

SANDOVAL TREASURER'S INVESTMENT COMMITTEE (STIC)

REGULAR MEETING MINUTES

Sandoval County Treasurer's Conference Room

April 2, 2014

1. CALL TO ORDER

Meeting was called to order at 4:02 PM.

Present: Laura M. Montoya, County Treasurer

Larry Polanis, STO Treasury Controller

Linda Montoya Roseborough, Chief Investments Officer, Office of the State Treasurer

Judi Walker, STO Deputy Treasurer

Trish Greene, STO Accounting Supervisor

Rob Burpo, Financial Advisor, LPL First Financial

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

Not Present: Don Chapman, Commissioner

Phillip Rios, County Manager

Joe "Skip" Kruzich, Community Member

Mario Martinez, Community Member

2. APPROVAL OF AGENDA

Motion to approve the April 2, 2014 agenda by Roseborough; Second by Polanis; All in favor; Motion carries.

3. APPROVAL OF MINUTES

Motion to approve the October 17, 2013 Regular Meeting Minutes by Polanis; Second by Roseborough; All in Favor; Motion carries.

4. STATUS OF THE TREASURER'S OFFICE–Laura M. Montoya, Treasurer

Treasurer Montoya stated that she scheduled the meeting to be held in the Treasurer's Office Conference Room so the STIC members could see the office at work.

- **NMSU New Mexico Edge Courses** – The job description for Tax Researchers has been changed to include the requirement that a Certified Treasury Officer (CTO) designation be earned within a year of being hired. Treasurer Montoya has received her Certified Public Official (CPO) designation and is working on her CTO. Five other staff members, including Trish Greene and Larry Polanis, have already earned their CTO. The other five staff members have started their coursework. This Treasurer's Office will be the first one in the state to have all employees to earn a CTO designation.
- **GFOA Winter Conference** – Treasurer Montoya appreciated the presentations: Purchasing update; LGIP; New Mexico, Fraud Prevention through Process Improvement; Economic Situation and Outlook for NM; and Governmental Audit update.

- **GIOA Conference** – GIO Conference—In Clark County Nevada. Several representatives from New Mexico including McKinley, Santa Fe, and Bernalillo county Treasurer/staff, the state Treasurer's investment staff; and the county manager and finance director for SF County. Topics of discussion included: strategies to prepare your portfolio and governing body for the portent of higher interest rates; asset/sector allocation, benchmarking, the top 25 economic indicators, market myths the first day. The Treasurer learned most from the "intermediate fixed income boot camp".

The second day included economic update; preparing for a rising rate environment, banking services and products, revisiting the building blocks of a sound portfolio; and a keynote address from Keith McCullough, founder and CEO of Hedgeye Risk Management.

Friday was a half day session that included a money market update; discussion of the Federal Reserve's Tri-Party Repo Report; The future of LGIP's where Spenser Wright from the State Treasurer's Office was one of the six presenters; and ended with a panel discussion.

- **RFP for Banking and Investment Services** – RFP for banking and investment services—The Treasurer's office put out an RFP at the beginning of the year. He had four banks apply, one write a letter to remove themselves from the bid and three that proceeded forward. We have the Board of Finance meeting on Thursday, April 17th in which we will bring forward two awardees for approval.
- **RFP for Portfolio Manager** (4.44-12:17) –The RFP opened on Monday, March 31st. Treasurer Montoya anticipates awarding the position by May 1, 2014 so that an emergency Board of Finance meeting can take place to approve the awardees right before the scheduled commission meeting.

Rob Burpo has been chosen as the Financial Advisor for the County and after May 1st will no longer be working directly with the Treasurer's Office on investments. Everyone was able to work together to get it done because the County Manager, Phil Rios, wanted it done by May 1st.

Burpo apologizes for being late due to him being in budget hearings. (5.25) Rob Burpo explained some of his job functions as the commissions Financial Advisor. Burpo stated it would include "consolidated reports, bond issues, working with successful banks on financing issues that are traditional with the banking relationship with government, working with them on ...typically get better terms." Roseborough asked if Burpo would still be working on investments. Burpo shook his head no.

