City of Albuquerque, New Mexico
Investment Policy Statement (IPS)

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A. Purpose:

The City of Albuquerque holds significant cash balances, arising from capital project borrowings and operational revenues, and awaiting expenditure for purposed needs. It is imperative that the City forecast its daily, weekly, monthly, and annual net cash flow needs to ensure adequate liquidity is available. Aligning with the liquidity necessity is the requirement to protect these financial assets from material loss by minimizing market, interest rate, credit, liquidity, and other risks. Finally, once sufficient liquidity is ensured and risk minimized, the City seeks to maximize total return on invested assets, subject to risk tolerance constraints. This mandate of optimizing **safety**, **liquidity**, and **return** helps to ensure the citizens of Albuquerque that the investment program is protecting and enhancing the public's resources.

Please refer to the Glossary of Terms located in Section Q. at the end of this document for clarification of terms used throughout this IPS.

B. Responsibility:

Investment Oversight Committee.

The City's Investment Oversight Committee (the "IOC") is responsible for formulating and implementing this investment policy statement. The IOC is established under §4-1-9 of the Revised Ordinances of Albuquerque 1994 (ROA 1994), and is provided with this authority by the Chief Administrative Officer via Chapter 4, Article 1.9 of the Fiscal Agent Ordinance. This Ordinance states that the IOC is responsible for:

a. Establishing, maintaining and amending general policy and procedures for investing city monies.
b. Establishing collateral requirements for city deposits.
c. Establishing specific parameters and/or limitations on particular types of investments.
d. Ensuring proper internal controls are established and maintained to prohibit unauthorized investment activities.

Further, the IOC is charged with carrying out the following functions:

- Approving, monitoring, and reviewing the investment strategy for compliance with the IPS and with federal and state regulations.
- Reviewing the IPS annually and recommending changes to it when appropriate.

The following actions must be approved in advance by the IOC:

- Changes to the Core Portfolio's Strategic Asset Allocation.
- Changes to the Core Portfolio's Tactical Asset Allocation.
- Change of portfolio benchmarks.
- Designation of the index to which an ETF or mutual fund position is managed.
- Change to deposit collateral level.

- Changes to Core Portfolio performance appraisal and attribution measurements.
- Broker/dealer listing changes, including those to be utilized by a fiduciary investment adviser;
- Investment policy changes;
- Updates to the internal controls/procedures document.
- Any changes to management of the Urban Enhancement Trust Fund, Open Space Trust Fund, or OPEB Trust.

IOC Membership.

The Fiscal Agent Ordinance designates the following City staff as members of the five-member IOC, subject to appointment by the CAO:

- Chief Financial Officer (Chair);
- Director, Department of Finance & Administrative Services;
- City Treasurer;
- 2 staff members from anywhere within City government.

These members may designate in advance an alternate to attend IOC meetings and vote on IOC resolutions. Additionally, the following staff may serve as non-voting ad hoc advisory members:

- City Economist
- City Budget Officer
- City Controller
- City Council Representative
- City Investment Officer

Chief Financial Officer & Investment Officer.

Per Section 4-1-9 of the City of Albuquerque Code of Ordinances, the Chief Administrative Officer delegates responsibility for managing the investment program to the Chief Financial Officer (CFO). In turn, the CFO delegates investment program management to the City Investment Officer. The Investment Officer shall make investment decisions in compliance with this Policy and other guidelines designated by the IOC. The Chief Financial Officer must approve in writing all transactions effected by the Investment Officer (electronic documentation is sufficient).

Investment Adviser.

The City may engage the services of an external Investment Adviser to assist with the management of the City's investment portfolio in a manner that is consistent with the City's IPS. If retained, the Adviser will serve in a fiduciary capacity on a fixed-fee basis. As such, the Adviser is prohibited from engaging in selling to or buying from the City securities in a broker/dealer capacity. The City may at its discretion grant the

Adviser authority to act as agent to solicit offers and bids from the broker/dealer community for the purchase and sale of investments in accordance with this Investment Policy Statement. The offers or bids will be presented to the City Investment Officer for selection. The Investment Advisor may utilize its approved broker dealer list and must submit this list to the City annually for IOC approval. The Investment Adviser relationship will be non-discretionary, as the City will retain and act with full discretion on all investment decisions. The Adviser must be registered under the Investment Advisers Act of 1940.

The Adviser is responsible for assisting the City with monitoring and IOC reporting for all City cash and investment assets under the auspices of the City Treasurer and under oversight of the IOC.

C. Investment Objectives and Constraints:

Although the City accounts for its financial assets in various governmental Funds and general ledger accounts, and investment income and market value changes are apportioned accordingly, the assets are managed as two sub-portfolios:

- the Liquidity Portfolio
- the Core Investment Portfolio

The primary purpose of the Liquidity Portfolio is to provide daily liquidity to the City while controlling the risk factors described in Section A. above. The return objective for this portfolio, measured in yield terms, is secondary. However, by deploying cash forecasting models the City strives to minimize the Liquidity Portfolio level so that more cash may be deployed as earning assets in the Core Investment Portfolio.

The purpose of the Core Investment Portfolio is to convert excess cash, over and above the required Liquidity Portfolio level, to earning assets. Performance is measured on a total return basis. As this portfolio consists of operating reserves and bond proceeds awaiting eventual expenditure, a longer term focus is appropriate. However, principal preservation remains a primary objective, as the Core Investment Portfolio'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.

Liquidity Portfolio Objectives & Constraints:

Return Objective. Earn a periodic yield (quarterly and fiscal year-to-date) to meet or exceed the yield of the 90-day U.S. Treasury bill.

Risk Objectives.

- Because of the need to satisfy highly-variable daily City cash needs, the Liquidity Portfolio's tolerance for interest rate, credit, and liquidity risk is below average.
- The yield on investments is secondary to liquidity and safety of principal.
- To limit the risk of an individual issuer default, the City will maintain adequate diversification in its holdings (see exception in Section K below).
- The City will limit the weighted average maturity (WAM) of the Liquidity Component to no more than 180 days, and will hold no single security with a maturity longer than one year from date of purchase.

Constraints.

