Investment Advisory Board Meeting
City of Rio Rancho
AGENDA
February 28, 2024
6:00 PM
City Council Chambers

Investment Advisory Board Members

Van Billops, District 1	Vacant, District 2
Vacant, District 3	Ron Baker, District 4
Chandra McCray, District 5	Kelly Wainright, District 6
David Jablonski, At-Large	

Meeting Information
This meeting will be conducted in-person. A live stream of the meeting can be viewed on the City of Rio Rancho website at https://rrnm.gov/2303/Watch-and-Download-City-Meetings

Pursuant to the Rules of Procedures, any person wishing to address the Board related to an item listed under Discussion and Deliberation, shall register in person with the designated City staff person no later than fifteen (15) minutes prior to the scheduled start time of a meeting. No more than two (2) hours in total will be allotted for comments pertaining to a specific agenda item at any meeting. A majority vote of the Board members present may approve to extend the total amount of time allotted for public input related to a specific agenda item at a meeting.

Public input can be submitted in writing to the designated City staff person prior to the date of the meeting in which the item is scheduled to be heard; however, only public input received before 4 p.m. on the day of the meeting will be entered into the record prior to the meeting.

Call to Order and Pledge of Allegiance

Consent Calendar
There will be no discussion of these items unless a Board Member so requests, in which event the item will be moved to a discussion item on the regular agenda.

Staff Presentations, Reports and Comments

1. Introduction of New Investment Advisors and Government Portfolio Advisors

Public Hearings
Pursuant to the Boards, Commissions, Committees and Advisory Bodies Rules of Procedure, all aggrieved persons, and materially relevant witnesses sponsored by such interested persons, wishing to address the Governing Body shall register in person or via specified communications technology/equipment with the City Clerk no later than fifteen (15) minutes prior the scheduled start time of a related hearing.

Discussion and Deliberation

2. Approval of November 29, 2023 Minutes
IAB - 112923 Draft Minutes.pdf

<u>3.</u> Establish 2024 Meeting Schedule
Proposed 2024 Meeting Dates.pdf

<u>4.</u> Review and Input on Recommended Uses of Distribution from Permanent Fund
IAB Recommendation.pptx

<u>5.</u> Review and Input on Permanent Fund Performance
City of Rio Rancho Permanent Fund 4Q23.pdf

<u>6.</u> Review and Input on the Core and Liquidity Portfolios
City of Rio IAB Report - GPA.pdf

<u>7.</u> Review and Input on the Investment Policies for the Core and Liquidity Portfolios
Draft Investment Policy Revisions 2024.docx

<u>8.</u> Review and Input on the Investment Policy Statement for Permanent Fund
City of Rio Rancho_Permanent Fund IPS - 2024 Revision Draft.doc

Comments by Members

Public Forum
Any person wishing to address a board, commission, committee, or advisory body related to a non-agenda item shall register in person with the applicable City staff person no later than fifteen (15) minutes prior to the scheduled start time of a meeting. No more than two (2) hours in total will be allotted for public forum comments at any meeting. A majority vote of the board, commission, committee, or advisory body members present may approve to extend the total amount of time allotted for public forum at a meeting.

Adjournment

CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Introduction of New Investment Advisors and Government Portfolio Advisors

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Approval of November 29, 2023 Minutes

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

ATTACHMENT: IAB - 112923 Draft Minutes.pdf

Investment Advisory Board
Meeting

MINUTES

NOVEMBER 29, 2023
6:00 PM
Council Chambers

MEMBERS PRESENT:
Van Billops, District 1
Christopher Daniel, District 3
Ron Baker, District 4
Chandra McCray, District 5
Kelly Wainwright, District 6

MEMBERS ABSENT:
David Jablonski, At-Large

STAFF PRESENT:
Rebecca Martinez, City Clerk
Carole Jaramillo, Director of Financial Services

SPECIAL GUEST:
Luke Schneider, Managing Director PFM Asset Management (virtual)
Mallory Sampson, Director PFM Asset Management (virtual)

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

Kelly Wainwright called the meeting to order at 6:00 p.m.

DISCUSSION AND DELIBERATION

1. Approval of August 23, 2023 Minutes

   Van Billops moved to approve the minutes of August 23, 2023. Seconded by Chandra McCray.

The minutes of August 23, 2023 were approved by consent of the Board.

2. Review and Input on the Permanent Fund and Core and Liquidity Portfolios

Carol Jaramillo, Director of Financial Services

Malorie Sampson, PFM Asset Management gave a review of the economic update and went into detail on the quarter to date numbers across all the assets. The first few months of the quarter (July and August) were on trend, however there was quite a bit of market volatility in September. Interest rates continue to raise and we have entered a time period where the phrase higher for longer. She went over several factors to consider over the next 6-12 months.

Luke Schneider, Managing Director PFM Asset Management provided a portfolio snapshot. I believe the piece that impacts the fixed income portfolio most is the fact that the expectations are for the federal reserve to cut interest rates next year at this point in time, so we reached the end of the rate hike period at this point in time. He went over how the sectors have changed over time. Over the last three months the performance on the portfolio had a return of .31 or 31 basis points. The benchmark is .23, so it outperformed the benchmark as we have in every period listed, please note that over the three years there are negative returns. That is because interest rates rose drastically. Essentially the worst bond market seen in 40 years. for bond portfolios in terms of the market value. However, over the long run, we expect that returns are likely to be positive going forward. He went over the actual book value earning on the portfolio and interest earning, plus or minus the change in the market value that is not necessarily realized in that period of time. Since inception, $3.4 million approximately in earnings on the portfolio.

3. <u>Review and Input on the Investment Policies and Investment Policy Statement</u>

Carol Jaramillo, Director of Financial Services stated per Municipal Code the Board shall annually review applicable investment policies and provide input to the Governing Body regarding proposed amendments, if any. She recommended going through each section.

Christopher Daniel inquired if staff could provide recommendations on changes they see may be appropriate and provide to the Board for review.

Kelly Wainwright also suggested the Board can provide recommendations to staff to compile and provide back to the Board for review.

PUBLIC COMMENT

No individual spoke under public comment.

ADJOURNMENT

The meeting adjourned at 7:30 p.m.

APPROVED THIS 28th DAY OF February, 2024

Kelly Wainwright, Chair

Rebecca A. Martinez, City Clerk
SEAL

CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Establish 2024 Meeting Schedule

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

ATTACHMENT: Proposed 2024 Meeting Dates.pdf

Investment Advisory Board – Proposed 2024 Meeting Dates

May 28, 2024 @ 6:00 p.m.

August 28, 2024 @ 6:00 p.m.

November 20, 2024 @ 6:00 p.m.

CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Review and Input on Recommended Uses of Distribution from Permanent Fund

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

ATTACHMENT: IAB Recommendation.pptx

INVESTMENT ADVISORY BOARD
ITEM 3

Review and Input on Recommended Uses of Distribution from the Permanent Fund

Investment Advisory Board

Chapter 33 Section 28.G. (2) of the Municipal Code states –

"Beginning with the first quarterly meeting in calendar year 2024, and the first quarterly meeting in each subsequent calendar year, provide input to the Governing Body regarding the general government purpose use of investment earnings that are 50% above the prior year's Permanent Fund principal amount."

- The corpus/total of contributions to date of the Permanent Fund is $10,002,000.00.
- The market value of the Permanent Fund as of 12/31/23 was $11,585,807.17.
- Earnings (net of fees) total $1,583,807.17 x 50% = $791,903.59 is eligible to be withdrawn and used for a general government purpose.

Investment Advisory Board

What does $791,000 buy?

Examples:

- Hybrid mill and inlay approximately 0.8 miles of residential roads (without underlying utilities).
- Playground equipment for 3 parks.
- Nine police cars

Investment Advisory Board

- The City's 5-year financial plan projects revenue adequate to support its operations.
- Capital needs are planned for and funded in a variety of ways (debt, grants, cash financing, etc.)
- Permanent Fund was established to provide an additional source of funding for City services well into the future.
- The Permanent Fund ordinance allows for the Governing Body to add to the Fund by resolution.

Investment Advisory Board

Staff Recommendations –

As shown in the examples provided, the allowable distribution is not adequate to make a significant difference in the City's current financial plan. In contrast, adding to the corpus of the Permanent Fund in the early years will allow the Fund to grow at a much quicker rate than originally projected. The larger the Permanent Fund the more revenue that it will generate to be used to fund City services in future years when other sources of revenue may not be adequate to meet needs. *Staff recommends reinvesting the allowable distribution.*

CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Review and Input on Permanent Fund Performance

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

ATTACHMENT: City of Rio Rancho Permanent Fund 4Q23.pdf

City of Rio Rancho Permanent Fund

Investment Performance Review
For the Quarter Ended December 31, 2023

Client Management Team

PFM Asset Management LLC

Luke Schneider, CFA, Managing Director
Mallory Sampson, CFP, Managing Director
Chrystal Thomas, Analyst

1201 S Alma School Rd
Suite 3000
Mesa, AZ 85210

1735 Market Street
43rd Floor
Philadelphia, PA 19103
215-567-6100

Markets and Economy

QUARTERLY MARKET SUMMARY

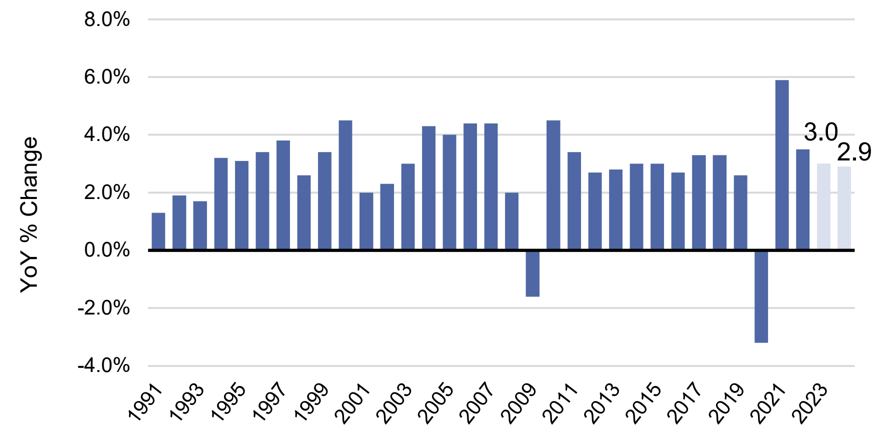
	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
DOMESTIC EQUITY							
S&P 500	11.69%	26.29%	26.29%	10.00%	15.69%	13.42%	12.03%
Russell 3000 Index	12.07%	25.96%	25.96%	8.54%	15.16%	12.81%	11.48%
Russell 1000 Value Index	9.50%	11.46%	11.46%	8.86%	10.91%	8.32%	8.40%
Russell 1000 Index	11.96%	26.53%	26.53%	8.97%	15.52%	13.21%	11.80%
Russell 1000 Growth Index	14.16%	42.68%	42.68%	8.86%	19.50%	17.68%	14.86%
Russell Midcap Index	12.82%	17.23%	17.23%	5.92%	12.68%	10.07%	9.42%
Russell 2000 Value Index	15.26%	14.65%	14.65%	7.94%	10.00%	6.10%	6.76%
Russell 2000 Index	14.03%	16.93%	16.93%	2.22%	9.97%	7.33%	7.16%
Russell 2000 Growth Index	12.75%	18.66%	18.66%	-3.50%	9.22%	8.08%	7.16%
INTERNATIONAL EQUITY							
MSCI EAFE (Net)	10.42%	18.24%	18.24%	4.02%	8.16%	6.91%	4.28%
MSCI AC World Index (Net)	11.03%	22.20%	22.20%	5.75%	11.72%	10.05%	7.93%
MSCI AC World ex USA (Net)	9.75%	15.62%	15.62%	1.55%	7.08%	6.33%	3.83%
MSCI AC World ex USA Small Cap (Net)	10.12%	15.66%	15.66%	1.49%	7.89%	6.70%	4.88%
MSCI EM (Net)	7.86%	9.83%	9.83%	-5.08%	3.68%	4.98%	2.66%
ALTERNATIVES							
FTSE NAREIT Equity REIT Index	16.22%	13.73%	13.73%	7.21%	7.39%	5.28%	7.65%
FTSE EPRA/NAREIT Developed Index	15.59%	10.85%	10.85%	2.16%	3.80%	3.57%	4.52%
FTSE Global Core Infrastructure 50/50 Index (Net)	10.85%	2.21%	2.21%	3.76%	6.04%	6.21%	5.93%
Bloomberg Commodity Index Total Return	-4.63%	-7.91%	-7.91%	10.76%	7.23%	3.59%	-1.11%
FIXED INCOME							
Blmbg. U.S. Aggregate	6.82%	5.53%	5.53%	-3.31%	1.10%	1.29%	1.81%
Blmbg. U.S. Government/Credit	6.63%	5.72%	5.72%	-3.53%	1.41%	1.52%	1.97%
Blmbg. Intermed. U.S. Government/Credit	4.56%	5.24%	5.24%	-1.63%	1.59%	1.57%	1.72%
Blmbg. U.S. Treasury: 1-3 Year	2.56%	4.29%	4.29%	-0.10%	1.28%	1.20%	1.04%
Blmbg. U.S. Corp: High Yield	7.16%	13.45%	13.45%	1.98%	5.37%	4.57%	4.60%
ICE BofAML Global High Yield Constrained (USD)	7.61%	13.41%	13.41%	-0.08%	4.13%	3.86%	3.66%
Blmbg. Global Aggregate Ex USD	9.21%	5.72%	5.72%	-7.21%	-1.56%	1.97%	-0.79%
JPM EMBI Global Diversified	9.16%	11.09%	11.09%	-3.56%	1.67%	1.97%	3.22%
CASH EQUIVALENT							
90 Day U.S. Treasury Bill	1.37%	5.02%	5.02%	2.15%	1.88%	1.73%	1.24%

Source: Investment Metrics. Returns are expressed as percentages. Please refer to the last page of this document for important disclosures relating to this material.

THE ECONOMY

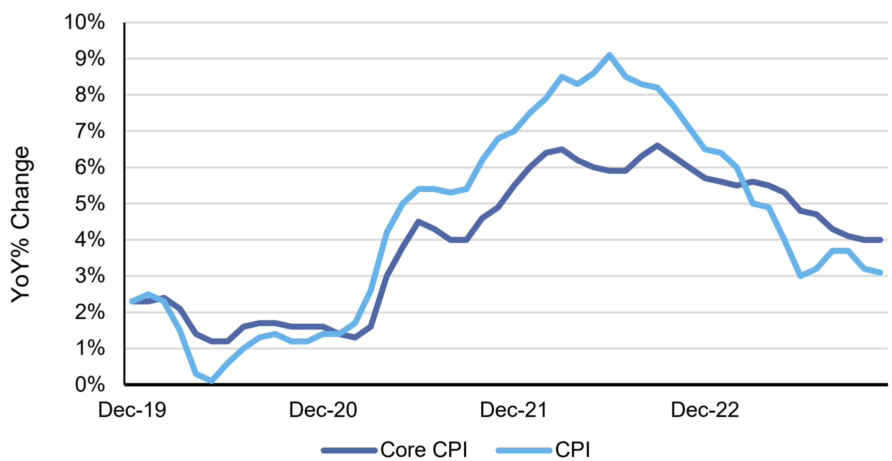
- In the third quarter, U.S. gross domestic product (GDP) grew at an annualized rate of 4.9%, marking the strongest growth since the fourth quarter of 2021, as resilient consumer spending drove the economy. This is above global growth estimates of 3.0%, which have been buoyed by emerging markets (EM) and developing economies.
- The U.S. labor market remains strong, ending the quarter with 3.7% unemployment rate that is in line with September's reading and a 62.5% participation rate, which is a slight decrease from last quarter. The number of job openings to unemployed ratio fell to 1.40, down from its high of 2.0 in 2022.
- Headline inflation (CPI) cooled over the quarter, with a year-over-year (YoY) rate of 3.1% in November, down from 3.7% at the end of the second quarter. These cooler readings came in large part from falling energy prices which dropped 5.4% in November, the less volatile core inflation reading (which excludes food and energy) still tells the same story of cooling over the quarter but shows a slightly higher level of inflation at 4.0% YoY.
- Through the strong labor market and continued growth, consumer confidence saw relative improvement. The Michigan Consumer Sentiment survey ended the quarter at 69.7, up 8.4 year-to-date, though below the long-term average. Consumers savings and income standpoint remain strong, but debt levels and defaults are increasing.

