

New Mexico Legislative Council Service
Fiduciary Review of the
State Investment Council
Listing of All Recommendations

Below is a complete list of the recommendations that are included in the review. For ease of reference, the page numbers in which the topics are discussed are provided. We have also listed the initial steps required to address the recommendations. The Council has the ultimate authority to prioritize, accept, modify, and reject any and all recommendations based on NMSIC's needs and resources.

	Recommendations	Requirement	Priority
1	Balance the number of Governor appointees with legislative appointees or other ex-officio members who are not part of the executive branch. (see page 7)	Statutory Change	*
2	Reevaluate public member quorum requirement in light of Council composition. (see page 7)	SIC Discussion and Possible Statutory Change	
3	Allow for the removal of members when attendance is below 80%. (see page 7)	Policy Development and Possible Statutory Change	
4	Limit participation and voting at Council meetings by teleconference to no more than once every 12 months. (see page 7)	Policy Development	
5	Evaluate whether an ex-officio member should be allowed to designate a specific person to attend, participate, and vote at meetings. (see page 7)	SIC Discussion and Possible Policy Development	
6	Allow the SIC to elect its own Chair and Vice-Chair. (see page 7)	Statutory Change and Policy Development	*
7	Modify the composition of the Council to prohibit any NMSIO staff from serving as Council members. (see page 7)	Statutory Change	*
8	Require formal orientation and more structured on-going education, including annual fiduciary training. (see page 9)	Policy Development	*
9	Provide specialized training for committee members. (see page 9)	Policy Development	
10	Include a definition of fiduciary and explicitly state the fiduciary status of anyone with discretionary authority and control over fund assets, including the SIC, the SIO, and specified staff, in statutes and the investment policy. (see page 11)	Statutory Change and Policy Enhancement	*

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11	Examine the intent of the Prudent Investor Act and its application to NMSIO and determine whether protections provided under the Tort Claims Act or other laws providing immunity or indemnification are appropriate. (see page 12)	SIC Discussion	
12	Raise the Constitutional standard of care from ordinary care to that of a prudent investor to be consistent with statutes. (see page 12)	Constitutional Change	
13	Expand existing annual disclosure requirements to all SIC members and high level staff, and ensure that the disclosure statements are being reviewed by the SIC. (see page 14)	Policy Enhancement	
14	Amend the Transparency and Disclosure Policy to include applicable statutory provisions such as the details regarding the gift limitations, disclosure requirements, and honoraria. (see page 15)	Policy Enhancement	
15	Prohibit all gifts from prospective and current vendors in the Transparency and Disclosure Policy. (see page 15)	Policy Enhancement	
16	Require more disclosure from prospective vendors to decision-makers with regard to conflicts of interest in the evaluation material to aid compliance. (see page 15)	Policy Enhancement	
17	Require annual disclosures of gifts, meals, entertainment above a certain threshold, and all campaign contributions and charitable contributions made on behalf of the SIC and staff made by vendors. (see page 15)	Policy Enhancement	
18	Adopt a comprehensive code of ethics that includes conflicts of interest and insider trading provisions. (see page 15)	Policy Development	*
19	Clarify the SIC's authority over private equity investments. (see page 17)	SIC Discussion and Documentation	
20	Clearly establish SIC's authority to bind NMSIO in major contracts, and its delegation to the SIO to be the signatory. (see page 17)	SIC Discussion and Documentation	
21	Develop and adopt a Council charter. (see page 18)	Policy Development	*
22	Discuss what value an accountability matrix may have in clarifying and documenting roles and responsibilities. (see page 18)	SIC Discussion	
23	Develop a central governance manual with relevant policies. (see page 19)	Policy Development	
24	Develop and adopt position descriptions for Council members and Council Officers. (see page 19)	Policy Development	