- *Liquidity*. Significant, fully liquid balances required to meet variable daily cash needs.
- *Regulatory*. All depository instruments, securities, investment pools, and funds must qualify and meet collateralization requirements as applicable under the appropriate sections of Chapter 6, Article 10, New Mexico Statutes Annotated (NMSA) 1978, governing the investment activities of the City.
- *Time horizon*. This Component must be comprised of very short-duration, highly liquid instruments.
- *Tax*. None.
- *Unique Circumstances*. None.

Core Portfolio Objectives & Constraints:

Return Objective. The Core Investment Portfolio's overall objective is to achieve market rates of return through interest rate cycles. A total return benchmark, established to track performance and maintain accountability to this objective, will be reviewed and approved annually by the Investment Oversight Committee.

Risk Objectives.

- Because the Core Investment Portfolio represents a supplemental source of liquidity, the Component's tolerance for interest rate, credit, and liquidity risk is average.
- The assets of the Core Investment Component shall be diversified to minimize the risk of large losses within any one asset class, sector, investment type, issuer, or maturity date, any of which could seriously impair the Portfolio's ability to achieve its investment objectives.
- The Core Investment Portfolio can tolerate an overall market value decline of no more than 10% below cost basis, as measured at each month-end. As such, no individual security shall have a maturity greater than seven (7) years at date of purchase. Further, overall Core Investment Portfolio Effective Duration shall not exceed 3.5 years at any time, nor be less than 75% or greater than 125% of the SAA benchmark's Duration.

- Total return optimization is a primary goal for this Component, but liquidity and principal stability are heavily emphasized.

Constraints.

- *Liquidity*. Liquidity demands on Core Investment Portfolio investments typically are low, but periodic debt service and capital outlays may require cash over and above that retained in the Liquidity Component. As such, a portion of the Core may be managed on an asset liability management (ALM) basis to ensure matching of maturities with expected cash needs.
- *Regulatory*. All securities, investment pools, and funds must qualify under the appropriate sections of Chapter 6, Article 10, New Mexico Statutes Annotated (NMSA) 1978, governing the investment activities of the City.
- *Time horizon*. Although the Core Investment Portfolio is intended to serve as an investment income source for the City, it is a supplementary liquidity source as well. Therefore, the Core Component's time horizon is deemed to be short to intermediate term.
- *Tax*. None.
- *Unique Circumstances*. None.

D. Authorized Investments.

For the Core and Liquidity Portfolios, as well as for the Urban Enhancement and Open Space trust funds described in Section L. below, the City's authorized asset classes and investment types are prescribed under Chapter 6, Article 10 of the New Mexico Statutes Annotated (1978 Compilation), in particular NMSA 1978 § 6-10-10, § 6-10-10.1, § 6-10-16, and § 6-10-17, and as set forth and confirmed under §4-1-10 Revised Ordinances of Albuquerque (ROA). The relevant portion of each of the above state statutes is hereinafter set forth, followed by a policy clarification of the permissible asset classes or investment types allowable under that section.

Bank Deposits.

NMSA 1978 § 6-10-10, entitled "Deposit and investment of funds", provides at subsections A and B as follows:

A. *Upon the certification or designation of a bank, savings and loan association or credit union whose deposits are insured by an agency of the United States to receive public money on deposit, the state treasurer and county or municipal treasurers who have on hand any public money by virtue of their offices shall make deposit of that money in banks and savings and loan associations and may make deposit of that money in credit unions whose deposits are insured by an agency of the United States, designated by the authority authorized by law to so designate to receive the deposits of all money thereafter received or collected by the treasurers.*
B. *County or municipal treasurers may deposit money in one or more accounts with any such bank, savings and loan association or credit union located in their respective counties, subject to limitation on credit union accounts.*

NMSA 1978 § 6-10-16, entitled "Security for deposits of public money", provides as follows:

A. Deposits of public money shall be secured by:

(1) securities of the United States, its agencies or instrumentalities;

(2) securities of the state of New Mexico, its agencies, instrumentalities, counties, municipalities or other subdivisions;

(3) securities, including student loans, that are guaranteed by the United States or the state of New Mexico;

(4) revenue bonds that are underwritten by a member of the financial industry regulatory authority, known as FINRA, and are rated "BAA" or above by a nationally recognized bond rating service; or

(5) letters of credit issued by a federal home loan bank.

B. No security is required for the deposit of public money that is insured by the federal deposit insurance corporation or the national credit union administration.

C. All securities shall be accepted as security at market value. The restrictions of Subsection A of this section apply to all securities subject to this subsection.

NMSA 1978 § 6-10-17, entitled "Amount of security to be deposited", provides as follows:

Any bank or savings and loan association designated as a depository of public money shall deliver securities of the kind specified in Section 6-10-16 NMSA 1978 to a custodial bank described in Section 6-10-21 NMSA 1978 and shall then deliver a joint safekeeping receipt issued by the custodial bank to the public official from whom or the public board from which the public money is received for deposit. The securities delivered shall have an aggregate value equal to one-half the amount of public money to be received in accordance with Subsection B of Section 6-10-16 NMSA 1978. However, any such bank or savings and loan association may deliver a depository bond executed by a surety company as provided in Section 6-10-15 NMSA 1978 as security for any portion of a deposit of public money.

Policy. The City may deposit funds in Bernalillo County, New Mexico domiciled financial institutions, with a minimum market value of collateral (marked to market daily) of least 50% of the non-FDIC insured amount on deposit. Acceptable collateral includes:

- U.S. Treasury securities
- U.S. Agency securities, issued by the Agencies permitted by this policy for direct investment (see the U.S. Treasury, U.S. Agency, & Municipal Securities subsection below)
- Federal Home Loan Bank letters of credit

All securities pledged to the City for certificates of deposit or demand deposits shall be held in a segregated account at the issuing financial institution.

U.S. Treasury, U.S. Agency, & Municipal Securities.