Global GDP Growth



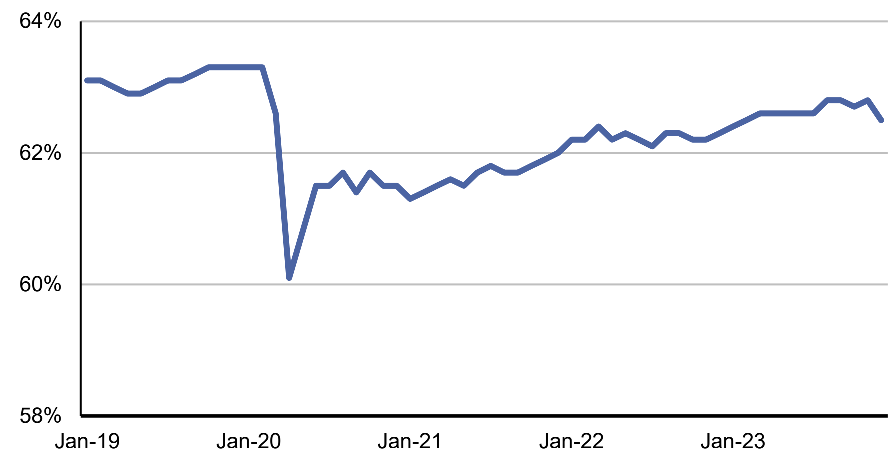
Source: IMF. Dark blue bars indicate actual numbers; light blue bars indicate forecasted estimates.

U.S. Inflation Rate



Source: Bureau of Labor Statistics.

U.S. Prime Age Labor Force Participation Rate 25-53 Years
Seasonally Adjusted (SA)



Source: Bureau of Labor Statistics.

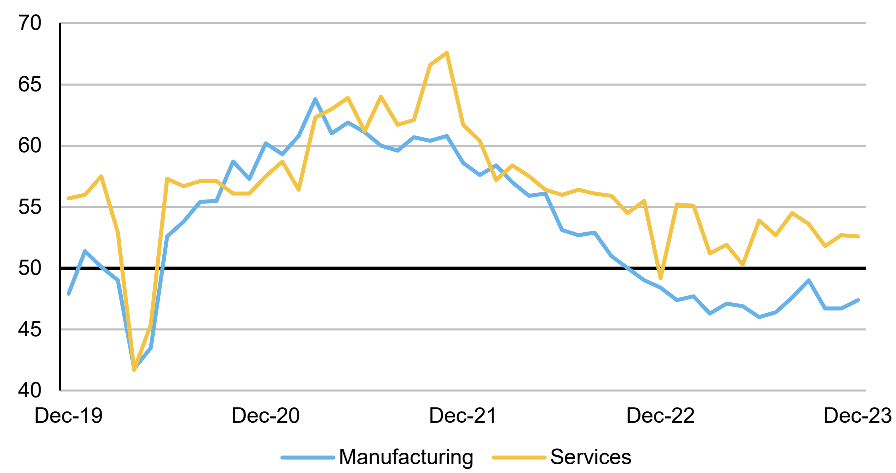
WHAT WE'RE WATCHING

► After a total of four hikes this year, the final quarter closed out with the Federal Open Market Committee (FOMC) on pause with member expectations that the policy rate is at or near its peak. Looking forward, the median dot plot projection shows 75 basis points (bps) of cuts for 2024 as inflation and economic growth slow. Globally, most major central banks also held rates steady, with European Central Bank (ECB) and Bank of England (BOE) both pausing despite increasing pressure from poor economic growth.

► The U.S. saw manufacturing conditions worsen during the quarter as ISM U.S. Manufacturing fell to 47.4 in December, marking the fourteenth month of contractionary readings as producers saw diminishing demand for their goods, amid high borrowing costs and continued inflation. Services weakened slightly over the quarter but remain expansionary at 50.6.

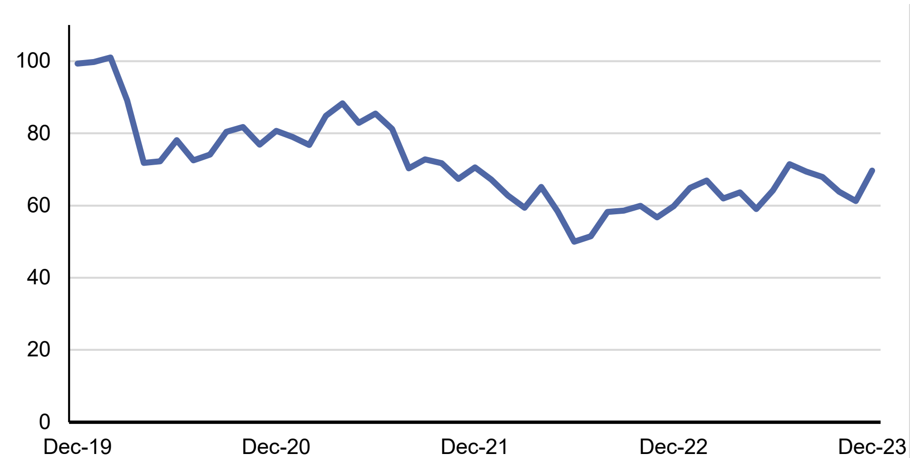
► Globally, conditions varied. The HCOB Eurozone manufacturing PMI improved over the quarter but remained in sharply contractionary territory, at 44.4. The Eurozone services PMI continued to struggle, remaining flat at 48.8 for year end. Meanwhile, China's Caxin manufacturing PMI inched up over the quarter, with an expansionary reading of 50.8 after a dip into contractionary in October. China's services sectors saw a rebound over the quarter as the Caixin Service PMI rose to 52.9, marking the fastest expansion since July as new business grew solidly.

U.S. ISM Manufacturing & Services PMI



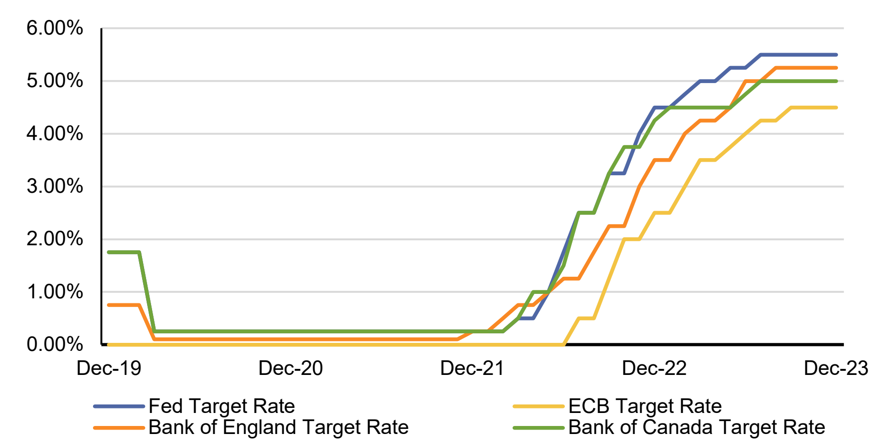
Source: Bloomberg.

University of Michigan Consumer Sentiment



Source: Bloomberg.

Global Central Bank Rates



Source: Bloomberg.

DOMESTIC EQUITY

- The S&P 500 Index (S&P) posted an 11.69% return for the fourth quarter of 2023. As of December 31, 2023, the trailing 1-year return for the index was 26.29%.

- After being dominated by the Magnificent Seven for the first three quarters of the year, domestic equity markets saw a broadening of performance, as indicated by the S&P 500 Equal-Weighted index performing in line with the market capitalization-weighted index for the fourth quarter. Throughout the year, the equal-weighted index had significantly lagged the market capitalization-weighted index.

- Within S&P 500, the only GICS sector to post a negative return for the quarter was Energy (-6.99%). The next worst performers were Consumer Staples (5.54%) and Healthcare (6.41%). The sectors that led performance over the quarter were Real Estate (18.83%), Information Technology (17.17%) and Financials (13.98%).

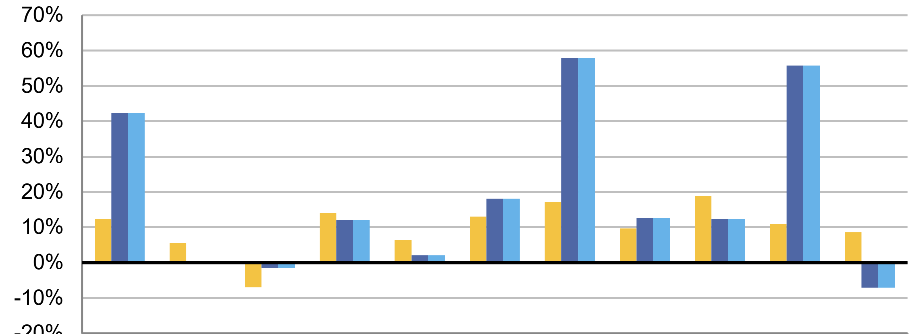
- Small-caps, as represented by the Russell 2000 Index, returned 14.03% during the quarter, outperforming mid- and large-caps. The Russell Midcap and Russell 1000 indices returned 12.82% and 11.96%, respectively.

- According to FactSet Earnings Insight (as of December 18, 2023), the expected YoY earnings growth rate for S&P 500 for calendar year 2023 is 0.6%, which is below the 10-year average of 8.4%.

- As of the end of the quarter, the S&P 500 P/E ratio was 23.85, above its 5-year average of 21.91. By comparison, the S&P 600, which represents small-cap stocks, had a P/E ratio of 16.0, below its 5-year average of 16.96.

S&P 500 Index Performance by Sector

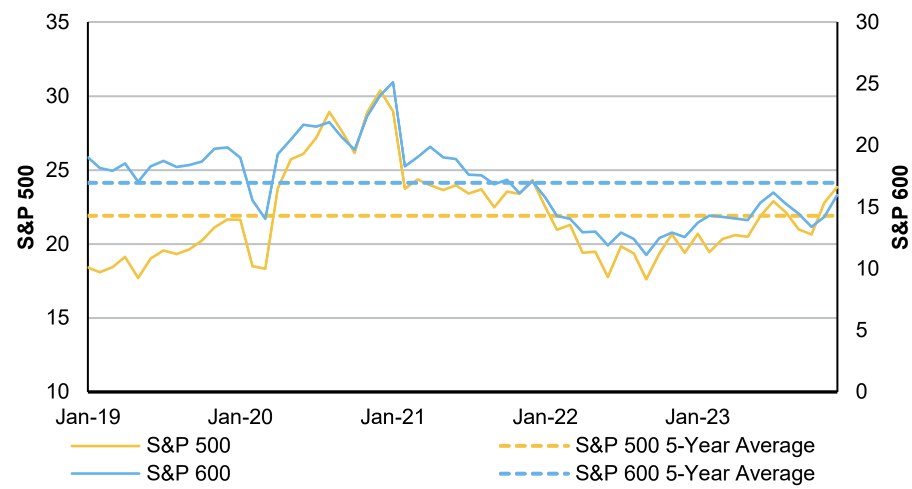
Periods Ended December 31, 2023



	Consumer Disc.	Consumer Staples	Energy	Financials	H'lthcare	Industrials	Info. Tech	Materials	Real Estate	Telecom	Utilities
QTD	12.42%	5.54%	-6.99%	13.98%	6.41%	13.00%	17.17%	9.69%	18.83%	10.95%	8.56%
YTD	42.30%	0.52%	-1.42%	12.10%	2.06%	18.08%	57.84%	12.55%	12.27%	55.80%	-7.08%
1 Year	42.30%	0.52%	-1.42%	12.10%	2.06%	18.08%	57.84%	12.55%	12.27%	55.80%	-7.08%

Source: Bloomberg.

P/E Ratios of Major Stock Indices*



Source: Bloomberg.

**P/E ratios are calculated based on one-year forward estimates and adjusted to include only positive earnings results for consistency.*

NON-U.S. EQUITY

► Markets outside of the United States, as measured by the MSCI ACWI ex-U.S. Index, underperformed their U.S. counterparts, returning 9.75% for the quarter.

► Developed ex-U.S. Markets, as represented by the MSCI EAFE Index, outperformed emerging markets (EM), represented by the MSCI Emerging Market Index, returning 10.42% versus 7.87% for the quarter.

► Stocks in the Eurozone fared better amid signs of falling inflation and increased manufacturing activity, leading to the outperformance of MSCI EMU (12.43%) versus the MSCI EAFE Index. The UK (6.48%) was the worst performer of the five largest-weighted countries in the index. The country continues to grapple with falling yet stubbornly high inflation.

► Within EM, MSCI Brazil outperformed the index. Brazilian equities soared 17.84% during the quarter as inflation slowed in line with expectations, inching toward the central bank's target range. Conversely, MSCI China (-4.22%) lagged the index despite better retail sales and industrial production data.

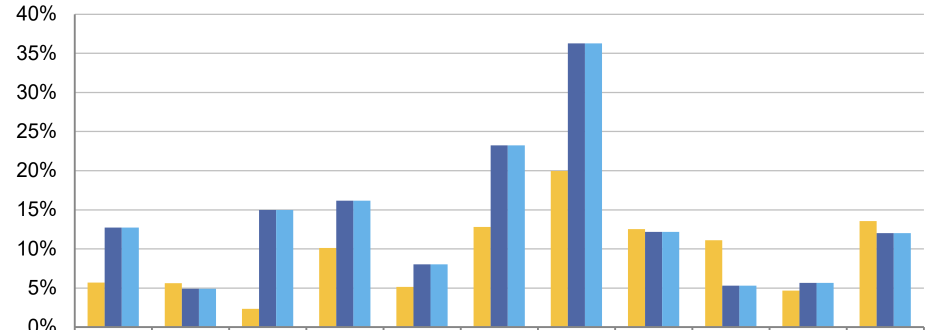
► Value stocks underperformed growth stocks for the quarter as represented by the broad benchmark, a reversal of the trend observed during the first three quarters of the year. MSCI AC World ex-USA Value returned 8.43% while MSCI AC World ex-USA Growth returned 11.13%. Within EM, value continued to outperform growth returning 8.05% versus 7.72%.