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25	Discontinue the PEIAC unless its value can be established. (see page 21)	SIC Discussion	*
26	Ensure Council receives sufficient reports to fulfill its duty to provide oversight of delegated duties. (see page 23)	SIC and Committee Discussions	*
27	Engage the State Auditor in discussions regarding audit scope. (see page 23)	SIC Discussion	
28	Develop and adopt a Governance and Audit Subcommittee charter. (see page 23)	Policy Development	
29	Refine statutes to clarify the authority of the Council and the SIO. (see page 24)	SIC Discussion and Statutory Change	
30	Reevaluate the extent of delegations made to the SIO and other investment staff. (see page 24)	SIC Discussion	*
31	Explicitly state in contracts that consultants work for the Council. (see page 25)	Contract Language Change	*
32	Include fiduciary status and the prudent investor standard of care in all applicable contracts. (see page 26)	Contract Language Change	
33	Reference and provide a copy of the Conflicts of Interest Act and the Transparency and Disclosure Policy with all contracts. (see page 26)	Contract Language Change	
34	Review NMSIO position descriptions, including the SIO's position description, to ensure they are comprehensive, accurate, appropriate, and consistent with the laws, policies, and procedures. (see page 26)	Documentation Review	
35	Seek Council autonomy in setting staff size. (see page 27)	Statutory Change	*
36	Evaluate staff size in light of internal management and the extensive use of active management. (see page 27/28)	SIC Discussion and Evaluation	
37	Allow SIC to appoint the SIO. (see page 28)	SIC Discussion and Statutory Change	*
38	Give the SIO the authority in hiring and firing other staff. (see page 28)	SIC Discussion and Statutory Change	
39	Add an internal audit function. (see page 28)	SIC Discussion and Evaluation	*
40	Develop a formal performance evaluation process for all staff members that is relevant and specific to the agency, and associated with some form of reward. (see page 29)	Policy and Documentation Development and Enhancement	

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41	Seek budget autonomy but maintain fiduciary standards, transparency, and reporting requirements. (see page 30)	Statutory Change	*
42	Evaluate the benefit of seeking an operating cost comparison with a peer group. (see page 32)	SIC Discussion and Evaluation	
43	Formally review the overall asset allocation of the Funds annually with the Council or a sub-committee of the Council. (see page 38)	SIC and Committee Discussions	
44	Complete an asset allocation study every two years with the active involvement of the Council, or a subcommittee of the whole, the SIO, NMSIO staff, and the consultant. (see page 38)	SIC and Committee Discussions	*
45	Formally review the Funds' compliance with the approved asset allocation on a quarterly basis. (see page 38)	SIC and Committee Discussions	
46	Evaluate the best manner in which to incorporate the nature and characteristics of the spending policy into the long-term asset allocation. (see page 38)	SIC and Committee Discussions	
47	Re-evaluate the tactical asset allocation authority granted to NMSIO staff, and update the policy in place to govern such delegation going forward. (see page 39)	SIC Discussion and Policy Change	
48	Formally discuss and approve at the Council level any tactical decisions that will materially alter the asset allocation policy (i.e., the derivative overlay) prior to their implementation, including how their costs and benefits overtime will be reported. (see page 39)	SIC Discussion	
49	Ensure the Council receives on-going education and information related to the risks in the alternatives portfolio. (see page 43)	SIC Discussion	
50	Reevaluate current Constitutional restrictions, especially the limitation on investment in international securities, to ensure that prudent portfolio construction is not impaired. (see pages 41 - 43)	SIC Discussion and Constitutional Change	*
51	Ensure thorough education and analysis is presented and discussed with the Council regarding the sub-asset classes included or contemplated for the portfolio. (see page 44)	SIC Discussion	
52	Evaluate and adjust the domestic equity policy (U.S./non-U.S. equity split) to better reflect world equity market capitalizations. (see page 46)	SIC and Committee Discussions	
53	Reevaluate the current rebalancing process as set forth in the investment policy statement versus actual practice. (see page 46)	SIC Discussion and Evaluation	
54	Tighten the allowable ranges for each asset class. (see pages 38, 46, and 47)	SIC Discussion and Policy Change	*
55	Revise the stated investment objectives in the IPS to include earning an appropriate risk adjusted return compared to the policy portfolio. (see page 48)	SIC Discussion and Policy Change	
56	Increase the Council's role in risk budgeting discussions. (see page 49)	SIC Discussion	