NMSA § 6-10-10 provides at subsection F as follows:

F. County or municipal treasurers, with the advice and consent of their respective boards of finance charged with the supervision and control of the respective funds, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of any county, municipality or school district that is entrusted to their care and custody and all money not immediately necessary for the public uses of the counties, municipalities or school districts not invested or deposited in banks, savings and loan associations or credit unions in:

(1) bonds or negotiable securities of the United States, the state or a county, municipality or school district 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 and that have a maturity date that does not exceed ten years from the date of purchase;

(2) securities that are issued and backed by the full faith and credit of the United States government or issued by its agencies or instrumentalities, including securities issued by federal home loan banks, the federal home loan mortgage corporation, the federal national mortgage association, the federal farm credit banks funding corporation, the federal agricultural mortgage corporation, or the government national mortgage association and that have a maturity date that does not exceed ten years from the date of purchase; or

(3) federally insured obligations, including brokered certificates of deposit, certificate of deposit account registry service and federally insured cash accounts.

Policy. The City may invest in:

- U.S. Treasury securities, including bills, notes, and bonds
- Securities issued by the following U.S. Government Sponsored Enterprises (GSEs):
  - Federal National Mortgage Association (FNMA)
  - Federal Home Loan Mortgage Corporation (FHLMC)
  - Federal Home Loan Bank (FHLB)
  - Federal Farm Credit Bank (FFCB)
  - Federal Agricultural Mortgage Corporation (Farmer Mac)
- Securities issued by or guaranteed by the State of New Mexico, or by a New Mexico county, municipality or school district, provided by the issuer/guarantor has not been in default on any debt issue during the past five years.
- Depository instruments offered by Network members of the Promontory Interfinancial Network, LLC (Promontory), with assurance from Promontory that all dollars invested are fully insured through one or more Promontory member institutions by Federal Deposit Insurance Corporation (FDIC) depository insurance.

Fixed Income Index Mutual Funds & Exchange-Traded Funds; NM SIC Investment Pools, Supranational Securities, Commercial Paper, Money Market Mutual Funds.

NMSA 1978 § 6-10-10 provides at subsection G as follows:

G. *The treasurer of a class A county or the treasurer of a municipality having a population of more than sixty-five thousand according to the most recent federal decennial census and located within a class A county, with the advice and consent of the boards of finance charged with the supervision and control of the funds, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of the county or municipality that is entrusted to the treasurer's care and custody and all money not immediately necessary for the public uses of the county or municipality not invested or deposited in banks, savings and loan associations or credit unions in:*

(1) shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in fixed-income securities or debt instruments that passively match or track the components of a broad-market, fixed-income-securities market index; provided that the investment company or manager has total assets under management of at least one hundred million dollars ($100,000,000) and provided that the board of finance of the county or municipality may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments;

(2) shares of pooled investment funds managed by the state investment officer, as provided in Subsection E of Section 6-8-7 NMSA 1978; provided that the board of finance of the county or municipality may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments;

(3) securities that are issued by a supranational issuer and that:
(a) are eligible for purchase and sale within the United States;
(b) are denominated in United States dollars;
(c) have a maturity date that does not exceed five years from the date of purchase; and
(d) are rated "AA" or its equivalent or better by a nationally recognized statistical rating organization.

(4) commercial paper rated "A1" or "P1", also known as "prime" quality, by a nationally recognized statistical rating organization, issued by corporations organized and operating within the United States and having a maturity at purchase of no longer than one hundred eighty days.

(5) shares of an open-ended diversified investment company that:

(a) is registered with the United States securities and exchange commission;

(b) complies 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; and

(c) assesses on fees pursuant to Rule 12b-1, or any successor rule, or the Unites Staets 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 county or municipality shall not, at any time, own more than five percent of a money market mutual fund's assets.

Policy. The City may invest in:

- Fixed income mutual funds or exchange traded funds (ETFs) 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 GSEs identified above (fund or ETF may hold Agencies other than those permissible for direct City investment)
    - U.S. mortgage-backed securities
    - U.S. municipal issues (BBB – AAA)
    - U.S. investment grade corporate issues (BBB – AAA)
    - U.S. high yield corporate issues (C-BB)
    - Foreign fixed income issues (BBB-AAA)

    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 asset classes are excluded from permissibility per NMSA Chapter 6, Article 10.

    The City will utilize the weighted average fund/ETF duration to control the interest rate risk of each fund/ETF holding (see Core Component risk objectives above). Further, the credit risk of each fund/ETF will be determined as the weighted average credit rating of the constituent issues.

- Any investment pool offered by the New Mexico State Investment Council (SIC) that is available for investment by the City.

- Securities issued by the following international organizations dedicated to providing financing, advice, and research to developing nations to aid their economic advancement, and which are rated AA or higher and have a maturity of five years or less at time of purchase:

    - International Bank for Reconstruction & Development
    - International Finance Corporation
    - Inter-American Development Bank

- A1/P1 commercial paper issues with a maturity date of 180 days or less at time of purchase.

- Prime, tax-exempt, and government money market mutual funds.

Repurchase Agreements.

NMSA 1978 § 6-10-10 provides at subsection H as follows:

> *H. A local public body, with the advice and consent of the body charged with the supervision and control of the local public body's respective funds, may invest all sinking funds or money remaining unexpended from the proceeds of any issue of bonds or other negotiable securities of the investor that is entrusted to the local public body's care and custody and all money not immediately necessary for the public uses of the investor and not otherwise invested or deposited in banks, savings and loan associations or credit unions in contracts with banks, savings and loan associations or credit unions for the present 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 investor. The contract shall be fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. As used in this subsection, "local public body" includes all political subdivisions of the state and agencies, instrumentalities and institutions thereof; provided that home rule municipalities that prior to July 1, 1994 had enacted ordinances authorizing the investment of repurchase agreements may continue investment in repurchase agreements pursuant to those ordinances.*

Policy. The City may invest in overnight or term repurchase (repo) agreements, with its fiscal agent bank or the fiscal agent's designee acting as the facilitation agent, or with the fiscal agent as counterparty to the transactions. From the City's perspective as "buyer" of securities in exchange for cash loaned to the counterparty, the transaction is a "reverse repo." When acting as facilitation agent, the fiscal agent must negotiate agreements with each of the City-designated dealers, to include required collateral and third party custody arrangements. Collateral must consist only of U.S. Treasury and/or U.S. Agency securities.