► Small-caps, as represented by MSCI ACWI ex-U.S. Small Cap Index, outperformed within the international equity markets, returning 10.12% for the quarter.

► Non-U.S. equities valuations have moved closer to their long-term average across international equity markets. As of December 31, 2023, MSCI EM's P/E stood at 13.67 versus a 5-year average of 13.21. MSCI EAFE ended the year with a P/E ratio of 14.25, slightly lower than its 5-year average of 15.92.

MSCI ACWI ex-U.S. Sectors

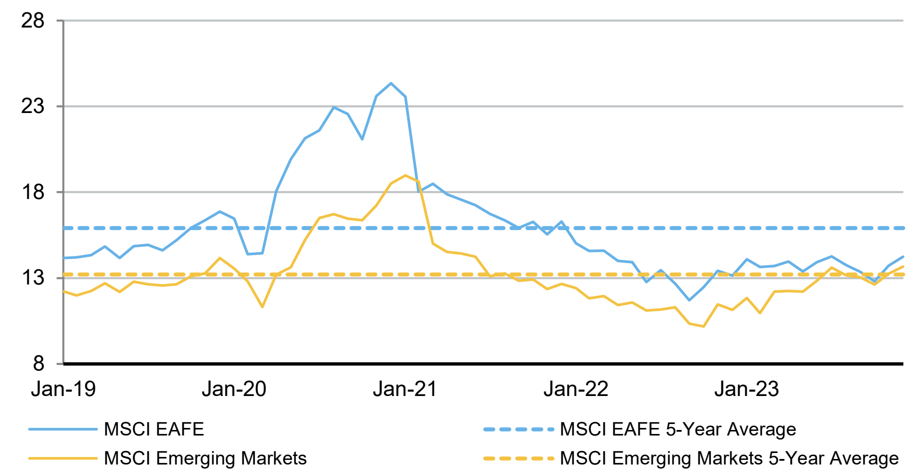
Periods Ended December 31, 2023



	Consumer Disc.	Consumer Staples	Energy	Financials	Healthcare	Industrials	Info Tech	Materials	Real Estate	Telecom	Utilities
QTD	5.71%	5.63%	2.34%	10.12%	5.16%	12.80%	19.95%	12.53%	11.10%	4.68%	13.55%
YTD	12.72%	4.91%	14.99%	16.17%	8.03%	23.22%	36.26%	12.18%	5.29%	5.66%	12.02%
1 Year	12.72%	4.91%	14.99%	16.17%	8.03%	23.22%	36.26%	12.18%	5.29%	5.66%	12.02%

Source: Bloomberg.

P/E Ratios of MSCI Equity Indices*



Source: Bloomberg.

**P/E ratios are calculated based on one-year forward estimates and adjusted to include only positive earnings results for consistency.*

FIXED INCOME

- The U.S. bond market represented by the Bloomberg U.S. Aggregate Index (Aggregate) had sharp gains in the quarter, rising 6.82%. The calendar year return for the U.S. Aggregate Index is 5.53%.

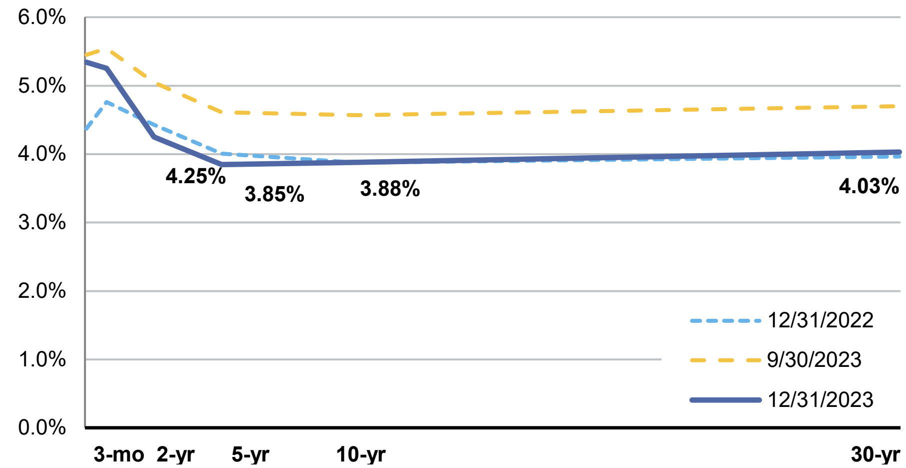
- The Bloomberg U.S. Treasury Index closed the quarter with a gain of 5.66%. During the period, the FOMC maintained interest rate levels and signaled several cuts for 2024. Long rates dropped anticipating a pivot on tightening. The curve remains inverted as the Fed Funds rate remains targeted at 5.5%. The 10-year declined about 69 bps in the quarter, ending at 3.88%, while the 2-year ended at 4.25%.

- Corporate credit had strong results for the quarter on the declining rates. The investment-grade (IG) Bloomberg U.S. Corporate (IG Corp) Index surged 8.50% higher while high yield bonds, as represented by the Bloomberg U.S. Corporate High Yield (HY) Index, posted a significant gain of 7.16%. Spreads declined across all quality buckets, but BBB-rated bonds outperformed the high yield space.

- The fixed-rate mortgage market, as measured by the Bloomberg U.S. Mortgage-Backed Securities (MBS) Index, gained 7.48%, aided by rates falling. On the commercial side, the Bloomberg U.S. Agency CMBS Index rose 5.60%.

- Emerging market USD sovereign bonds, as represented by the JP Morgan EMBI Global Diversified index, gained 9.16% led by some of the largest weighted countries.

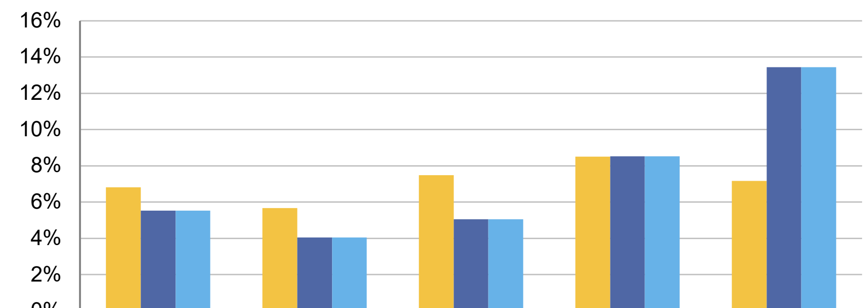
U.S. Treasury Yield Curve



Source: Bloomberg.

Returns for Fixed-Income Segments

Periods Ended December 31, 2023



	Blmbg U.S. Aggregate	Blmbg U.S. Treasury	Blmbg U.S. MBS	Blmbg U.S. Corporate	Blmbg U.S. High Yield
QTD	6.82%	5.66%	7.48%	8.50%	7.16%
YTD	5.53%	4.05%	5.05%	8.52%	13.45%
1 Year	5.53%	4.05%	5.05%	8.52%	13.45%

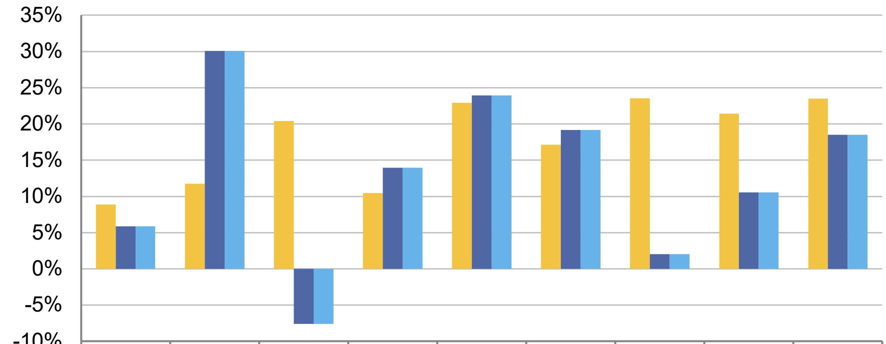
Source: Bloomberg.

ALTERNATIVES

- REITs, as measured by the FTSE NAREIT Equity REITs Index, gained 16.22% in the fourth quarter of 2023, compared to a -7.13% return in the prior quarter. All major sectors posted gains during the quarter as market participants now expect falling interest rates in the near-term. The best performers were the Office and Self-Storage sectors, which posted returns of 23.54% and 23.51%, respectively. The worst performers during the quarter were the Apartments and Healthcare sectors, which posted returns of 8.89% and 10.47%, respectively.
- Listed infrastructure, as measured by the FTSE Global Core Infrastructure 50/50 Index, gained 11.11% in the fourth quarter of 2023, compared to a -7.80% decrease in the prior quarter. Most major sectors had positive returns during the quarter as interest rates fell from their highs. The best performing industry groups were Telecom Towers and Specialized, which posted returns of 30.67% and 25.66%, respectively. The worst performing industry groups during the quarter were Cable & Satellite Communications and Alternative Carriers, which posted returns of -5.07% and 3.29%, respectively.
- Commodity futures, represented by the Bloomberg Commodity Total Return Index, fell 4.63% in the fourth quarter of 2023, compared to a 4.71% gain in the prior quarter. The U.S. Dollar Index (DXY) fell 4.56% during the same period. The price of gold increased 11.60% in Q4, due to expectations of falling yields and rising geopolitical tensions. Gold finished the quarter at $2,062.98 per ounce, up from $1,848.63 at the end of the previous quarter. The West Texas Intermediate (WTI) Crude Oil spot price fell 21.08% from $90.79 to $71.65 per barrel as the impacts of high supplies and falling demand outweighed potential price tailwinds arising from concerns in the Middle East.
- Private real estate, as measured by the NCREIF Property Index, fell -1.37% in the third quarter of 2023, resulting in a -8.40% return over the twelve-month period ended September 2023. This was the fourth consecutive quarter of negative returns for the index. Weak performance has been driven by property value declines across sectors; although, Office has seen the most significant decline. Hotel properties were again the top performers, with a total return of 1.86% in the third quarter, comprised of 2.12% in income return and -0.25% in appreciation return. Office properties were again the worst performers with total return of -3.67%, comprised of 1.30% in income return and -4.97% in appreciation return.

FTSE NAREIT Sectors

Periods Ended December 31, 2023

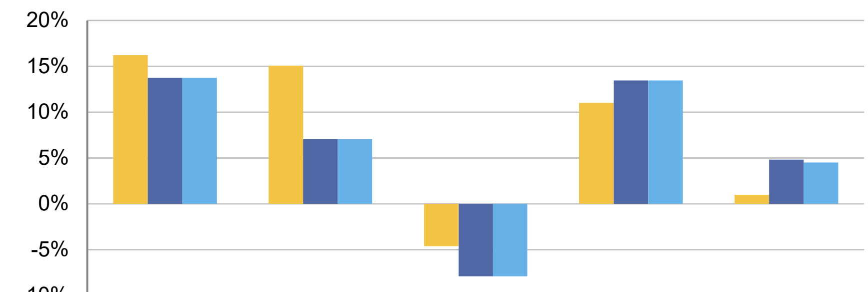


	Apartments	Data Centers	Diversified	Healthcare	Hotels	Industrial	Office	Retail	Storage
QTD	8.89%	11.76%	20.40%	10.47%	22.92%	17.13%	23.54%	21.40%	23.51%
YTD	5.87%	30.08%	-7.59%	13.94%	23.92%	19.15%	2.03%	10.57%	18.49%
1 Year	5.87%	30.08%	-7.59%	13.94%	23.92%	19.15%	2.03%	10.57%	18.49%

Source: Bloomberg.

Returns for Liquid and Semi-Liquid Alternative Assets

Periods Ended December 31, 2023



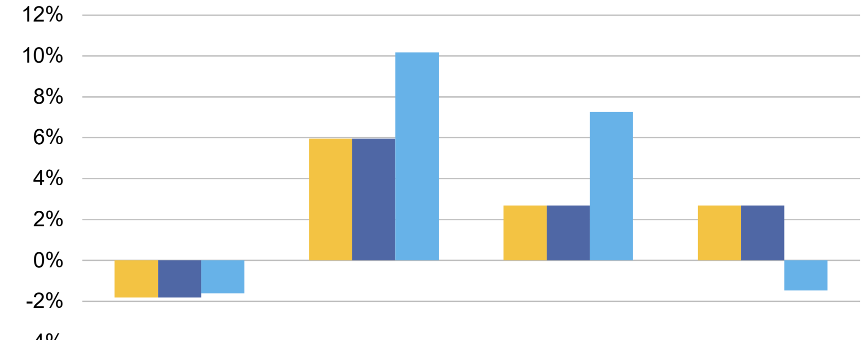
	U.S. REITs	International REITs	Commodity Futures	Gold	HFRI Fund Weighted Comp.
QTD	16.22%	15.05%	-4.63%	11.02%	0.99%
YTD	13.73%	7.06%	-7.91%	13.45%	4.82%
1 Year	13.73%	7.06%	-7.91%	13.45%	4.52%

Sources: Bloomberg and Hedge Fund Research, Inc.

ALTERNATIVES (continued)

- In the third quarter of 2023, infrastructure funds raised $10.25 billion. While this is up from the prior quarter, 2023 has seen a sharp decline in fundraising with fewer funds raising capital. Infrastructure dry powder has also fallen from previous years and stands at $244.06 billion as of Q1 2023. The asset class has received attention from investors in recent years due to expectations that it could provide steady returns during periods of volatility, inflation, and recession. According to PitchBook, infrastructure funds posted a return of 5.97% in Q1 2023. The asset class has generated an annualized return of 10.53% for the 5 years ended Q1 2023.
- In the third quarter of 2023, private debt funds raised $31.70 billion, down from the prior quarter. Private debt dry powder has fallen to $449.00 billion as of Q1 2023; although, it remains above the long-term average. The asset class has performed well relative to public fixed income over the long-term and may see more opportunities emerge in the near-term as tightening lending standards continue to push banks out of the private lending space. According to Cliffwater Direct Lending Index, U.S. middle market loans, a proxy for private debt, posted a return of 3.17% in Q3 2023. The asset class has also generated an annualized return of 8.64% for the 5 years ended Q3 2023.
- In the third quarter of 2023, private capital fundraising was led by private equity funds, which closed on $133.40 billion, up from the prior quarter. Global private equity dry powder, which accounts for the bulk of private capital dry powder, remains high at $1.55 trillion as of Q1 2023. Recent private equity performance has weakened as a result of increasing cost of leverage, slowing deal flow, and macroeconomic uncertainty; however, longer term performance relative to public equities remains strong. According to Cambridge Associates, U.S. private equity posted a return of 2.76% in Q2 2023. The asset class has generated an annualized return of 17.77% for the 5 years ended Q2 2023.
- Hedge fund returns were mostly positive quarter-to-date through November 2023 with the HFRI Fund Weighted Composite Index returning 0.99%. During the same period, the HFRI Macro (Total) Index returned -1.67%. The HFRI Equity Hedge (Total) Index and the HFRI Fund of Funds Index returned 1.82% and 1.15%, respectively.