Treasurer Montoya stated the Portfolio Manager will work under the direction of the Treasurer and is an outside source that will be paid basis points and will manage the investments.

Treasurer Montoya asked how the transfer process would take place. Burpo stated, "The transfer part is one of the most simplest things in the world. There is a

standard industry form; you put the name of the receiving firm and the subsequent firm. It is particularly the easiest thing that our industry produces.”^(7:58) Dickson stated, “Any mutual funds can take a couple of weeks.” Burpo stated, “I think we can do this in a 24 to 48 hours period if you hand hold it which we will.” Roseborough questioned, “But you’re going to time it with market conditions? And Burpo responded, “Absolutely. [LPL] compensation does not get affected. Once we sign our contract with the county, even if the funds are at our place, there is no more fees being paid by the county under our previous contract. We’ve already worked it out with our Receive and Deliver department for a transaction like this and they’re saying 24 to 48 hours.” Roseborough asked if LPL has a custodian. Burpo answered, “We act as a custodian and so does Paul’s firm.” Dickson clarifies that NMBT is not a custodian and that government treasuries and agencies are with the Federal Reserve but they use Northern Trust. ^(9:38)

5. STATUS OF INVESTMENT POLICY – Laura M. Montoya, Treasurer ^(12.22-14.07)

STIC members received a copy of the most recently revised Investment Policy to review. It’s been given to the County Manager for his review. Afterward Treasurer Montoya will meet with the County Manager to discuss any problems, questions or concerns. A Working Group will be held and then the Investment Policy will be presented to the Board of Finance for approval. If any STIC member has questions about the policy they may contact Treasurer Montoya.

6. DISCUSSION OF COUNTY INVESTMENTS – Laura M. Montoya, Treasurer; Mr. Rob Burpo, LPL/ First American Financial & Mr. Paul Dickson, NMBT Wealth Management^(14:10- 43.52)

Burpo talked about the market and its behavior over the last 45-60 days. ^(14:10- 20:38) Mr. Rob Burpo was unprepared to discuss the portfolio under his management and did not have any documentation to give to the committee. Committee member Roseborough asked for an analysis on the specific portfolio he manages. Mr. Burpo stated, “I didn’t bring anything today.” Roseborough stated she would like to see something in regards to the specific portfolio. Burpo stated, “With all due respect, I spent the last two days upstairs dealing with things that I have to get up to speed with very very quick and I’m sorry if that doesn’t quite meet your agenda but I have other things to do as well for my clients.” Roseborough asked if Burpo was still on contract with the Treasurer. Burpo stated, “Yes and with the county.” Treasurer Montoya stated, “the contract for the financial advisor for the county has not gone through yet.” Burpo stated, “that doesn’t mean that work isn’t being done.” Mr. Burpo asked for an office computer to print “the stuff out right now”. The Treasurer noted that she made it clear that all presentation information was needed and had not received anything from Mr. Burpo. She stated that it was imperative to get specific documentation from Burpo of the assets he manages because it would be the last time that he would present on the \$15 million dollar portfolio before transferring it over to NMBT for safekeeping. (The committee agreed to move on to Mr. Dickson’s presentation while Burpo printed statements.)^(14:10-23:22)

Paul Dickson presented a recap of the investments at NMBT. He stated that their strategy focuses on Active Liquidity Management which provides preservation of capital and safety of investments in a liquid portfolio. It’s 5 years or less and laddered for a higher rate of

return all while following the requirements in the Investment Policy. 83% of the portfolio is in Treasuries, 11% is in Agencies, 4% is in Municipals and 2% is in cash. The maximum maturity is 5 years. Currently, 41% of the portfolio has a maturity of up to 2 years, 21% has a maturity of 2-3 years, 26% has a maturity of 3-4 years and 10% has a maturity of 4-5 years. 6% of the 4-5 year maturity is in callable security which could be classified in the 2-3 year category. 6% of the 3-4 year maturity is also in callable securities which could be classified in the 2-3 year category. Paul Dickson reviewed the portfolio holdings. The portfolio started with about \$8,000,000 and is currently valued at about \$8,600,000. The current yield on the portfolio is 1.1%. It's estimated that by the end of the year the yield could increase to 2%.^(23:23-35:27)