Market value of collateral must be at least 102% of the value of the money exchanged. Collateral for term repo investments (greater than one day to maturity) must be marked to market daily to ensure it maintains the 102% minimum value requirement. The City will not engage in transactions acting as the collateral provider offering securities, or in securities lending programs.

New Mexico State Treasurer Local Government Investment Pool.

NMSA 1978 § 6-10-10.1 entitled "Local government investment pool created; distribution of earnings; report of investments", provides in subsection A as follows:

> *A. There is created in the state treasury the "local government investment pool". The fund shall consist of all deposits from participating governments, including revenues dedicated to repaying bonds, that are placed in the custody of the state treasurer for investment purposes pursuant to this section. The state treasurer shall maintain one or more separate accounts for each participating government having deposits in the local government investment pool and may divide the fund into two or more subfunds, as the state treasurer deems appropriate, for short-term and medium-term investment purposes, including one or more subfunds for bond proceeds deposited by participating governments.*

Policy. The City may invest in the New Mexico Local Government Investment Pool (LGIP), sponsored and managed by the New Mexico State Treasurer's Office.

E. Reporting:

The Investment Officer is required to provide a comprehensive investment report to the IOC at least quarterly. The report will address, at a minimum, the following components:

Liquidity Component.

- Component yield for the quarter and fiscal year-to-date, measured against the benchmark yield;
- Compliance report (permissible investments, WAM restrictions, asset allocation requirements);
- Asset allocation overview.
- Transactions report.

Core Investment Component.

- Compliance report (permissible investments, asset allocation constraints, duration and maturity restrictions);
- Component total return for the quarter and fiscal year-to-date, measured against the benchmark total return;
- Performance attribution analysis;
- Performance appraisal vs. the benchmark at the asset class and total portfolios levels, employing the Sharpe Ratio and other appraisal measures;

- Holdings report, displaying quarter-end market value and unrealized gain/loss position;
- Transactions report.

F. Custody/Safekeeping:

All securities will be held in the City's name with its fiscal agent's custody arm. The City's Agreement with the fiscal agent shall designate all safekeeping arrangements. The custodian shall be required to provide a monthly statement to the City listing at a minimum each specific security, description, CUSIP number, purchase date, maturity date, market value, par value, cost basis, and book yield.

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

G. Broker/Dealers and Trades:

The City will maintain a listing of broker and dealer firms with which it will transact securities trades. Changes to the listing, which may be recommended at the discretion of the Investment Officer, are to be approved/certified by the IOC. Prior to recommendation, the City will request the following of the applicant broker/dealer to ensure financial viability as a trading counterparty:

- 3 most recent fiscal years' audited financial statements;
- Proof of current SEC and New Mexico Securities Division licensure;
- Any outstanding legal actions brought against the firm;
- Current FINRA "broker check" report for the firm's representative that the City proposes to interface with.

The City requires that existing broker/dealer firms re-certify with the City by providing updated information every three (3) years from the date of original certification.

If the City engages a non-discretionary Investment Adviser to facilitate transactions, the Adviser's broker/dealer list may be utilized. A listing of broker/dealers utilized by the Adviser in its agency capacity is to be presented to the IOC annually for review and approval.

IOC certification and approval is waived for dealers participating in the Bloomberg Fixed Income Trading Platform.

Competitive Transactions.

Each securities transaction must be executed on a competitive basis and documented. Competitive offers/bids will be provided to the Investment Officer from at least three separate brokers via e-mail, or through the Investment Officer's use of an electronic fixed income trading platform. If an Investment

Adviser is retained, it shall solicit at least three bids/offers when acting in its agency capacity. When purchasing original issue securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price. Competitive offers are not required for purchase/sale of mutual funds or exchange-traded funds (ETFs). Also, competitive offers are not required when purchasing Commercial Paper and U.S. Agency discount notes via an electronic trading platform.

H. Ethics – Asset Manager Code of Professional Conduct adoption:

The Asset Manager Code of Professional Conduct ("the Code"), administered by the CFA Institute, may be adopted by firms that manage investment assets on behalf of clients. For the City, "clients" include various City stakeholders. By adopting and enforcing a code of conduct, the City demonstrates its commitment to ethical behavior and the protection of its clients' interests.

The general principles of conduct enumerated in the Code require the City's investment program to:

- Act in a professional and ethical manner at all times.
- Act for the benefit of clients.
- Act with independence and objectivity.
- Act with skill, competence, and diligence.
- Communicate with clients in a timely and accurate manner.
- Uphold the applicable rules governing capital markets.

Through approval of this Policy Statement, the IOC hereby adopts the Asset Manager Code of Professional Conduct on behalf of the City, and agrees to abide by and enforce its principles. The Attorney assigned to Treasury Division by the City Legal Department serves as the Investment Program's Compliance Officer.

I. Prudence:

The standard of prudence used by the City for managing its cash assets is that of the Uniform Prudent Investor Act (UPIA), which was adopted by the State of New Mexico as NMSA Chapter 45, Article 7, Part 6 in 1995. This standard raises the level of care to which the City is to be held accountable, from that of "a businessman of ordinary prudence" (Prudent Man standard) to that of the Prudent Investor, which is an expert standard. A major difference between the two standards is that, under the Prudent Man standard, each investment is analyzed separately. Conversely, the Prudent Investor standard recognizes Modern Portfolio Theory and analyzes investments as components of a diversified portfolio. Asset classes and investment types such as corporate fixed income mutual funds, considered too risky for municipal portfolios on a stand-alone basis, are considered for use under the Prudent Investor standard because of their risk-adjusted return enhancement capabilities in a portfolio context. Note that although the provisions of the New Mexico Uniform Prudent Investor Act does not by its terms apply to the City's Core and Liquidity investment components, including the Urban Enhancement and Open Space trust funds, the City nevertheless adopts the UPIA's principles for these portfolios within the overriding asset class and investment type prescriptions set forth in NMSA Chapter 6, Article 10.