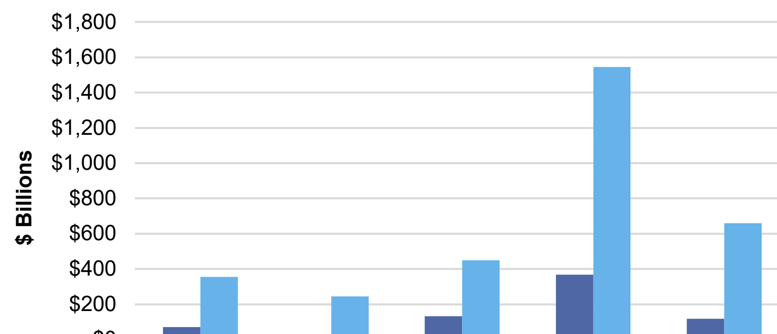
Returns for Private Capital Assets



	Private Real Estate	Infrastructure	Private Debt	Private Equity
QTD	-1.81%	5.97%	2.69%	2.69%
YTD	-1.81%	5.97%	2.69%	2.69%
1 Year	-1.60%	10.17%	7.26%	-1.46%

Source: NCREIF, PitchBook, Cliffwater, Cambridge Associates, manual inputs.
As of March 31, 2023 - most recent period for which all performance data is available.

Private Capital Fundraising & Dry Powder

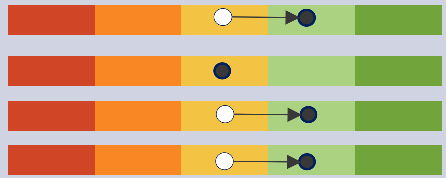
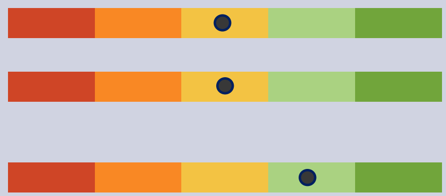
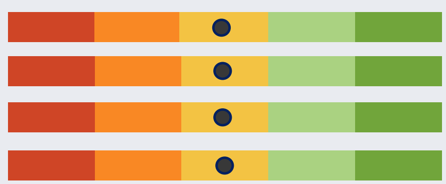


	Closed-End Real Estate	Infrastructure	Private Debt	Private Equity	Venture Capital
YTD Fundraising ($B)*	$70.1298	$17.9085	$131.5133	$366.9902	$117.3286
Dry Powder ($B)**	$354.5476	$244.0636	$448.9976	$1,546.2112	$659.1719

Sources: Pitchbook.

** Total capital raised in 2023 as of September 30, 2023 - most recent period for which ALL fundraising data is available.*
*** Cumulative dry powder as of most recent - March 31, 2022.*

Investment Strategy Overview

Asset Class	Our Q1 2024 Investment Outlook	Comments
U.S. Equities Large-Caps Mid-Caps Small-Caps		• Fed's guidance towards three rate cuts in 2024 and moderating inflation have led to recent rally in equities. Rising valuations are supported by improving earnings growth expectations and expectation of economic soft-landing. We expect a positive year for equities, as long as risks of recession remain low. • Mid- and small-cap valuations are attractive and would be beneficiary of rate cuts as investor sentiment/earnings growth expectations improves.
Non-U.S. Equities Developed Markets Emerging Markets International Small-Caps		• International equities continue to trade at a discount to U.S. equities but slowing economic growth in Europe and China is a headwind. • EM equities trade at attractive valuations relative to developed market equities. Negative investor sentiment and slower growth expectations continue to weigh on Chinese equities. We remain positive on emerging market equities outside of China. • International small-caps provide exposure to local revenue streams and are trading at attractive valuations.
Fixed Income Long-Duration, Interest Rate-Sensitive Sectors Credit-Sensitive Sectors		• The Fed's recent guidance points towards soft-landing scenario with three expected rate cuts in 2024. Yields at short-end of the curve look attractive even as long-term yields fell back from the recent highs. We expect a further fall in yields as inflation continues to moderate. • Credit markets remain attractive due to strong corporate fundamentals. We continue to seek diversified credit exposure and are closely watching signs for any distress in the corporate credit space.
Alternatives Real Estate Private Equity Private Debt Commodities		• Higher interest rates and rising foreclosure for office buildings are headwinds for private real estate returns. Public REITs have recovered as interest rates have fallen from the recent highs. We expect this trend to continue. • Private equity is facing headwinds from higher leverage costs and falling valuations. Debt strategies may benefit from banks' tighter lending standards, but risk is elevated as the economy continues to slow, which will likely lead to higher default rates. • Commodities are being impacted by supply shocks in the near-term. Over the next year, we expect slowing global demand to offset price increases from supply shocks.

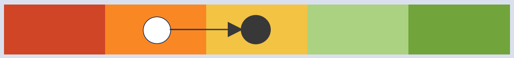
● Current outlook ○ Outlook one quarter ago

Negative	Slightly Negative	Neutral	Slightly Positive	Positive

The view expressed within this material constitute the perspective and judgment of PFM Asset Management LLC at the time of distribution (December 31, 2023) and are subject to change.

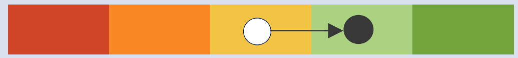
Factors to Consider Over the Next 6-12 Months

Monetary Policy:



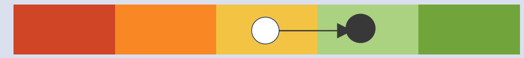
- The Fed's recent pivot towards rate cutting in 2024 points towards soft-landing scenario, which is favorable to risk assets. The path of rate cuts will determine performance of risk assets.
- Globally, most major central banks have maintained a hawkish stance but are nearing the end of the rate hike cycle.

Economic Growth:



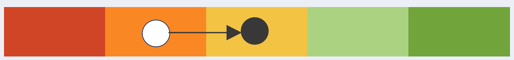
- U.S. economy is expected to avoid a recession in the near-term amidst continued strength within services activity, consumer spending, corporate balance sheets and labor markets.
- Eurozone economic growth is slowing. Emerging economies outside of China are expected to grow.

Inflation:



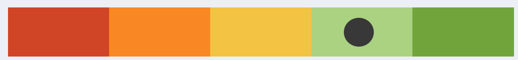
- Inflation is continuing to moderate and we expect inflation data to be supportive of rate cuts in 2024.
- Upside surprise driven by services inflation or due to rising crude oil prices on goods inflation will be negative and could lead to renewed aggressive monetary policy.

Financial Conditions:



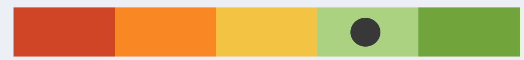
- Fed pivot along with expectations of soft-landing in 2024 has led to loosening of financial conditions.
- We continue to be focused on identifying pockets of stress within financial markets due to higher level of interest rates.

Consumer Spending (U.S.):



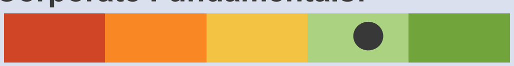
- With inflation moderating, consumer confidence has improved and retail sales have held up.
- Moderating inflation, low unemployment rate and rising real personal income may keep consumer spending while student loan repayments is a headwind.

Labor Markets:



- Labor markets remain relatively strong but showing signs of softening as economy continues to slow.
- Improving labor force participation bodes well for lower wage growth and inflation.

Corporate Fundamentals:

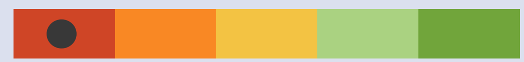


- Earnings growth expectations are improving while profit margins are stabilizing at pre-pandemic levels.
- Falling interest rates from the recent highs along with continued but slower economic growth are tailwinds.

Valuations:

- International equities look attractive relative to historical valuations but continued economic uncertainty is leading to increased volatility.
- Credit markets look attractive on the back of strong corporate fundamentals, but pockets of vulnerabilities could appear as rates remain high.

Political Risks:



- Geopolitical risks continue to remain elevated. Tensions between the U.S. and China, the war between Russia and Ukraine, the Israel and Hamas conflict, China's moves in South China Sea and Taiwan Strait further add to risks.

● **Current outlook** ○ **Outlook one quarter ago**

Stance Unfavorable to Risk Assets	Negative	Slightly Negative	Neutral	Slightly Positive	Positive	**Stance Favorable to Risk Assets**

Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg. The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC at the time of distribution (December 31, 2023) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness, or suitability.

Plan Performance Review

Asset Allocation & Performance

	Allocation		Performance(%)								
	Market Value ($)	%	1 Quarter	Fiscal YTD	2023	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Total Fund	**11,585,807**	**100.00**	**9.47**	**6.40**	**15.84**	**15.84**	**N/A**	**N/A**	**N/A**	**15.84**	**01/01/2023**
Blended Benchmark			*9.49*	*5.85*	*15.43*	*15.43*	*N/A*	*N/A*	*N/A*	*15.43*	*01/01/2023*
Domestic Equity	**4,855,943**	**41.91**	**12.55**	**8.64**	**24.51**	**24.51**	**N/A**	**N/A**	**N/A**	**24.51**	**01/01/2023**
Russell 3000 Index			*12.07*	*8.43*	*25.96*	*25.96*	*8.54*	*15.16*	*12.81*	*25.96*	*01/01/2023*
US Large Cap Index Pool	3,951,136	34.10	11.98	8.46	26.64	26.64	N/A	N/A	N/A	26.64	01/01/2023
Russell 1000 Index			*11.96*	*8.44*	*26.53*	*26.53*	*8.97*	*15.52*	*13.21*	*26.53*	*01/01/2023*
US SMID Cap Alternative Weighted Index Pool	904,808	7.81	15.11	9.43	16.00	16.00	N/A	N/A	N/A	16.00	01/01/2023
S&P SmallCap 600			*15.12*	*9.45*	*16.05*	*16.05*	*7.28*	*11.03*	*8.31*	*16.05*	*01/01/2023*
International Equity	**2,424,014**	**20.92**	**9.08**	**5.26**	**15.43**	**15.43**	**N/A**	**N/A**	**N/A**	**15.43**	**01/01/2023**
MSCI AC World ex USA (Net)			*9.75*	*5.61*	*15.62*	*15.62*	*1.55*	*7.08*	*6.33*	*15.62*	*01/01/2023*
Non-US Developed Markets Active Pool	1,837,534	15.86	9.27	5.35	16.67	16.67	N/A	N/A	N/A	16.67	01/01/2023
MSCI AC World ex USA (Net)			*9.75*	*5.61*	*15.62*	*15.62*	*1.55*	*7.08*	*6.33*	*15.62*	*01/01/2023*
Non-US Emerging Markets Index Pool	586,481	5.06	8.49	4.99	11.71	11.71	N/A	N/A	N/A	11.71	01/01/2023
MSCI EM (net)			*7.86*	*4.71*	*9.83*	*9.83*	*-5.08*	*3.68*	*4.98*	*9.83*	*01/01/2023*
Fixed Income	**4,305,850**	**37.16**	**6.40**	**4.60**	**7.59**	**7.59**	**N/A**	**N/A**	**N/A**	**7.59**	**01/01/2023**
Blmbg. U.S. Aggregate			*6.82*	*3.37*	*5.53*	*5.53*	*-3.31*	*1.10*	*1.29*	*5.53*	*01/01/2023*
Credit Plus Pool	4,305,850	37.16	6.40	4.60	7.59	7.59	N/A	N/A	N/A	7.59	01/01/2023
Blmbg. U.S. Universal Index			*6.83*	*3.76*	*6.17*	*6.17*	*-2.97*	*1.44*	*1.57*	*6.17*	*01/01/2023*

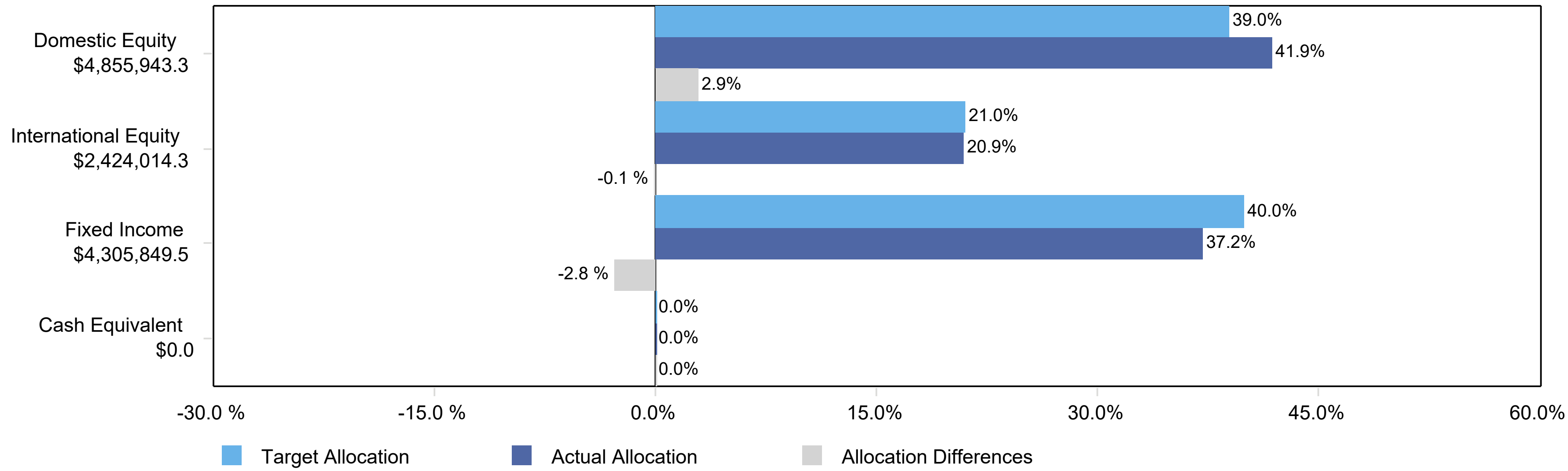
Returns are net of fees.
Returns are expressed as percentages.

Financial Reconciliation

QTR	Market Value As of 10/01/2023	Net Flows	Return On Investment	Market Value As of 12/31/2023
Total Fund	10,583,509	(3,921)	1,006,219	11,585,807
US Large Cap Index Pool	3,528,420	(91)	422,806	3,951,136
US SMID Cap Alternative Weighted Index Pool	786,071	(85)	118,822	904,808
Non-US Developed Markets Active Pool	1,681,708	(1,720)	157,546	1,837,534
Non-US Emerging Markets Index Pool	540,586	(140)	46,035	586,481
Credit Plus Pool	4,046,724	(1,885)	261,010	4,305,850

Asset Allocation Compliance - Total Fund

	Asset Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)	Differences (%)
Total Fund	**100.0**	**100.0**	**N/A**	**N/A**	**0.0**
Domestic Equity	41.9	39.0	24.0	54.0	2.9
International Equity	20.9	21.0	6.0	36.0	-0.1
Fixed Income	37.2	40.0	25.0	55.0	-2.8
Cash Equivalent	0.0	0.0	0.0	15.0	0.0



Historical Hybrid Composition - Blended Benchmark

Allocation Mandate	Weight (%)
Jan-2023	
Russell 3000 Index	39.0
MSCI AC World ex USA (Net)	21.0
Blmbg. U.S. Aggregate	40.0

IMPORTANT DISCLOSURES

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It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

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CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Review and Input on the Core and Liquidity Portfolios

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

ATTACHMENT: City of Rio IAB Report - GPA.pdf

IAB Report City of Rio Rancho

January 31, 2024

Total Aggregate Portfolio

Introduction of GPA

1. Awarded Advisory Services from the RFP dated 10/1/2023.

2. Contract was signed on 12/27/2023.

3. GPA is the leading investment advisor in New Mexico and our professionals have been working in NM for over 25 years.

4. GPA is an advocate of client education and collaboration.

5. Steps in the transition process

-Onboarding portfolio to our system
-Assessment of current strategy and portfolio positions
-Investment Policy review and input
-Guideline Portfolio Strategy review and completion
-Build the compliance report

6. Begin investments upon completed analysis.

Month End Commentary - January 2024

Yields ended the first month of the year mixed as the two-year Treasury note finished four basis points lower at 4.21% while the ten-year note increased by three basis points to 3.91%. The swift move down in rates experienced over the past couple of months appears to have lost some momentum on surprisingly vibrant economic activity that occurred in the final month of 2023. Risk assets continued to climb higher, supporting those who believe in the January effect, as the S&P 500 index advanced by 1.6% during the month while reaching record highs along the way.

