There was more discussion regarding registered investors such as PFM, PTA and like companies.

Larry Polanis asked why you would have someone who is both a Registered Investment Advisor and a Registered Municipal Advisor having both umbrellas for the same person? Mr. Dickson explained that five years ago, there were just RIAs and there were no Municipal Advisors per say under this law, but the RIAs are not fiduciaries per say. By law they are not and there was a battle in Congress arguing if they should be made one and then they dropped it. So now they have the Municipal Advisor Rule and they have to be fiduciaries. That is why they want that language in there to say that if you are going to go with a broker, a RIA or anyone else affiliated with a brokerage, you would go with a Municipal Advisor. Larry Polanis said that the question for them is if they want to go through the brokerage or broker/dealers? Mr. Dickson said that if the County goes with a broker in the future, they will have to be a Municipal Advisor. However, if they do it this way and say they can only go through the municipal advisor, you are going to rule out all the Trust Departments. Mr. Daniel asked if that included all the RIAs as well. Mr. Dickson confirmed that is correct. Mr. Daniel commented that their Municipal Advisor is exempt but they are a fiduciary and that is stated in the contract and in their Investment Policy. Everyone agreed that is another great way they can do it.

Treasurer Montoya spoke of her class at GIOA where they spoke of Requests for Proposals, Investment Policy guidelines and best practices for accounting, investing and financing. Wording was shared from an Alabama Investment Policy that was used for an Investment Manager. It says, "A manager is duly registered with the Securities and Exchange Commission pursuant to the Investment Advisor Act of 1940 as amended, and such registration is current, if exempt, provide explanation." Basically it states that it expects you to register with the SEC in the Investment Advisor's Act. If you are exempt, provide us with a full explanation. That is more useful language as it is more inclusive; particularly in the bidding process. They want to go out and find the best professional so you want to be as inclusive as possible instead of saying that you are limited to broker/dealers. Chairman Heil suggested the use of Portfolio Manager instead of Professional Fund Manager. Chairman also recommended that the rest of the document refers to it as Portfolio Manager and not Professional Fund Manager. Step two would be how they should reword based off what Mr. Polanis read to keep the option broad. Treasurer Montoya stated they can use the same wording as what was read. Mr. Daniel suggested that they put in the language that "for all funds they have to be a fiduciary like an RIA or IRMA or a Bank Trust department." Mr. Dickson agreed with Mr. Daniel, "fiduciary" being the operative

word. Chairman Heil agreed that this wording broadens their options. They discussed how exactly they would move around the language in the format it was originally written and where to implement Portfolio Manager and the word fiduciary.

#### **8. STATUS OF 2017 COLLECTIONS**

Treasury Controller Polanis was unable to give his presentation due to time constraints.

#### **9. NEXT MEETING DATES**

Treasurer Montoya stated that Kim Hoyt with Bingham Arbitrage Rebate Compliance would like to set up a meeting with the county. One thing that Ms. Hoyt had mentioned in a letter sent to the Treasurer is that since rates are increasing it may be a concern on the 5<sup>th</sup> year because of when bonds were issued.

The Board of Finance Meeting is next month, on May 17<sup>th</sup> and the next STIC meeting is scheduled for Tuesday, July 10, 2018 at 4pm.

#### **10. NEW BUSINESS**

No business was discussed due to time constraints.

#### **11. ADJOURN**

**Meeting was adjourned at 5:14 p.m.**