J. Strategic Asset Allocation:

In alignment with the UPIA, the City hereby adopts a Strategic Asset Allocation (SAA) approach to the construction and management of its Core Investment Component portfolio. As opposed to the traditional yield or absolute total return approaches to public funds investment management, the City's strategy recognizes the inherent risk of various investments and adjusts for it. Further, the City's approach factors in how the returns of various asset classes vary relative to one another (correlate) throughout periods. The overall goal of the approach, using a time-tested quantitative methodology known as Mean-Variance Optimization (MVO), is to manage the Core portfolio with the goal of providing the City the highest return for the level of risk exposure assumed.

MVO uses three inputs, derived from permissible asset class historical or forecast index data:

- The expected annual returns for each asset class;
- The standard deviation of annual returns for each asset (a measure of risk);
- The correlation between these asset classes.

The MVO output is an array of "efficient" portfolios, which based on the empirical data inputs should produce the highest return for the desired risk level, or alternatively the lowest risk for the desired return. Since the prioritized public funds investment pillars of Safety, Liquidity, and Return govern, the City's (as represented by the IOC) risk tolerance drives the portfolio selection. Initially and as the IOC membership changes, the IOC is administered a risk tolerance study, the results of which are converted to a desired Core portfolio standard deviation.

The MVO optimization produces an "efficient frontier" which is graphically displayed with Expected Return and Risk axes, and using the IOC's risk tolerance as a guide, the optimal mix of asset classes is found on the frontier line. This mix is the Strategic Asset Allocation, or long-run target mix. Upper and lower tolerance bands can be placed around the SAA to permit the Investment Officer to vary the mix, within risk limits, in order to try to take advantage of perceived anomalies from long-run equilibrium based on the Officer's short-term capital markets expectations. The adjusted mix, if executed, is called the Tactical Asset Allocation (TAA).

The City employs historical index asset class data as the foundation for the MVO. The Investment Officer filters the data for factors such as outlier returns, IOC-directed asset class exclusions, and high correlations. Once the MVO is processed, the IOC determines the target mix based on its risk tolerance, return objective, and diversification intention. The resulting SAA serves as the Core Investment Component's benchmark, both for return (total return) and risk (effective duration and effective duration). The City will assess relative performance and perform attribution analysis at the asset class and total portfolio levels.

Based on Statutory permissibility and correlation analysis, the asset classes identified for inclusion in the SAA include:

- Short-term (1 to 5 year maturities) Treasury securities;

- Short-term Treasury Inflation Protected securities (TIPS);
- Short-term bullet Agency securities;
- Short-term callable Agency securities;
- *Short-term municipal securities;
- **Short-term corporate bonds;
- **Short-term high yield bonds;
- **Short-term supranational bonds;
- Investment Pools offered by the New Mexico State Investment Council.

*To be implemented via index mutual funds or ETFs, with the option to hold up to 20% of asset class via direct New Mexico municipal bond purchases.
**To be implemented via index mutual funds or ETFs.

Note that the City's risk tolerance may compel the IOC to require exclusion of one or more asset classes from the MVO and resulting SAA. However, doing so will necessarily constrain the favorable risk characteristics of including the entire permissible universe of asset classes.

The SAA is to be reviewed and adopted annually at the July regular IOC meeting, based on updated MVO results. The TAA for the current quarter is to be adopted at each quarterly regular IOC meeting. In addition, the Core Investment Component holdings will be rebalanced if any asset class's actual proportion of the Component differs from the adopted TAA percentage by more than 2% (e.g., if TAA percentage for Bullet Agencies is 20%, and actual Bullet Agencies allocation moves to 22.5%, rebalance all asset classes to their TAA target weights). Quarterly Duration rebalancing will be triggered if actual portfolio Modified Duration drifts from the SAA actual Duration by a factor of less than 0.75 or more than 1.25 (e.g., if SAA Duration is 3.0, Duration rebalancing required if Component Duration is measured at less than 2.25 or greater than 3.75).

K. Asset Class/Investment Type Constraints:

Liquidity Component.

Asset Class/Investment Type	% of Component
***Bank deposits**	0– 100%
Bank CDs, to include CDARS	0–50%
Bank money market accounts	0–50%
Treasury notes or Bills	0–50%
Agency notes	0-50%
Repurchase agreements	0–50%
Local Govt. Inv. Pool	0–50%
Money Market Mutual Funds	0-50%
A1/P1 Commercial Paper	0–50%

*Includes bank sweep accounts

Core Investment Component.

Although the SAA and its risk bands drive the minimum and maximum allocations to each asset class, certain "efficient" portfolios as determined by an MVO may be undiversified. To provide an extra layer of diversification assurance, the following constraints are applied to the Core Investment Component, as measured on a given month-end market value basis:

Asset Class/Investment Type	% of Component	Max. of Asset Class per issuer/mutual fund/ETF
U.S. Treasury securities	0-75%	N/A
Treasury Inflation Protection Securities	0-10%	N/A
U.S. Agency securities	0-75%	50%
***Municipal securities**	0-50%	N/A
U.S. mortgage-backed security ETFs or mutual funds	0-25%	N/A
****Municipal index ETFs or mutual funds (BBB-AAA) (1-5 yr. holdings)**	0-25%	N/A
Corporate BBB-AAA index ETFs or mutual funds (1-5 year holdings)	0-25%	N/A
Corporate high-yield (C or higher rating) index ETFs or mutual funds (1-5 year holdings)	0-10%	N/A
Supranational securities	0-20%	N/A
Combined Mutual Fund or ETF's of various asset classes	0-75%	N/A
SIC Investment Pools	0-15%	N/A

*New Mexico instrumentalities only.
**Not constrained to NM issuers.

L. Urban Enhancement/Open Space Trust Funds:

City of Albuquerque Code of Ordinances, Chapter 4, Article 2 calls for establishment of an "Urban Enhancement Trust Fund" (Part 1), or UETF, and an "Open Space Trust Fund and Land Administration" (Part 3), or OSTF.