We were given our first look at economic growth for the final quarter of 2023 with the advance reading showing that real GDP grew at a 3.3% annualized pace beating expectations as growth decelerated from the torrid 4.9% rate experienced in the previous quarter. Consumption was robust, contributing to almost 2% of the final reading, while an unexpected rise in business inventories also contributed. Despite buoyant economic growth, inflation readings continued to trend lower as the core CPI index decelerated to an annual rate of 3.9% in December while the Fed preferred, core PCE gauge, fell to 2.9%. Both figures are still running in elevated territory and may have a difficult last leg to go, but the Fed is sure to welcome any continued progress towards their target.

The labor market didn't just remain resilient in January, it picked up steam as the economy added an eye-popping 353 thousand jobs to payrolls in what was the largest monthly gain in a year. Further, revisions to prior periods added an additional 117 thousand workers to December's advance. Wage growth was robust with average hourly earnings accelerating to a 4.5% annualized pace. However, some economists are cautioning that number may not be what it seems, as average weekly hours fell to a three-year low of 34.1 due to inclement weather experienced throughout a vast part of the US. Regardless, the report does not garner support for Fed officials to cut interest rates in March, or even May as some market participants have been forecasting.

We remain neutral on most spread products as credit spreads remain tight relative to historical averages and as supply in agency markets has dwindled. With that, one pocket of opportunity where we have been seeing value and healthy supply is in supranational markets. With the Fed expected to ease monetary policy in mid-2024, we continue to be constructive on duration and advise clients to be near or slightly long relative to their benchmark.

Treasury Curve Total Returns Last 12 Months

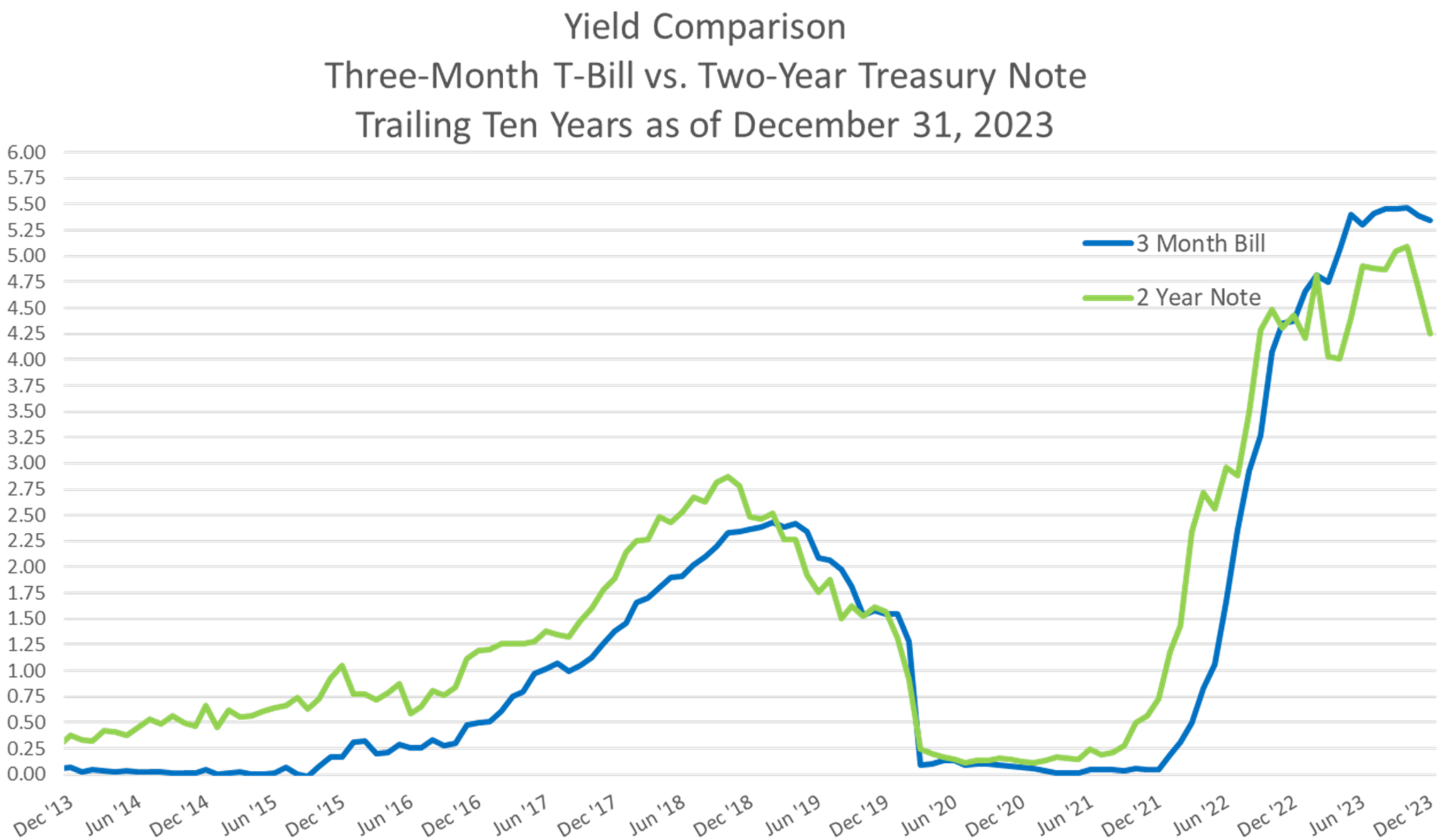
Treasuries	Total Return
3 month bill	5.13%
1 year note	4.78%
2 year note	3.22%
3 year note	3.08%
5 year note	2.08%

Treasury Benchmark Total Returns In Month

Benchmark	Period Return	YTM	Duration (Years)
ICE BAML 90 Day Bill	0.43%	5.34%	0.22
ICE BAML 0-1 Year Treasury	0.41%	5.13%	0.49
ICE BAML 0-3 Year Treasury	0.40%	4.58%	1.37
ICE BAML 0-5 Year Treasury	0.37%	4.38%	2.1

Changes In The Treasury Market (Absolute Yield Levels)

Treasuries	01/31/2023	11/30/2023	12/31/2023	01/31/2024	1 Month Change	12 Month Change
3 month bill	4.64%	5.39%	5.33%	5.36%	0.03%	0.72%
6 month bill	4.80%	5.40%	5.25%	5.19%	-0.05%	0.40%
2 year note	4.20%	4.68%	4.25%	4.21%	-0.04%	0.01%
3 year note	3.90%	4.44%	4.01%	3.98%	-0.03%	0.08%
5 year note	3.62%	4.27%	3.85%	3.84%	-0.01%	0.22%
10 year note	3.51%	4.33%	3.88%	3.91%	0.03%	0.41%



Source: Bloomberg

Historical Fund Balances

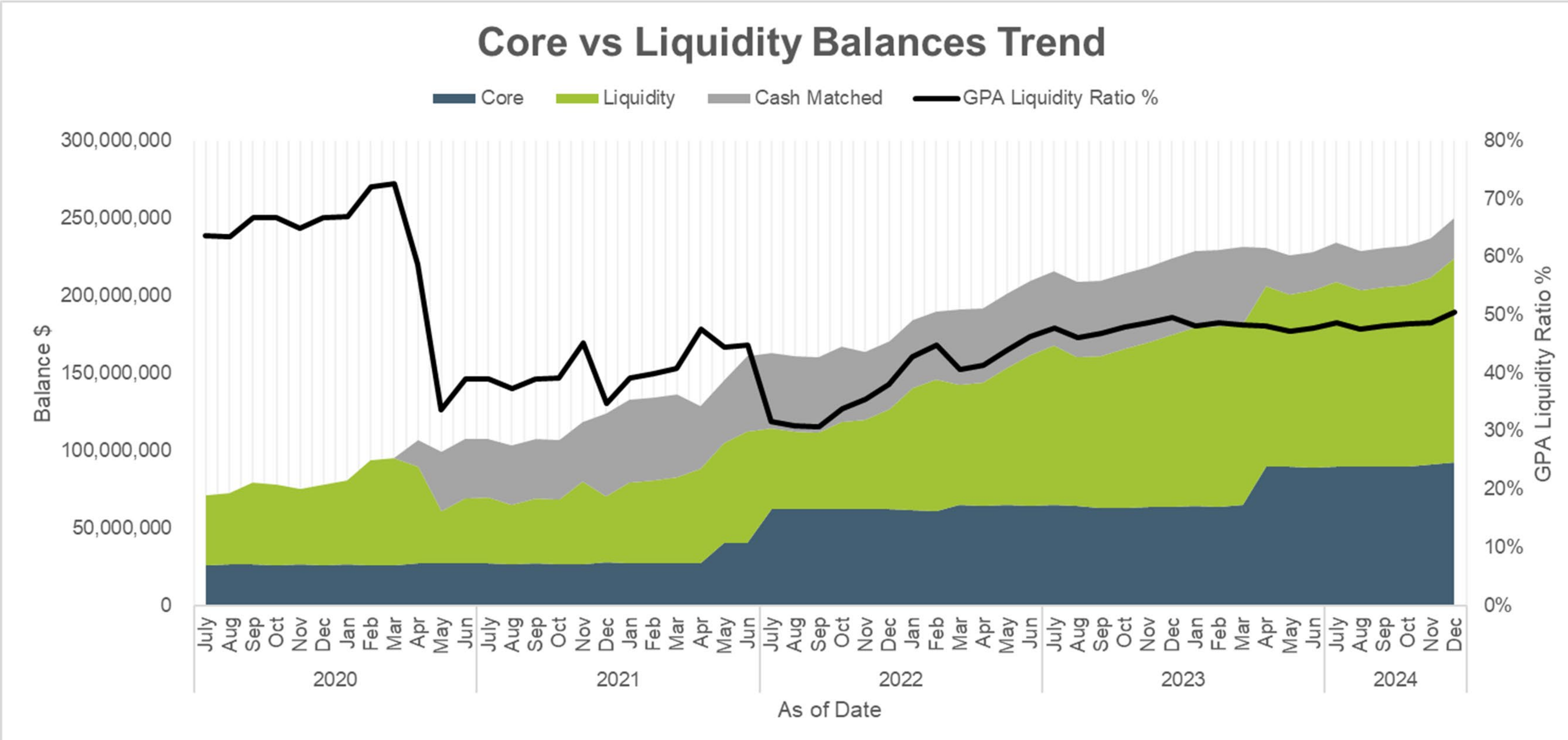
City of Rio Rancho |Total Investable Funds

FISCAL YEAR	2020	2021	2022	2023	2024
July	$71,356,548	$107,581,592	$162,995,392	$215,861,799	$244,973,821
Aug	$72,092,147	$103,027,202	$161,102,004	$208,573,161	$239,670,949
Sep	$79,035,481	$107,488,465	$160,244,512	$209,749,724	$241,221,755
Oct	$77,736,900	$106,448,000	$167,168,947	$214,195,485	$242,511,425
Nov	$74,808,985	$118,275,501	$163,698,475	$218,515,789	$247,817,152
Dec	$77,849,473	$123,516,995	$170,581,835	$223,498,272	$261,120,180
Jan	$80,471,819	$132,461,313	$183,962,894	$239,392,954	$0
Feb	$93,391,001	$133,842,001	$189,615,632	$239,924,768	$0
Mar	$94,915,085	$136,186,496	$190,715,620	$241,835,750	$0
Apr	$106,605,393	$128,853,790	$191,873,092	$241,130,102	$0
May	$98,963,946	$145,111,155	$201,455,886	$236,093,793	$0
Jun	$107,415,013	$160,921,393	$209,779,999	$239,106,575	$0

ANNUAL HISTORICAL SUMMARY	2020	2021	2022	2023	2024
Average Balance:	$86,220,149	$125,309,492	$179,432,857	$227,323,181	$246,219,214
Maximum Balance:	$107,415,013	$160,921,393	$209,779,999	$241,835,750	$261,120,180
Minimum Balance:	$71,356,548	$103,027,202	$160,244,512	$208,573,161	$239,670,949
Variance in period Max/Min	$36,058,465	$57,894,191	$49,535,488	$33,262,589	$21,449,231

Historical Positioning of Portfolio Structure

City of Rio Rancho | Holistic Approach



Portfolio Component Recommendation for Transition

City of Rio Rancho | Portfolio Components Under Review

					Recommended Range	
2/16/2024	Current %	Current	Target %	Target Amount	Minimum	Maximum
Liquidity	55.27%	$ 145,207,349	20%	$50,000,000	$ 40,000,000	$ 60,000,000
Benchmark		Duration			Minimum	Maximum
ICE BofA US 1-Month Treasury Bill Index		0.01			0.01	0.01
2/16/2024		Current			Minimum	Maximum
Cash Matched	9.80%	$ 25,746,210	30%	$70,000,000	$ 10,000,000	$100,000,000
		0.01				
Benchmark		Duration			Minimum	Maximum
ICE BofA 0-1 Year US Treasury Index		0.5			0.1	0.75
2/16/2024		Current			Minimum	Maximum
Core Investment Fund	34.93%	$ 91,749,542	50%	$140,000,000	$ 90,000,000	$175,000,000
		2.41				
Benchmark		Duration			Minimum	Maximum
ICE BofA 0-5 Year US Treasury Index		2.10			1.5	2.5
Total Portfolio		**$ 262,703,100**				

Cash Matched Portfolio

City of Rio Rancho | Cash Flow Analysis

January 31, 2024

Dates	Inflows	Payroll	Payroll Tax	Debt Svcs	CIP	Other	Monthly Requirements
1/1-1/31/24	29,844,560	3,580,559	1,620,835		4,177,563	5,438,589	15,027,014
2/1-2/28/24	15,500,000	3,600,000	1,650,000	739,135	5,000,000	5,000,000	(489,135)
3/1-3/31/24	14,000,000	5,400,000	2,500,000		5,000,000	5,000,000	(3,900,000)
4/1-4/30/24	13,000,000	3,600,000	1,650,000		5,000,000	5,000,000	(2,250,000)
5/1-5/31/24	15,500,000	3,600,000	1,650,000	8,852,818	5,000,000	5,500,000	(9,102,818)
6/1-6/30/24	25,000,000	4,000,000	1,700,000	5,703,809	5,000,000	7,500,000	1,096,191
7/1-7/31/24	14,500,000	4,300,000	1,820,000		3,000,000	5,500,000	(120,000)
8/1-8/31/24	17,500,000	6,500,000	2,730,000	5,463,315	3,000,000	7,500,000	(7,693,315)
9/1-9/30/24	16,500,000	4,300,000	1,820,000		5,000,000	6,000,000	(620,000)
10/1-10/31/24	15,000,000	4,300,000	1,820,000		5,000,000	5,000,000	(1,120,000)
11/1-11/30/24	19,000,000	4,300,000	1,820,000	1,485,271	5,000,000	5,000,000	1,394,729
12/1-12/31/24	25,000,000	4,300,000	1,820,000	330,231	5,000,000	5,000,000	8,549,770
	220,344,560	51,780,559	22,600,835	22,574,578	55,177,563	67,438,589	772,436

