

**INVESTMENT POLICY STATEMENT**  
**FOR**  
**CITY OF RIO RANCHO VISION FUND**

*Adopted September 22, 2022*

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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.
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.”

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
<b>Growth Assets</b>		
Domestic Equity	24% - 54%	39%
International Equity	6% - 36%	21%
<b>Income Assets</b>		
Fixed Income	25% - 55%	40%
<b>Cash Equivalents</b>	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 22-088.