Both funds are permanent and require that the principal be "maintained intact." In addition, the Code calls for 90% of income to be used for purposed projects, with the remaining 10% left in the Fund. The UETF Ordinance designates the IOC as its oversight body, and specifies the asset classes from NMSA 6-10-10 A – H as permissible. The UETF Ordinance designates the City's fiscal year as the Fund's fiscal year, and requires the City Treasurer to provide a report of investment activity to the Mayor within 30 days after the end of each year. The OSTF Ordinance authorizes the Mayor, with the advice of the IOC, to direct the City Treasurer to manage the funds or convey them to a trustee selected by the Mayor and approved by the City Council. The OSTF Ordinance also designates the City's fiscal year as the Fund's fiscal year, and requires the City Treasurer to provide a report of investment activity to the Open Space Advisory Board within 30 days after the end of each year.

The IOC is hereby designated as the oversight body for both the UETF and OSTF investment funds.

Although the Ordinances require both Funds to maintain principal, the long-term nature of the Funds, combined with their Statutory and oversight mandates, call for them to be managed on a short to medium duration, total return basis. The IOC hereby directs the Investment Officer to establish and maintain separate investment accounts for the UETF and OSTF, with each invested in either:

- a mutual fund or ETF that passively tracks the Barclays U.S. Aggregate Index or the Barclays U.S. Aggregate Float-Adjusted Index;
- the New Mexico State Investment Council's (SIC) Investment Pools that are available for investment by the City.

The IOC interprets "principal maintenance" to mean that only distributions from the investment vehicle, including interest, dividends, and capital gains distributions, are distributable as "income." Income shall be distributed for purposed uses according to each Fund's distribution requirements. The remaining balance shall be designated as "principal" for the purpose of the Ordinance.

The Investment Officer shall report to the IOC at its quarterly meeting the following statistics for each Fund:

- Market value of the Fund;
- Total return, most recent quarter and fiscal year-to-date;
- Performance evaluation relative to the benchmark index, with attribution analysis;
- Income distributed during the most recent quarter and year-to-date.

The UETF statistics stated above for the full fiscal year are to be reported by the City Treasurer to the Mayor in accordance with the requirements designated in the UETF Ordinance.

If the City retains an Investment Adviser, the Adviser is responsible for assisting the City with monitoring and IOC reporting for the UETF and OSTF portfolios.

M. OPEB fund for life insurance premiums:

Government Accounting Standards Board (GASB) Statement 45, issued June 2004, requires U.S. government entities to recognize on their balance sheets the actuarially determined present value of their liability for non-pension post-employment benefit promises (also known as "other post-employment benefits," or OPEB). The Statement leaves optional, but encourages these entities to fund this liability through establishment and maintenance of an irrevocable investment trust. In November 2013 the City established such a trust to fund its post-employment life insurance premium benefit offering.

The IOC is hereby designated as the oversight body for the City's OPEB fund for funding post-employment life insurance premiums.

The irrevocable trust fund is a pension-type portfolio with a long-run time horizon. Its objective is to fund benefits to plan beneficiaries by earning a total return sufficient to achieve funding adequacy on an inflation-adjusted basis. This objective calls for exposure to a wide array of asset classes. Although the IOC may select an external portfolio manager, the City reserves the right to internally manage the OPEB portfolio under the mandate designated herein. If the City retains an Investment Adviser, the Adviser is responsible for assisting the City with monitoring and IOC reporting for the OPEB trust fund.

The OPEB fund portfolio manager shall present a customized total return benchmark and portfolio duration target for IOC approval. The City Investment Officer shall report to the IOC at its quarterly meeting the following statistics for the OPEB portfolio:

- Market value of the portfolio;
- Total return, most recent quarter and fiscal year-to-date;
- Performance evaluation relative to the benchmark index, with attribution analysis;
- Portfolio duration target compliance.

In 2017 the New Mexico State Legislature enacted a new §6-6-20, which now permits the City's OPEB life insurance trust funds to be managed in accordance with the Uniform Prudent Investor Act (NMSA §45-7-601 through §45-7- 612) Prior to the enactment of this law, investment of the City's OPEB life insurance trust funds were subject to the investment type, asset class, and fixed income sector restrictions imposed by NMSA § 6-6-10 A through H.

NMSA 1978** § **6-6-20, entitled "Municipal post-employment life insurance benefits trust," provides as follows:

A. A municipal post-employment life insurance benefits trust may be established, maintained and used by a municipal treasurer with the advice and consent of the municipal board of finance.

B. The municipality's contributions to the municipal post-employment life insurance benefits trust shall be irrevocable, and the money in the trust shall be dedicated exclusively to funding post-employment life insurance benefits pursuant to the provisions of the trust established by the municipal treasurer.

C. Money in a municipal post-employment life insurance benefits trust shall be invested pursuant to the Uniform Prudent Investor Act [45-7-601 through 45-7-612 NMSA 1978] and the provisions of this section. Earnings and income from investment of money in the trust shall be credited to the trust.

D. The municipal treasurer shall serve as the trustee and may use the services of a trust company to manage the investment of money in the municipal post-employment life insurance benefits trust.

E. As used in this section:

(1) "municipal post-employment life insurance benefits trust" means an investment fund established, maintained and used by a municipality exclusively for the purposes permitted by this act; and

(2) "trust company" means an individual or a company, corporation, firm, partnership, state-chartered bank, national bank or other legal entity that provides investment services pursuant to the Trust Company Act [Chapter 58, Article 9 NMSA 1978] and that agrees to adhere to the provisions of the Uniform Prudent Investor Act.

Policy. The City shall invest its OPEB life insurance fund assets as perpetual pension assets, using a strategic asset allocation approach. In determining the asset classes to deploy, the City should consider the universe of investable classes. Active management and security selection should be subordinated to the approach of achieving the long-run returns offered by the deployed asset classes via index instruments.

N. Internal Controls/Procedures:

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the financial assets of the City are protected from loss, theft or misuse. Further, detailed guidelines are required to carry out the investment program specified in this IPS. Specifics for the internal controls and procedures shall be documented in an ***investment procedures manual*** that shall be utilized by the Investment Officer.