Total Funding Needs	219,572,124.27
Negative Month Funding	(25,175,268.05)

Summary Overview

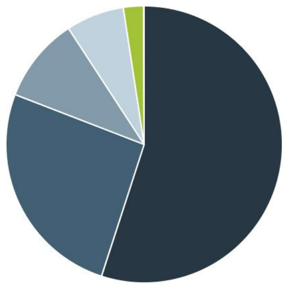
City of Rio Rancho | Current Portfolio

January 31, 2024

Portfolio Characteristics

Metric	Value
Cash and Cash Equivalents	171,597,642.30
Investments	92,407,922.01
Book Yield	4.56%
Market Yield	4.95%
Effective Duration	0.82
Years to Maturity	0.88
Avg Credit Rating	AAA

Allocation by Asset Class



Note: Corporate IG – is in Mutual funds and ETF's
Mortgage Securities are under US Agency Securities

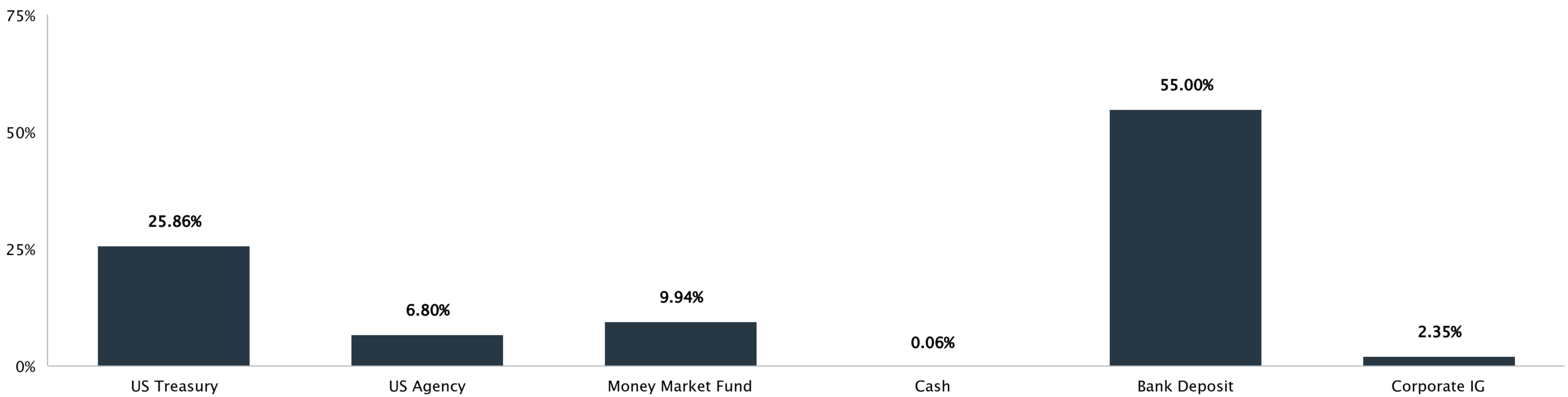
Strategic Structure

Account	Par Amount	Book Value	Original Cost	Market Value	Net Unrealized Gain (Loss)	Accrued	Yield at Cost	Effective Duration	Benchmark Duration	Benchmark
RIO-Cash Matched Investments	25,746,209.66	25,746,209.66	25,746,209.66	25,746,209.66	0.00	0.00	5.20%	0.00	0.07	ICE BofA US 1-Month Treasury Bill Index
RIO-Investment Core	90,871,176.52	93,994,891.20	93,328,784.30	92,644,795.93	(1,350,095.27)	407,209.81	3.24%	2.32	2.10	ICE BofA 0-5 Year US Treasury Index
RIO-Liquidity	145,207,348.92	145,207,348.92	145,207,348.92	145,207,348.92	0.00	0.00	5.29%	0.01	0.07	ICE BofA US 1-Month Treasury Bill Index
Total	**261,824,735.10**	**264,948,449.78**	**264,282,342.88**	**263,598,354.51**	**(1,350,095.27)**	**407,209.81**	**4.55%**	**0.82**		

Security Type Distribution

Security Type	Par Amount	Book Yield	Market Value + Accrued	% of Market Value + Accrued
US Treasury	71,780,000.00	2.85%	68,271,567.27	25.86%
US Agency	18,347,092.80	4.53%	17,942,754.74	6.80%
Money Market Fund	26,243,560.55	5.22%	26,243,560.55	9.94%
Cash	146,732.83	0.00%	146,732.83	0.06%
Bank Deposit	145,207,348.92	5.29%	145,207,348.92	55.00%
Corporate IG – ETF and Mutual FUnds	100,000.00	3.60%	6,193,600.00	2.35%
Total	**261,824,735.10**	**4.55%**	**264,005,564.31**	**100.00%**

Security Type Distribution



Risk Management-Credit/Issuer

City of Rio Rancho | Total Portfolio

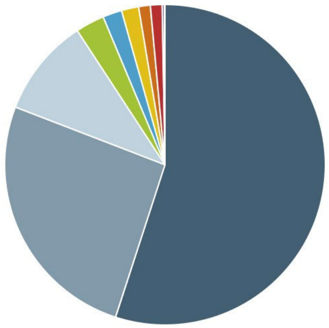
January 31, 2024

Credit Rating S&P/Moody's/Fitch

	Market Value + Accrued	%
S&P		
AA+	86,214,322.01	32.66
AAA	146,732.83	0.06
AAAm	26,243,560.55	9.94
NA	151,400,948.92	57.35
Moody's		
Aaa	112,604,615.39	42.65
NA	151,400,948.92	57.35
Fitch		
AA+	85,473,515.30	32.38
AAA	27,131,100.10	10.28
NA	151,400,948.92	57.35
Total	**264,005,564.31**	**100.00**

Note: Corporate IG – includes ratings down to BBB

Issuer Concentration



- Wells Fargo Deposit **55.0%**
- United States **25.9%**
- U.S. Bancorp **9.9%**
- Federal Home Loan Mortgage Corporation **2.9%**
- Federal Home Loan Banks **1.9%**
- Federal National Mortgage Association **1.7%**
- The Vanguard Group, Inc. **1.2%**
- BlackRock, Inc. **1.2%**
- Farm Credit System **0.2%**
- US Dollar **0.1%**

Risk Management-Maturity/Duration

City of Rio Rancho | Total Portfolio

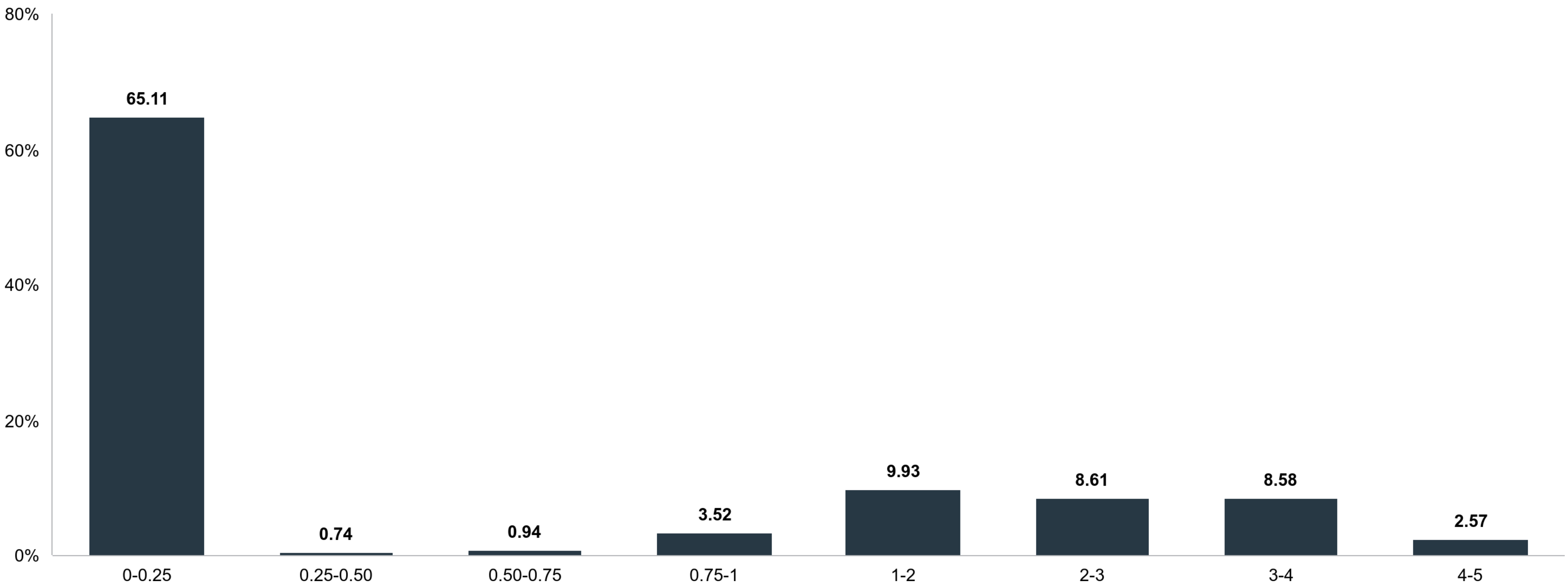
January 31, 2024

0.82 Yrs	Effective Duration

0.88 Yrs	Years to Maturity

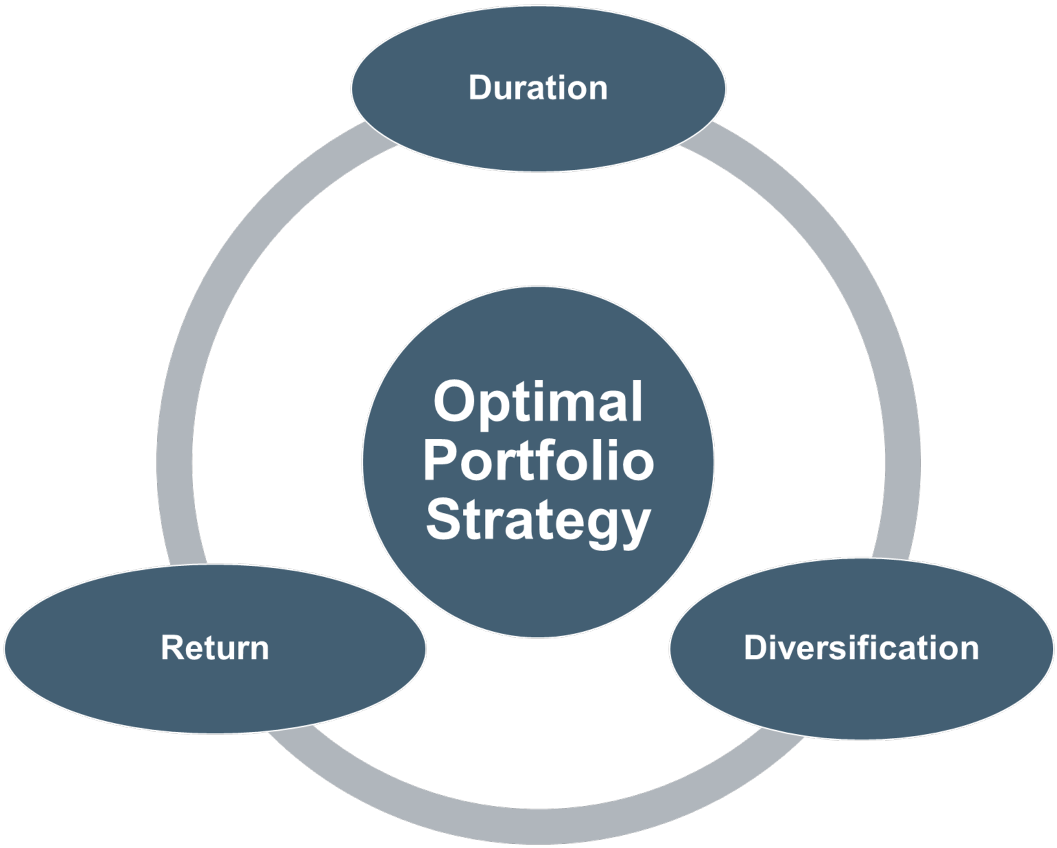
303	Days to Maturity

Distribution by Effective Duration



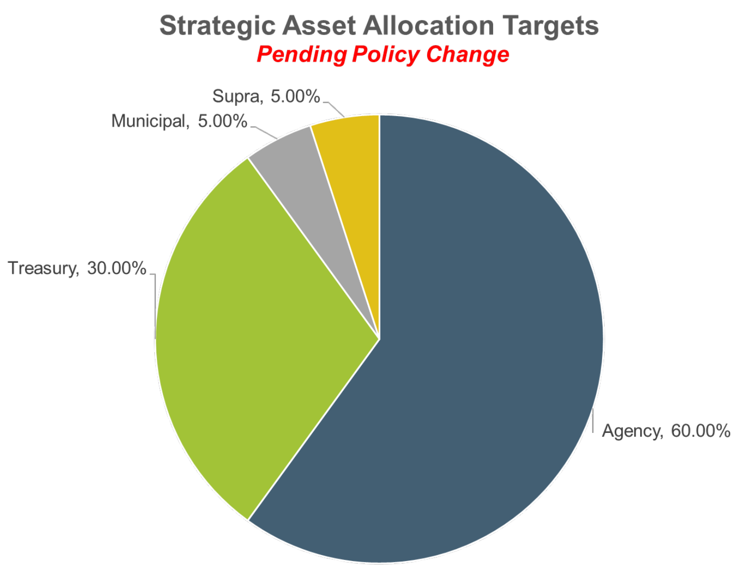
GPA Strategy Overview For Investments

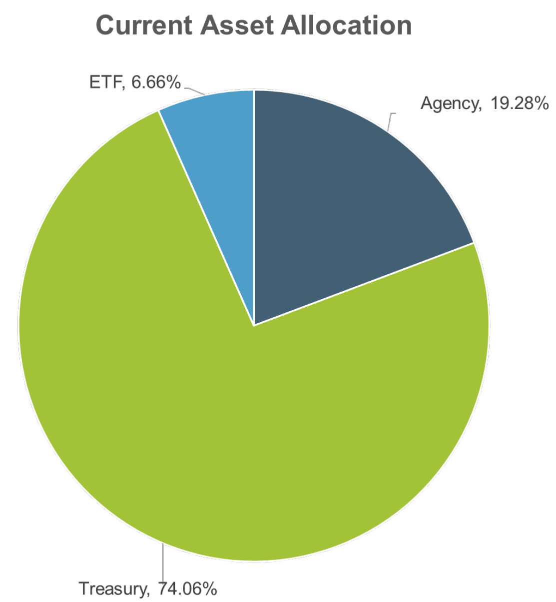
City of Rio Rancho | Strategy Approach



Optimal Portfolio Strategy for Core Investment Component

City of Rio Rancho | Strategy Transition





Market Sector	Strategic Target	Tactical Bands
Agency	60%	10%-75%
Treasury	30%	10%-90%
Municipal	5%	0%-10%
Supranational	5%	0%-15%

Transparency and Reporting

City of Rio Rancho | Client Portal

CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Review and Input on the Investment Policies for the Core and Liquidity Portfolios

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

ATTACHMENT: Draft Investment Policy Revisions 2024.docx

Exhibit A

CITY OF RIO RANCHO
ADMINISTRATIVE POLICIES AND PROCEDURES

Investment Policy

Chapter: 2
Article: 17
Revised: XX/XX/XXXX
Revised: 6/10/2020
Effective: 04/03/2017

Section

2-17-1 Purpose

The purpose of this Policy is to set specific policy requirements and guidelines for the investment of City funds within the parameters established by the Charter and City Code Sections 36.55 through 36.62 ("the City Code") of the City of Rio Rancho ("the City") and the laws of New Mexico.