Rob Burpo resumed his presentation and reviewed his account valuation statements beginning with the 2007 PILT Bond Reserve Fund. The average maturity/duration of this portfolio is about 3.2 years. The yield to maturity information is not yet available for another 24 to 48 hours. Roseborough asked how the funds are performing. Burpo stated, "Limited term did extremely well, all three of these guys did extremely well, they were in their top tier, they were in the top 20 percentile of their benchmark, their SA category, PIMCO has taken just a little bit more of a hit here very recently, because of the turmoil at PIMCO with Mohamed El-Erian leaving the firm and you saw some withdrawals there." Dickson said, "it was down 2.2% and that is why people were dumping it. It was one of the worst performing bond funds of 2013, total return, wasn't it?" Burpo stated, "No. It had liquidation issues like everybody else did. It is still a preeminent fund. It's actually had a pretty good run the last 45 days but the last 15 days, it comes and goes. It is not a trading vehicle. It is a long term investment vehicle. We don't use it. This particular portfolio can have up to a five year maturity duration." Dickson asked for clarification, "duration or maturity, duration?" Burpo stated, "You can have either. According to the investment policy and the bond indenture Paul, it cannot have a maturity of higher than five years. That's the maximum maturity it can have. The bond indenture is silent on duration. We have kept this particular portfolio with a duration of about 3.25 years on purpose". Roseborough asked, "But these are funds?" Burpo states, "I understand." Roseborough stated, "so I guess I don't understand the maturity?" ^(41:38) Burpo states, "they all have an average duration and an average maturity, all of the funds do, that's one of the things we have to, if they can't tell us what their average maturity and average duration of their portfolio is, then we won't invest in them. In other words, they know what the duration is of the bonds in their portfolio and what the maturities are and they have to do an aggregate daily mark-to-market, not only evaluation but maturity and duration."^(35:28-42)

Burpo explained the Hospital Earnings Account is 100% interest earnings from 2011 and 2012 to start with and is down about \$45,000. Committee member Roseborough stated "but that doesn't mean it should have a negative". Burpo stated, "no, it doesn't, it means that the day that we invested, it was two weeks before Mr. Bernanke made his famous comments." Burpo then stated, "If that's. I'm done. I ain't gonna put up with this crap. Sorry Linda, I don't deal with that" and abruptly left the meeting before finishing his report on the several other funds (7) he manages. ^(42-43:52).

There was discussion about the best way to proceed with safekeeping the investments until the new Portfolio Manager is in place. Indemnity for the new portfolio manager due to concerns of questionable legacy assets to confirm that holding those assets, though they may not conform to the 2008 Investment Policy, it should be acceptable to hold the asset to avoid the risk of further loss if that opportunity avails in the market.

7. STATUS OF COLLECTIONS – Larry Polanis, Sandoval County Treasurer’s Office

Larry reviewed the Tax Schedule Maintenance Report for March 2014. The collection rate for all years is 94.18% which doesn’t include the collection of the 2nd half of the 2013 tax bill which begins April 10th. For the 1st and 2nd years delinquent can be collected before they are turned over to the State. Penalty and interest collected for those years’ remains with the County. Anything over 2 years delinquent is turned over to the State who collects and keeps the penalty and interest. From 2010 back is a collection rate of better than 99%. March and April 2013 the emphasis switched from collecting delinquent taxes on mobile homes to collecting delinquent taxes on real property. This resulted in the collection of \$2.9M in 2013. There was a decrease in outstanding taxes from March 31, 2013 to March 31, 2014 of \$5.9M. There was an increase in collections of \$8.9M. Although the tax roll is increasing, the collections rate is getting better. The total taxes charged to the Treasurer increased by \$8M last year. The Treasurer’s Office is collecting more taxes with the same number of staff for the last 10 years.

8. NEXT MEETING DATES – Trish Greene, Sandoval County Treasurer’s Office

The next meeting is tentatively scheduled for June 12, 2014 at 4:00pm.

9. NEW BUSINESS

10. ADJOURN

Motion was made to adjourn at 5:05pm by Polanis; Second by Roseborough; All in Favor; Motion Carried.