The manual shall address the following points at a minimum:

- Control of collusion, through separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Broker/dealer listing approval
- Transactional processing compliance
- Asset allocation compliance procedures
- IOC reporting details
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments
- Staff training
- Review, maintenance and monitoring of security procedures

O. Compliance with SEC Municipal Advisor Rule:

The City of Albuquerque hereby makes the following representations of facts, expectations, and covenants in furtherance of its compliance with the Securities and Exchange Commission's Municipal Advisor Rule (Rule 15B, effective July 1, 2014):

1. The City's cash and investment pools contain a material amount of bond proceeds, which are accounted for discretely in the accounting records, but which for deposit and investment purposes are commingled with non-bond proceeds financial assets.
2. The City through its Treasurer and Investment Officer, in carrying out its investment program, maintains two distinct portfolios – the Liquidity Component and the Core Investment Component. Decisions for the investments in the Fund are made solely by the City Treasurer and its authorized Investment Officer based on their Registered Investment Advisor's recommendations, independent research, and market analysis in accordance with the City's Investment Policy Statement, which is reviewed and updated by the City Investment Oversight Committee on an annual basis.
3. City investment activity is reported to the Investment Oversight Committee on a quarterly basis.
4. Since a broker/dealer or other financial intermediary firm has not been retained as a Municipal Advisor or fiduciary Investment Advisor for investment advisory services, the City does not rely upon any advice from such firm with regards to City investments. Investment information, if any, received by the City from a non-Advisory firm is to be of a general nature and is not to be relied upon by the City in making its investment decisions.

P. CAO and IPS Approval:

This Investment Policy Statement is approved and executed by the Chief Administrative Officer and the Investment Oversight Committee as of the Date stated herein.

Approved:

_______________________________ _______________

Sarita Nair Date

Chief Administrative Officer

Recommended:

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Sanjay M. Bhakta

Chief Financial Officer

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Cilia E. Aglialoro

City Treasurer

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Esteban A. Aguilar, Jr.

City Attorney

Q. Glossary of Terms:

Absolute Return: The total return a portfolio achieves without regard to a comparative benchmark. An absolute return target may be established for an actuarial rate of return assumption, or as a minimum that a fund strives to exceed. For City investments, an absolute return target will not employed, as the City will employ benchmarks to assist with performance evaluation.

Agency Securities: Securitized debt issued by U.S. Government sponsored enterprises (GSEs). They have the implicit backing of the U.S. Government, but are not guaranteed by the full faith and credit of the U.S. Government. Therefore, typically they offer a yield premium over U.S. Treasury securities.

Alpha: A measure of performance on a risk-adjusted basis. The excess return of a portfolio relative to the return of its benchmark is the portfolio's alpha.

Asset Class: A group of assets with similar characteristics. Properly specified asset classes should: a) contain homogeneous assets; b) be mutually exclusive of one another; c) be diversifying; d) collectively make up a preponderance of permissible investable wealth; and e) be able to absorb a material proportion of the portfolio with negatively impacting liquidity.

Asset/Liability Management: Coordinating the management, return assumptions, and cash flows of a set of investment assets with that of a liability set to ensure the assets are sufficient to fund the liabilities, and to determine if an excess of assets over the liability, or surplus, is available for a different investment strategy.

Attribution: The process and results of evaluating a portfolio's excess return (alpha) or under-performance relative to the benchmark, also known as "tracking error." The goal is to identify and understand the causes of the variance as feedback for improving the overall portfolio management process.

Benchmark: A standard against which the performance of a portfolio or investment manager can be measured. Benchmarks may be either an index or a customized allocation standard. An effective benchmark must possess the following attributes: a) be appropriate for the investor to which it is applied; b) be representative of the mandate; c) be investible; d) be constructed in a disciplined manner; e) be formulated with publicly-available information; and f) be acceptable to the investment manager.

Bond (or Note): An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and specific assets sometimes secure it. Most bonds have a maturity of greater than one year and generally pay interest semiannually.

Broker: An intermediary who brings buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

CDARS: Acronym for Certificate of Deposit Account Registry Service, it is a program that allows an investor to spread money around various banks. The advantage of CDARS is the ability to allocate a large block of money in an array of CDs with participating banks throughout the country, with each CD denominated at or below the FDIC insurance ceiling. The program eliminates the need to go from bank to bank in order to deposit money. As the City must make deposits only in Bernalillo County-domiciled banks, CDARS are determined to be unsuitable for City deposits.

Chartered Financial Analyst (CFA): A professional designation given by the CFA Institute that measures the competence and integrity of security analysts and portfolio managers. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Before being awarded the CFA Charter, one must hold a bachelor's degree and have four years of investment career experience. The CFA charter is one of the most respected designations in finance, considered by many to be the gold standard in the field of investment analysis.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies, and securities exchanged with a lending counterparty in a repurchase agreement (repo) transaction.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by corporations.

Convexity: A measure of the curvature in the relationship between bond prices and bond yields that demonstrates how the duration of a bond changes as interest rates change. Convexity is used in conjunction with duration as a risk-management tool, and helps to measure and manage the amount of market risk to which a portfolio of bonds is exposed.

Core Component: At the City, "Core Component" funds are defined as cash balances which exceed the City's daily liquidity needs. Managed as a segregated sub-portfolio, Core funds are invested out the yield curve to maximize risk-adjusted total return, subject to duration, diversification, and overall risk tolerance constraints. Also, having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

CUSIP: A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Securities Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities. Equities, mutual funds, and ETFs also have identifying CUSIPs.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid by the dealer and the price received from a buyer. Brokers often buy securities from a dealer and mark them up for resale to a holder, such as the City.

Debenture: Unsecured debt backed only by the integrity of the borrower, not by collateral, and documented by an agreement called an indenture.

Delivery vs. Payment: From the buyer's perspective, DVP stipulates that cash payment must be made either prior to or simultaneously with delivery of securities.

Deposit: According to New Mexico State Statute, NMSA Chapter 6, Article 10-1.1, *"deposit" includes share, share certificate and share draft.* The City considers a deposit to be an instrument or investment type suitable for investment in its Liquidity Component that are permissible per NMSA Chapter 6, Article 10-10 A-C.

Duration: A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. More specifically, it measures the approximate % price change given a parallel shift in the yield curve. The accuracy of duration as an indicator is improved by introducing convexity into the estimation. *Effective* duration assumes all securities in the portfolio are held to maturity, whereas *Effective* duration recognizes the optionality of any securities in the portfolio with imbedded options.