2-17-2 Scope

This Policy applies to all financial assets over which the City has direct control as well as those funds the City is responsible for as custodian or trustee. These funds are reported in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund;
- Special Revenue Funds;
- Debt Service and Debt Reserve Funds;
- Capital Projects Funds;
- Internal Service Funds;
- Agency Funds; and
- Enterprise Funds

Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in the securities permitted by this policy. Notwithstanding the other provisions of this policy, the percentage or dollar portfolio limitations listed elsewhere in this policy do not apply to bond proceeds

2-17-3 Objectives

The City shall manage and invest its cash and assets with three major objectives, listed in order of priority: safety, liquidity, and return. All investments shall be managed in a manner responsive to the public trust and consistent with state and local law.

The City shall maintain a comprehensive cash management program which includes the timely collection of accounts receivable and timely vendor payments made in accordance with invoice terms and prudent investment of assets.

A. Safety
   The primary objective of the City's investment activity is the preservation of principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

B. Liquidity
   The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

C. Return

Return should become a consideration only after the basic requirements of safety, and liquidity have been met. The City seeks to attain a market-average rate of return on its investments throughout economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and State and Local laws, and ordinances or resolutions that restrict investments.

2-17-4 Investment Strategy

The City seeks to pool fund groups for investment purposes. The City may allocate investments among separate portfolios based upon specific investment strategy considerations.

The City shall pursue a proactive portfolio management strategy. Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade and opportunities will be constantly evaluated for investments to maintain a reasonable market return. The Treasurer and Investment Advisor will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

2-17-5 Delegation of Authority and Responsibilities

A. Treasurer/Finance Director

Authority to manage the investment program is granted to the Treasurer by City Code Section 36.57. Section 6.01 of the City Charter states that the Director of the Department of Finance shall function as the City Treasurer unless another person is designated by resolution.

1. Authority to manage the investment program is granted to the Finance Director pursuant to City Code Section 36.57. The Finance Director, or designee, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of authorized subordinate officials (Investment Officers).

2. The City may further contract with an SEC-registered Investment Advisor to advise on the management of and conduct trades on behalf of the City's investment portfolio, in accordance with this Policy, and such other written instructions as are provided.

3. No person may engage in an investment transaction except as provided under this Policy and the procedures established by the Finance Director.

4. Any authority granted in State statute shall be secondary to the lawfully adopted Policy of the City to the extent that this Policy is more restrictive than State statute.

B. Governing Body

1. The Governing Body has ultimate fiduciary responsibility for the investment of City funds.

2. The Governing Body shall review and adopt the Investment Policy at least every three

years.

C. Investment Advisory ~~Group~~ Board

The Governing Body has determined that formal citizen input regarding the management of local government investment portfolios and associated policy is appropriate and advantageous. An Investment Advisory Board is established in Chapter 33 Boards, Commissions, and Committees that outlines Board membership and duties and responsibilities.

1. ~~The City Manager shall create an Investment Advisory Group to advise the Finance Director on the execution of her/his duties imposed by the City Code and this Policy. The Investment Advisory Group shall meet at least quarterly to:~~

    a. ~~Review investment holdings reports;~~

    b. ~~Review quarterly performance reports;~~

    c. ~~Deliberate on topics such as economic outlook, portfolio strategy, diversification, maturity structure and potential portfolio risks;~~

    d. ~~Review investments for compliance with this Investment Policy;~~

    e. ~~Review the Investment Policy no less than annually and recommend updates and modifications to the Governing Body, if advisable;~~

    f. ~~Review broker/dealers authorized to provide investment services to the City and review the performance of broker/dealers;~~

    g. ~~Review any pooled investment vehicles, such as mutual funds or trusts, prior to initial purchase;~~

    h. ~~Assess, no less than annually, the utility and efficacy of established internal investment controls and procedures;~~

    i. ~~Upon sufficient budget availability, the Investment Advisory Group may request a compliance audit be performed by an independent public accountant that examines investment transactions to determine adherence to the Investment Policy;~~

    j. ~~Make recommendations to the City regarding selection of an Investment Advisor; and~~

    k. ~~Review the performance of the City's Investment Advisor.~~

2. ~~The members of the Investment Advisory Group shall include the Mayor, the Deputy Mayor, the City Manager or designee, the Finance Director, a department head selected by the City Manager, and two residents of the City who have expert knowledge or professional experience in public finance or public funds investing.~~

3. ~~The Mayor, with approval of the City Council, shall appoint the resident members who shall serve a term of two years from the date of the appointment. If the resident members resign, remove their residence from the City, or are otherwise removed from the group for cause as determined by the City Manager and confirmed by the Governing Body, new members shall be appointed in a like manner, to serve a full term of two years from the date of appointment. Per the decision of the Mayor, with City Council approval, resident members are able to serve more than one term.~~

D. Ethics and Conflicts of Interest

The Finance Director, Investment Officers, and members of the Investment Advisory ~~Group~~ Board shall:

1. Refrain from personal and business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions;

2. Receive from the Finance Director an annual listing of all portfolio positions in order to determine if personal disclosure is required for any personal financial or investment positions that could be related to the performance of the investment portfolio. The Investment Officers and Investment Advisory ~~Group~~ Board shall disclose any contracts (mortgages or loans) from City authorized institutions and disclose personal portfolios managed by or through a City authorized broker/dealer. The size of the US Treasury and Agency markets negates any need to disclose holding in these authorized investments types;

3. Refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

4. Nothing herein shall be construed to bar any individual from using a financial institution for normal customer transactions, including but not limited to, checking accounts, savings accounts, consumer credit cards, certificates of deposit, and money market funds, all on the same terms as such institution offers to the general public.

2-17-6 Standard of Care: Prudence

The standard of prudence to be used by the City for managing its investments is the Uniform Prudent Investor Act (UPIA), notwithstanding state statutory constraints.

Investment officers acting within the parameters of the City Code and this 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 so that appropriate actions can be taken to reduce risk in accordance with the terms of this Policy.

2-17-7 Authorized Security Broker/Dealers and Financial Institutions

Security Broker/Dealers

The Finance Director shall maintain information on all financial institutions authorized to provide investment services to the City. The security broker/dealers are to be approved by the Investment Advisory ~~Group~~ Board on the basis of creditworthiness (minimum capital requirements of $10,000,000 and at least five years of operation) and the firm's ability to offer competitive prices on securities transactions. All financial institutions and broker/dealers who desire to become authorized broker dealers for investment transactions must supply the following:

1. Annual audited financial statements;
2. Proof of Financial Industry Regulatory Authority (FINRA) certification and the FINRA CRD number;
3. Proof of New Mexico state registration;
4. Completed City broker/dealer questionnaire; and
5. Certification of having read this Investment Policy.

Each broker/dealer must obtain a copy of the current Investment Policy and certify to a review stating understanding of the Policy. Material changes to this Policy will require re-certification.

The performance of all authorized broker/dealers will be reviewed at least annually by the Investment Advisory ~~Group~~ Board.

If an external Investment Advisor is authorized to conduct investment transactions on the City's behalf, the Investment Advisor may use her/his own list of approved issuers/broker/dealers and financial institutions for investment purposes.

2-17-8 Internal Controls

The Finance Director shall establish and maintain procedures and internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address issues including the following:

A. Control of collusion;
B. Separation of transaction authority;
C. Delivery versus payment;
D. Custodial safekeeping;
E. Investment accounting;
F. Repurchase agreements;
G. Wire transfer agreements;

H. Collateral/depository agreements;
I. Banking services contracts;
J. Clear delegation of authority to subordinate staff members;
K. Written confirmation of all transactions; and
L. Review, maintenance and monitoring of security procedures both manual and automated.

2-17-9 Delivery versus Payment

All trades involving deliverable securities will be executed by delivery versus payment (DVP). This ensures that securities are deposited in the City's eligible financial institution prior to the release of City funds. Securities shall be held by a City-approved, independent third party custodian as evidenced by safekeeping receipts.

2-17-10 Authorized Investments

Assets of the City may only be invested in the instruments listed below, as authorized by New Mexico State Statute 6-10-10. If changes are made to State Statute authorizing additional investments, they will not be authorized until this Policy is modified and adopted by the Governing Body.

The following types of investments are authorized:

A. **Demand Deposits:** Deposits (liquid deposits, such as DDAs, savings accounts and market rate accounts) are allowed in certified and designated New Mexico financial institutions, in accordance with the New Mexico State law, whose deposits are insured by an agency of the United States. All deposits will comply with state statute and Section XII of this Policy regarding collateral requirements.

B. **Certificates of Deposit:** Certificates of Deposit are allowed in certified and designated New Mexico financial institutions, in accordance with New Mexico State law, whose deposits are insured by an agency of the United States. All deposits will comply with state statute and Section XII of this Policy regarding interest rates and collateral requirements not to exceed one (1) year to stated maturity.

C. **United States Treasury Obligations:** Securities that are issued by the United States government that are either direct obligations of the United States or that are backed by the full faith and credit of the United States government. Investments shall be limited to a maximum maturity of five (5) years at time of purchase.

D. **United States Agency and Instrumentality Obligations:** Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. Investments in U.S. Government Agency and Instrumentality Obligations shall be limited to a maximum stated maturity of five (5) years at time of purchase.

E. **Obligations of State and Local Governments and Public Authorities:** These include bonds or negotiable securities of the State of New Mexico or a county, municipality or school district located in New Mexico that has a taxable valuation of real property for the last preceding year of at least one million dollars ($1,000,000) and that has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding. If rated, such obligations shall be rated at least A (long-term) or Al (short-term) or their equivalents by at least one nationally recognized rating agency and not to exceed three (3) years to stated maturity.

F. **The New Mexico State Treasurer's Local Government Investment Pool.**

G. **SEC Registered, AAA-rated Government Money Market Mutual Funds:** A qualified money market mutual fund must:

1. be registered with the United States Securities and Exchange Commission;

2. 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;

3. assess no fees pursuant to Rule 12b-l, 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, provided that the City shall not, at any time, own more than five (5) percent of a money market mutual fund's assets;

4. be invested only in United States Government and Agency Obligations and repurchase agreements secured by such obligations; and

5. be rated AAAm or equivalent by a nationally recognized rating agency.

H. **Repurchase Agreements (Repo):** Contracts for the simultaneous purchase and resale, at a specified time in the future, of specific securities at specified prices at a price differential representing the interest income to be earned by the City. The contract at the time of purchase shall be fully secured by the Authorized Collateral described in Section XII having a market value of at least one hundred two percent (102%) of the amount of the contract. The Repurchase Agreement must have a stated maturity date not to exceed one (1) year to maturity. Flexible repurchase agreements may only be used for bond proceeds with a maturity not to exceed the expenditure plan of the funds.

I. **Shares of a Diversified Investment Company and Individual or Collective Trust Funds of Banks or Trust Companies:** These include shares of a company or trust pursuant to the federal Investment Company Act of 1940 that invests in fixed-income securities or debt instruments that are listed in a nationally recognized, broad-market, fixed-income-securities market index; provided that the investment company or manager has total assets under management of at least $100,000,000 and provided that the Investment Policy of the City may

allow reasonable administrative and investment expenses associated with the investment company to be paid directly from the income or assets of these investments. In addition, the City may invest in Fixed Income mutual funds or exchange traded funds (ETF's) that are passively managed to track the performance of a nationally-recognized fixed income index. The City may gain exposure to the following investment types through these vehicles:
U.S. Treasuries
U.S. Treasury Inflation Protection Securities (TIPS)
U.S. Agencies, including GSE's identified above (fund or ETF may hold Agencies other than those permissible for direct City investment)
U.S. municipal issues (BBB-AAA)
U.S. investment grade corporate issues (BBB-AAA)
U.S. high yield corporate issues
Foreign fixed income issues
Any investment pool offered by the New Mexico State Investment Council (SIC) that is available for investment by the City.

The City may not invest directly in any mutual fund or ETF that contains non-fixed income assets such as equities or alternative assets. Aside from the SIC Investment Pools, these investment types are excluded from permissibility per NMSA Chapter 6, Article 10.

The City will utilize the weighted average fund duration to control the interest rate risk of each fund holding.

Investment types, asset classes and sectors not explicitly permitted under Section 6-10-10 (NMSA 1978 annotated) are not permissible by the City.

Any investment held by the City that does not meet the guidelines of this Policy shall be liquidated as soon as possible. Proceeds shall be reinvested only as provided by this Policy.

Securities which do not meet Policy requirements because of an adopted change in the Policy shall be reviewed by the Investment Advisory ~~Group~~ Board to decide on appropriate action to be taken to hold to maturity or liquidate. Liquidation is not mandatory.

Securities which do not meet Policy rating requirements because of a change in credit rating shall be reviewed by the Investment Advisory ~~Group~~ Board to decide on appropriate action to be taken to hold to maturity or liquidate. Liquidation is not mandatory.

2-17-11 Competitive Selection of Investment Instruments

A. It will be the policy of the City to use a competitive trading process, whenever practical, that obtains at least three offers or bids. The City will accept the bid/offer which provides (a) the best competitive price within the maturity required and considering the credit quality of the investment; and (b) optimizes the investment objectives of the overall portfolio.

B. Offers or bids for securities may be received from authorized broker/dealers or issuers of qualified securities as defined in Section X.

C. The City shall produce and retain written records of each transaction including the name of the financial institutions offering or bidding on securities, rate or price quoted, description of the security, bid/offer selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase or the highest bid was not selected for sale, an explanation describing the investment objective prompting the investment/sale will be included in this record.

D. New issue offerings may be purchased from an approved broker/dealer or directly from the issuer without competitive solicitation if it is determined that a new issue will best meet the City's investment objectives. It will be the responsibility of the Finance Director/Investment Advisor involved with each purchase to produce and retain written records of each transaction when competitive solicitation is not followed.

E. The Finance Director shall authorize all investment transactions in writing or via email. Executed trade documents shall be reviewed for compliance and signed by the Finance Director after the trade.

F. All trade fails or compliance violations are to be documented in an error report on the day that they are discovered and the Finance Director shall document the reason for each error. Errors shall be summarized in a report to the Investment Advisory ~~Group~~ Board even if corrected.