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57	Complete a comprehensive assessment of the IPS to identify where deviation from policy currently exists. (see pages 49 - 54)	SIC Discussion and Evaluation	*
58	Update and improve the IPS and its sub-policies with the assistance of the consultant and participation of the Council or a sub-committee thereof. (see pages 49 - 54)	SIC Discussion and Policy Change	
59	Assign the responsibility for monitoring compliance with the IPS to an independent auditor or consultant; any violations should be reported immediately to the Council. (see pages 49 - 54)	SIC Discussion	
60	Periodically review the amount of actual expense associated with internal management. (see page 55)	SIC Discussion and Reporting	
61	Ensure the Council is provided sufficient and unbiased information to periodically assess the costs and benefits associated with active versus passive management. (see page 57)	SIC Discussion and Reporting	
62	Complete a manager structure review, across all asset classes, that evaluates the number and types of managers, as well as any style or market segment biases in the portfolio. (see page 58)	SIC Discussion and Evaluation	
63	Reevaluate the need for certain investment managers to also perform investment consultant functions and if necessary, clearly delineate roles, responsibilities, expectations for transparency, and reporting requirements. (see page 59)	SIC Discussion, Evaluation and Contract Change	
64	Reevaluate the current level of delegation from the Council to the SIO and NMSIO staff with respect to the selection and retention of managers. (see page 60)	SIC Discussion	*
65	Incorporate manager selection criteria and process within the investment policy statement and supporting documentation. (see pages 60 - 61)	SIC Discussion and Policy Change	*
66	Ensure documentation of the search process is maintained and analysis presented to the Council is complete and useful in fulfilling its fiduciary oversight responsibility. (see pages 61)	SIC Discussion	
67	Develop and adopt comparable criteria for selecting and evaluating internal and external managers. (see pages 60 - 61)	SIC Discussion and Evaluation	*
68	Evaluate Investment Office resources available to perform external manager on-going monitoring and due diligence across all asset classes, including alternatives, and determine whether additional resources are necessary to ensure full-coverage. (see pages 60 - 61)	SIC Discussion and Evaluation	

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69	Seek statutory authority to hire and retain the custodian bank. (see page 62)	Statutory Change	*
70	Have NMSIO staff and consultants provide educational sessions tailored to the Council to highlight the benefits and risks of alternative asset portfolio construction. (see page 63)	SIC Discussion	
71	Modify the alternatives performance reports to include sub-asset class exposures to provide a clear picture of asset weightings. (see page 63)	SIC Discussion and Report Modification	
72	Seek a statutory change allowing for an exemption so that discussions and materials related to private market investments or proprietary investment strategies can be kept confidential. (see page 66)	Statutory Change	*
73	Increase the Council's level of involvement in setting and periodically reviewing benchmarks, and making adjustments, when necessary. (see pages 66 - 69)	SIC Discussion	*
74	Approve a procedure for creating and changing benchmarks for each sub-asset class and ensure they match the General IPS, any applicable specialty IPS, and subsequent performance reports. (see pages 66 - 69)	SIC Discussion	
75	Evaluate the HFRI Funds-of-Funds Index as the benchmark for the absolute return portfolio. (see pages 68 - 69)	SIC Discussion and Evaluation	
76	Ensure proper benchmarks are set and actually used for the domestic equities portfolio. (see page 68 - 69)	SIC Discussion and Evaluation	
77	Re-evaluate the costs and benefits of placing broad fees caps on all external investment managers going forward. (see page 70)	SIC Discussion and Evaluation	
78	Delegate placement agent qualification review and monitoring to a qualified external consultant. (see page 75)	SIC Discussion	*
79	Revise the placement agent policy with the assistance of a private equity consultant and require an appropriate level of disclosure to the Council for all placement agent use. (see page 75)	SIC Discussion and Policy Change	*
80	Evaluate whether adding any other elements to the performance reports (as outlined in the table) would be useful to the Council. (see pages 76 - 78)	SIC Discussion	*
81	Modify the quarterly performance reports to depict returns net-of-fee and include risk-adjusted returns for the total fund and each asset class. (see page 78)	SIC Discussion and Report Modification	*
82	Design a comprehensive compliance program for the Council's approval. (see pages 80 - 81)	SIC Discussion	*