Exchange-trade Fund (ETF): A security that tracks an index, a commodity or a basket of assets like an index mutual fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. Because it trades like a stock, an ETF does not have its net asset value (NAV) calculated every day like a mutual fund does. By owning an ETF, you get the diversification of an index mutual fund with the enhanced liquidity of market trading. When buying and selling ETFs, one pays the same commission to the broker that are paid on a stock order.

Full Faith and Credit: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government. In the U.S., they are obligations of the U.S. Treasury, also referred to as "governments" or "Treasuries."

Independent Registered Municipal Adviser (IRMA): Section 975 of the Dodd-Frank Act created a new class of investment advisers, known as IRMAs, effective July 1, 2014. IRMAs must register with the SEC unless they are Registered Investment Advisers (RIAs), who are exempt from this registration. Municipalities must engage either and IRMA or an RIA to provide fiduciary advice on the management of any funds containing bond proceeds.

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Investment Grade: A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

Investment Type: Forms of investment vehicles, such as stocks, bonds, and cash equivalents. Types can be further refined to include instruments such as certificates of deposit, money market funds, discount securities, coupon notes, mutual funds, exchange traded funds, derivatives, and others. Not to be confused with Asset Class (see definition), as a given investment type can be used to gain exposure to various asset classes.

Liquidity: The ease at which a balance can be converted to cash, or at which a security can be bought or sold in the market. A large number of buyers and sellers and a high volume of trading activity are important components of market liquidity.

Liquidity Component: A segregated sub-portfolio of the total portfolio that is dedicated to providing liquidity needs for the City.

Mark to Market: Adjustment of an account or portfolio to reflect its market value rather than book value, purchase prices or some other valuation basis.

Mean-Variance Optimization (MVO): A mathematical process developed from Modern Portfolio Theory. MVO employs historical or forecasted asset class return, risk, and correlation data to produce a “frontier” of asset allocations that purports to offer the highest return per unit of risk exposure, or alternatively the lowest risk for the desired rate of return.

Modern Portfolio Theory: An empirical approach to how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. According to the theory, it's possible to construct an "efficient frontier" of optimal portfolios offering the maximum possible expected return for a given level of risk. This theory was pioneered by Harry Markowitz and first published in 1952.

Municipals: Securities, usually bonds, issued by a state and its agencies, counties, cities or other municipal entities. The interest on “munis” is usually exempt from federal income taxes, and exempt from state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency’s taxation powers.

Mutual Fund: An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. The strategy may be either “active” to out-perform the fund’s benchmark, or “passive” to emulate a benchmark index. Many mutual funds concentrate on a specific asset class, such as corporate fixed income. Mutual funds calculate their net asset value (NAV) at the close of trading each day, and report and sell the fund at a “share price.”

Par Value: The value of a security expressed as a specific dollar amount marked on the face of the security or the amount of money due at maturity. Par value should not be confused with market value.

Portfolio: A collection of securities held by an individual or institution, and managed to a discreet mandate.

Prudent Person Rule: A long-standing common-law rule that requires a trustee who is investing for another to behave in the same way as a prudent individual of reasonable discretion and intelligence who is seeking a reasonable income and preservation of capital. This rule evaluates investment decisions on a standalone basis, rather than on their prudence for the portfolio as a whole.

Quotation or Quote: The last price at which a security traded, or the most current prices at which the security can be bought or sold. The "bid" quote shows the price at which a current buyer is willing to purchase, while the "ask" shows what a current seller is willing to sell for.

Repurchase Agreement: "Repos" involve a simultaneous sale of securities by a bank or government securities dealer to an investor with an agreement for the bank or government securities dealer to repurchase the securities at a fixed date at a specified rate of interest.

Registered Investment Adviser (RIA): An advisor or firm engaged in the investment advisory business and registered either with the Securities and Exchange Commission (SEC) or state securities authorities. A Registered Investment Advisor is defined by The Investment Advisers Act of 1940 as a "person or firm that, for compensation, is engaged in the act of providing advice, making recommendations, issuing reports or furnishing analyses on securities, either directly or through publications." An investment advisor has a fiduciary duty to his or her clients, which means that he or she has a fundamental obligation to provide suitable investment advice and always act in the clients' best interests.

Risk: In an investment context, risk can be summarily defined as the variability in investment returns. Risk tolerance is the degree of such variability that an investor is willing to withstand.

Strategic Asset Allocation (SAA): An integrative element of the planning process in portfolio management, SAA combines the investor's return objectives, risk tolerance, and investment constraints with long-run capital market expectations to establish exposures to permissible asset classes. SAA is grounded in modern portfolio theory. The City employs its Core Segment SAA as the Segment's benchmark.

Tactical Asset Allocation (TAA): See SAA definition above. TAA involves making short-term adjustments to the SAA asset class weights based on expected relative performance among asset classes.

Total Return: When measuring performance, the actual rate of return of an investment or a pool of investments over a given evaluation period. Total return includes interest, capital gains, dividends and distributions realized over a given period of time. Total return accounts for two categories of return: income and capital appreciation. Income includes interest paid by fixed-income investments, distributions or dividends. Capital appreciation represents the change in the market price of an asset.

Tracking Error: Also known as "active risk," tracking error measures the variability of alpha, or return in excess of the benchmark, to determine the risk the portfolio assumed in achieving portfolio active return (alpha).

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest and pay principal at maturity. Notes have maturities of from one to ten years, while bonds have longer maturities.

Uniform Prudent Investor Act: The Uniform Prudent Investor Act (UPIA), commissioned in 1992, made fundamental changes to the previous Prudent Investor Act standard. The most important change was that the standard of prudence would henceforth be applied to any investment in the context of the total portfolio, rather than to individual investments. The UPIA paved the way for a greater degree of diversification in investment portfolios through consideration of investments that individually may carry a relatively higher degree of risk, but when considered in a total portfolio context can reduce overall risk and boost returns.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment. Bonds have three yields: coupon yield (the bond interest rate fixed at issuance), current yield (the bond interest rate as a percentage of the current price of the bond), and yield to maturity (an estimate of what an investor will receive if the bond is held to its maturity date).