2-17-12 Collateralization

A. Time and Demand Deposits

All City time and demand deposits, (DDAs, certificates of deposit and interest bearing accounts), shall be secured above the FDIC insurance coverage by collateral pledged to the City pursuant to the requirements of this section. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored daily by the depository at 102% of market value of principal and accrued interest on the deposits.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the City, the Depository, and the custodian. (If the custodian is the Federal Reserve, a Circular 7 Pledgee Agreement will be executed.) The collateral agreement shall be approved by resolution of the Bank Board or Bank Loan Committee in accordance with FIRREA[1]. The custodian shall provide a monthly list of collateral directly to the City.

[1]Financial Institutions Resource and Recovery Act is used as the control for FDIC when closing a bank and requires an executed agreement approved by one of these bank boards.

All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

B. Authorized Collateral
The City shall accept only the following securities as collateral for time and demand deposits:

1. Obligations of the United States, its agencies or instrumentalities, or other securities that are guaranteed by the United States.

2. Obligations, the principal and interest on which, are guaranteed or insured by the State of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions.

3. Letters of credit issued by a federal home loan bank.

2-17-13 SafeKeeping

The laws of the State and prudent treasury management require that all deliverable securities be bought on a delivery versus payment basis and be held in safekeeping by an independent third party financial institution or the City's designated banking services depository.

All safekeeping arrangements shall be approved by the Finance Director and an agreement of the terms executed in writing. The safekeeping institution shall be required to issue original safekeeping receipts listing each security by rate, description, maturity, par amount, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City.

2-17-14 Investment Parameters

A. Portfolio Components.
While the City accounts for its financial assets in various governmental Fund and general ledger accounts and investment income and market value changes are apportioned accordingly, the assets are managed as two sub-portfolios:
- the Liquidity Component
- the Core Component

The primary purpose of the Liquidity Component is to provide daily liquidity to the City while controlling the risk factors. The City strives to minimize the Liquidity Component level so that more cash may be deployed as earning assets in the Core Investment Component.

The purpose of the Core Investment Component is to convert excess cash, over and above the required Liquidity Component level, to earning assets. Performance is measured on a total return basis and an accrual earnings basis. As this portfolio consists of operating reserves and bond proceeds awaiting eventual expenditure, a longer-term focus is appropriate. Principal preservation remains a primary objective, as the Core Investment Component's funds may be utilized to meet debt service, capital project, and operational requirements. As such, strict duration management is in order to manage acceptable principal value change.

B. Diversification.
Investments shall be diversified to reduce the risk of loss resulting from an over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The following diversification limitations at the time of purchase shall apply to each portfolio:

U.S. Treasury Obligations	100%
U.S. Agencies/Instrumentalities	80%
Per issuer	30%
Per Issuer Other than Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Farm Credit Bank	10%
Repurchase Agreements	50%
Certificates of Deposit	40%
In any one bank	15%
Demand Deposits	100%
State/Local/Public Authority Obligations	25%
Local Government Investment Pool	75%
Government Money Market Funds	50%
In any one fund	20%
Ownership of the fund	5%
Shares of a diversified investment company or trust	40%
In any one fund	20%

C. Maximum Maturity and Maximum Effective Duration.

1. The City recognizes that all portfolios with marketable investment securities are subject to interest rate risk. Therefore, to limit the City's exposure to the possibility of loss due to interest rate fluctuations, the City will not commit any funds to maturities longer than seven years to the stated maturity from date of purchase.

2. The stated maturity date on investments made for legal reserves will not exceed the next call date of the designated bond but in no event shall exceed 7 years.

3. In debt service funds, each subsequent debt service payment should be funded before any extension is made in maturities.

4. Because of inherent difficulties in accurately forecasting cash flow requirements, a

portion of the portfolio should be continuously invested in readily available funds such as overnight repurchase agreements, Local Government Investment Pool, demand deposit accounts, or money market mutual funds to ensure that appropriate liquidity is maintained to meet operating obligations.

5. To control overextension of the portfolio, the city will use an effective duration ceiling of one and a half (1.5) – three and a half (3.5) years. The effective duration will be reported on the quarterly reports.

2-17-15 Investment Reporting

A. Quarterly Reporting
The Finance Director shall submit an investment report to the City Manager, the Advisory ~~Group~~ Board and the Governing Body at least quarterly.

The report will include the following at a minimum:

- A full description of individual securities including amortized book and market value;
- Unrealized gains or losses;
- Summary change in market value during the period as a measure of volatility (market prices for the calculation of market value will be obtained from independent sources);
- Effective duration;
- Weighted average yield of the portfolio;
- Return of the portfolio(s) and the City's selected benchmark(s);
- Earnings for the period (accrued and net amortization); and
- Statement of compliance of the investment portfolio with Investment Policy.

If the City uses an Independent Investment Advisor, the Investment Advisor shall report quarterly, in writing, to the Investment Advisory ~~Group~~ Board. The report shall review recommended investments, portfolio strategies, and quarterly performance against the benchmark(s).

B. Performance Standards and Benchmarks
The City's portfolio shall be evaluated and compared to appropriate indices in order to assess the relative performance of the City's investment program. The comparable benchmarks should be consistent with the City's portfolio in terms of maturity and composition, which includes credit quality and security type.

2-17-16 Policy Approval

The Investment Policy shall be reviewed by the Investment Advisory ~~Group~~ Board once annually and reviewed and approved at least every three years by the Governing Body. The resolution approving the Policy shall detail any and all changes made to the Policy as a result of the review.

APPROVED THIS _________ DAY OF _____________, 2022

____

Matthew Geisel, City Manager

Definitions

Agency – A debt security issued by a government-sponsored enterprise (GSE). While not explicitly guaranteed by the government, GSEs are generally traded with an "implied" guarantee. An example of a GSE is the Federal National Mortgage Association (FNMA).

Credit Quality – The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Ratings Scales –
Credit quality comparison of short term and long term ratings are as follows:
Rating Standard &Poor's Moody's Fitch
Short Term A-1+ A-1 P-1 F-1+ F-1
Long Term AAA -A- A+-A- Aaa-A3 AAA-A- A+-A

Current Yield Current Return – A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) – A type of securities transaction in which the purchaser pays for the securities when they are delivered to the purchaser or the custodian.

Discount – The amount by which the par value of a security exceeds the price paid for the security.

Diversification – A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security.

Fair Value – The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
Government Securities – An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds".

Investment Policy – A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Local Government Investment Pool (LGIP) –An investment by local governments in which their money is pooled as a method for managing local funds.

Par – Face value or principal value of a bond, typically $1,000 per bond.

Premium – The amount by which the price paid for a security exceeds the security's par value.

Principal – The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prudent Person Rule – An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Total Return – The sum of the portfolio interest earnings plus amortization/accretion plus realized gains plus unrealized gains minus fees divided by the average portfolio value during the period.

Treasury Bills – Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000.

Treasury Notes – Intermediate U.S. government debt securities with maturities of one to ten years and issued in denominations ranging from $1,000 to $1 million or more.

Treasury Bonds – Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000.

Yield – The current rate of return on an investment security generally expressed as a percentage of the security's current price.

CITY OF RIO RANCHO
COVER PAGE

Legislation Item:

AGENDA DATE:
February 28, 2024

DEPARTMENT:
City Clerk

SUBJECT:
Review and Input on the Investment Policy Statement for Permanent Fund

BACKGROUND AND ANALYSIS:

IMPACT:

ALTERNATIVES:

DEPARTMENT RECOMMENDATION:

ATTACHMENT: City of Rio Rancho_Permanent Fund IPS - 2024 Revision Draft.doc

INVESTMENT POLICY STATEMENT

FOR

CITY OF RIO RANCHO VISION FUND

Adopted September 22, 2022

Exhibit A

TABLE OF CONTENTS

SECTION **PAGE**

The City of Rio Rancho has established a Permanent Fund, known as the City of Rio Rancho Vision Fund (the “Fund”). This Fund will be used to invest monies to support the City’s general operations. The Fund consists of General Fund reserves resulting from positive revenue variances (revenue in excess of budget) and positive expense variances (expenses less than budget) accumulated in excess of policy targets. The City of Rio Rancho Governing Body hereby adopts this Investment Policy Statement (“Policy Statement”) for the following purposes.

Purpose

The main investment objective of the Fund is to achieve long-term growth of Fund assets by maximizing long-term rate of return on investments and minimizing risk of loss, especially as the monies are initially invested, and to provide funding for general government purposes as determined by the Governing Body.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives, performance expectations, and investment guidelines for Fund assets.

2. Establish an appropriate investment strategy for managing all Fund assets, including an investment time horizon, risk tolerance ranges, and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Fund.

3. Establish investment guidelines to control overall risk and liquidity.

4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.

5. Comply with fiduciary, prudence, due diligence, and legal requirements for Fund assets.

Investment Authority

The City of Rio Rancho Governing Body will oversee certain policies and procedures related to the operation and administration of the Fund. The Governing Body will have authority to implement the investment policy and guidelines in the best interest of the Fund to best satisfy the purposes of the Fund. In implementing this Policy Statement, the Governing Body believes it may delegate certain functions to:

1. The City Treasurer, as defined in Section 6.01 of the City Charter as the Director of the

Department of Financial Services. The Treasurer shall be responsible for all transactions undertaken and shall establish an investment policy statement to set the specific policy requirements and guidelines for the investment of the City's Permanent Fund and a system of controls to regulate the activities of subordinate officials.

2. The Investment Advisory Board established pursuant to Chapter 33 of the City Code of Ordinances. The Investment Advisory Board shall review the investment policy statement annually and provide input to the Governing Body regarding proposed changes, provide input on the use of distributions from the Fund, and review and provide input on administration and management of the Fund.
3. The New Mexico State Investment Council ("NMSIC"), as investment advisor.
4. A consultant to assist with periodic review of a) the investment policy statement, b) the performance of the investment portfolio, and c) the asset allocation guidelines including recommendations to rebalance the portfolio as referenced in the "Periodic Re-balancing" section. The consultant may be a contracted individual or company with specific subject matter experience, procured by the City to provide expertise for the listed functions.
5. A trustee appointed by the Fund, such as a bank trust department, if the Fund does not have its own Trustees, to assume fiduciary responsibility for the administration of Fund assets; provided, however, that if the Governing Body shall have appointed an investment advisor, then any trustee appointed under this paragraph shall have no authority with respect to selection of investments.
6. Specialists such as attorneys, auditors, and other consultants to assist the Governing Body in meeting its responsibilities and obligations to administer Fund assets prudently.

Statement of Investment Objectives

The investment objectives of the Fund are as follows:

1. To invest assets of the Fund in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Fund beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for distribution to the City's General Fund and reasonable expenses of operation of the Fund.
3. To enhance the value of Fund assets in real terms over the long term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. Subject to performance expectations over the long term, to minimize principal fluctuations over the Time Horizon (defined under the section labeled "Time Horizon").

5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled “Performance Expectations”.

Investment Guidelines

Within this section of the Policy Statement, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. They are:

"Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are: domestic and international equities or equity funds, and certain real estate investments.

"Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes are: fixed income securities, unconstrained bond strategies, structured credit securities, high yield corporate bonds, and opportunistic credit funds.

"Real Return Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. Investments within the Real Return category can include infrastructure, timber, agriculture, energy, inflation-linked securities, commodities, and other similar assets.

Time Horizon

The Fund’s investment objectives are based on a long-term investment horizon (“Time Horizon”) of 20 years or longer. Interim fluctuations should be viewed with appropriate perspective. The Governing Body has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

Liquidity and Diversification

In general, the Fund may hold some cash, cash equivalent, and/or money market funds for near-term Fund benefits and expenses (the “Fund Distributions”). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments, or industries.

Asset Allocation

The Governing Body believes that to achieve the greatest likelihood of meeting the Fund's investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Fund's target rate of return over the long term, as described in the section titled "Performance Expectations."

	Asset Weightings	
Asset Classes	**Range**	**Target**
Growth Assets		
Domestic Equity	24% - 54%	39%
International Equity	6% - 36%	21%
Income Assets		
Fixed Income	25% - 55%	40%
Cash Equivalents	0% - 15%	0%

The NMSIC and each Manager will be evaluated against their peers on the performance of the total funds under their direct management.

Rebalancing Philosophy

The asset allocation range established by this Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy Statement ranges. When allocations breach the specified ranges, the Consultant will recommend rebalancing the assets within the specified ranges. The Consultant may also recommend rebalancing based on market conditions. Limitations on the timing and frequency of rebalancing due to the operational procedures permitted by NMSIC are anticipated, and will be taken into account by the Consultant before each rebalance recommendation.

Risk Tolerance

Subject to investment objectives and performance expectations, the Fund will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

Performance Expectations

Over the long-term, five years or longer, the performance objective for the Fund will be to achieve an average total annual rate of return that is equal to or greater than the Fund's actuarial discount rate. Additionally, it is expected that the annual rate of return on Fund assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Fund investments, and blended benchmark comparisons for the Fund in its entirety.

Selection of Investment Managers

The Consultant shall prudently recommend appropriate Managers offered by NMSIC to invest the assets of the Fund.

Guidelines for Portfolio Holdings

Recommended Investments by Consultant

Every effort shall be made, to the extent practical, prudent, and appropriate, to select investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in the following sub-sections of the "Guidelines for Portfolio Holdings"). However, given the nature of the investments available through the NMSIC, it is recognized that there may be deviations between this Policy Statement and the objectives of these investments.

Limitations on Managers' Portfolios

EQUITIES

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry, or individual security diversification. However, prudent diversification standards should be developed and maintained by each NMSIC Manager.

International Equities. The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions, and sectors.

FIXED INCOME

The overall rating of the fixed income assets shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

CASH EQUIVALENTS

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas, or timber and the purchase of collectibles is also prohibited.

Control Procedures

Review of Investment Objectives

The Consultant shall review annually and report to the Investment Advisory Board and Governing Body the appropriateness of this Policy Statement for achieving the Fund's stated objectives. It is not expected that this Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Policy Statement.

Review of Investment Performance

The Consultant shall report on a quarterly basis to the Investment Advisory Board to review the investment performance of the Fund.

The Consultant shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. Examples of benchmarks and indexes that will be used include the Russell 3000 Index for broad U.S. equity strategies, S&P 500 Index for large cap U.S. equities, Russell 2000 Index for small cap U.S. equities, MSCI ACWI ex-U.S. Index for broad based non-U.S. equity strategies, MSCI Europe, Australasia, and Far East (EAFE) Index for developed markets international equities, Bloomberg U.S. Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T-bill for cash equivalents. The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the MSCI ACWI ex-U.S. Index will be used to benchmark the non-U.S. equities portfolio; and the Bloomberg U.S. Aggregate Bond Index will be used to benchmark the fixed income portfolio. The categories "Other" will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used.

Voting of Proxies

The Governing Body recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the NMSIC.

Other Requirements

The Governing Body will establish additional controls and requirements as necessary for any investments outside of the management of the State Investment Council. These requirements will include permissible investments, safekeeping requirements, requirements for delivery versus payment of investment trades, and collateralization.

Adoption of Investment Policy Statement

Any changes and exceptions to this Policy Statement will be made in writing and adopted by the Governing Body via resolution. This Investment Policy Statement was adopted on September 22, 2022 via Resolution 2022-____.