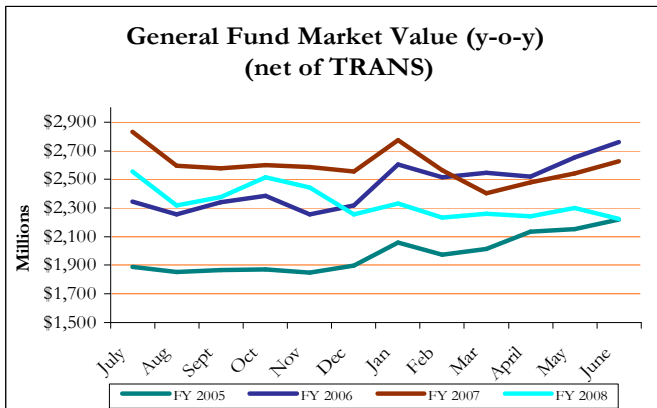


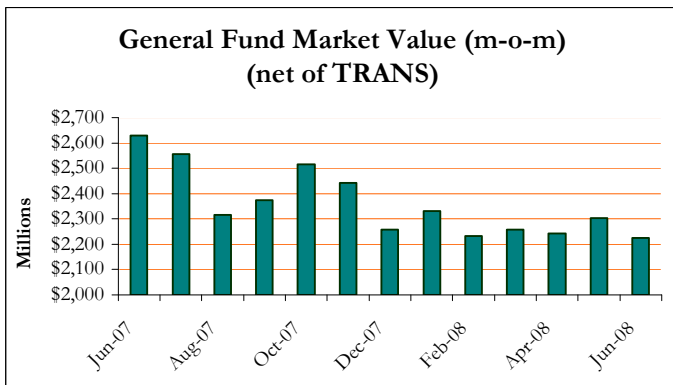
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of June 30, 2008

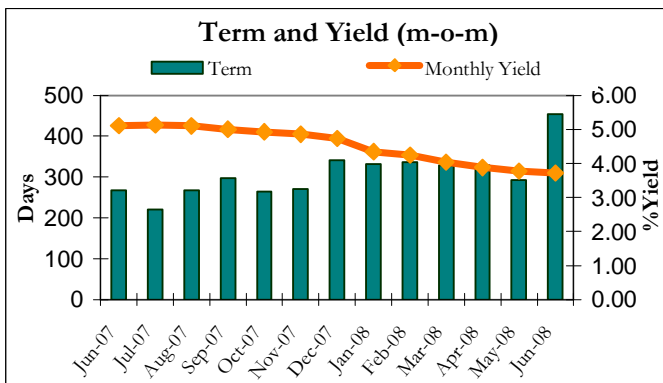
## GENERAL FUND INVESTMENT PORTFOLIO



- The market value of the General Fund Investment Portfolio, net of TRANS, on June 30, 2008, was \$2.26 billion, this compares to \$2.63 billion at the same point last year and \$2.76 billion at the same point two years ago.



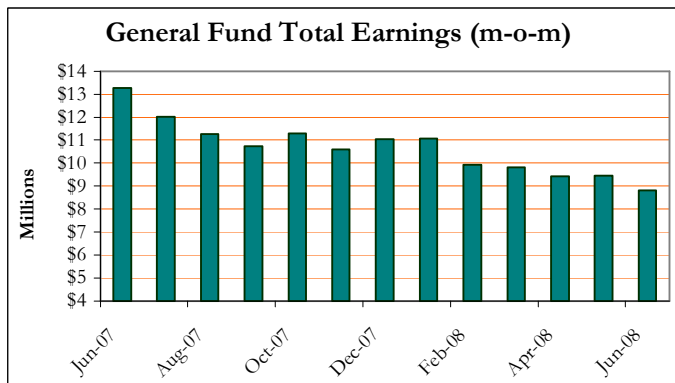
- The market value of the portfolio decreased 3.34% to \$2.23 billion from \$2.30 billion at May month-end.



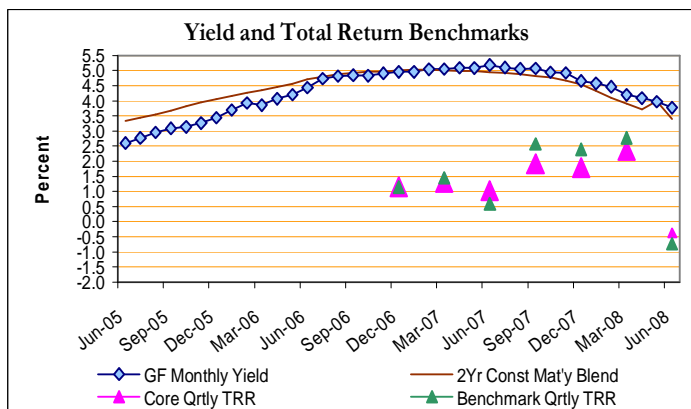
- Purchase yield was 3.71% at June month-end, down from 3.77% at May month-end. The weighted average term of the portfolio increased to 453 days. Effective duration of the CORE segment was 1.88 years, which is 96.4% of the benchmark's duration, 1.95 years.

General Fund (including TRANS)				
Asset Type	Yield	Market Value	% of Portfolio	Term (Years)
Agencies	4.47%	\$ 946,600,920	41.85%	1.994
Repurchase Pool	2.70%	\$ 493,403,029	21.81%	0.003
Certificate of Deposit	3.48%	\$ 201,800,000	8.92%	0.334
Money Market Fund	2.85%	\$ 319,200,000	14.11%	0.003
Municipal Bonds	2.71%	\$ 37,000,000	1.64%	0.003
US Treasury Bills & Notes	3.53%	\$ 136,148,400	6.02%	3.626
Corporate Bonds	5.06%	\$ 127,969,793	5.66%	2.862
<b>Total:</b>	<b>3.72%</b>	<b>\$ 2,262,122,142</b>	<b>100%</b>	<b>1.245</b>

- During June, there were eight purchases in the CORE portfolio in the aggregate amount of \$119 million. One Certificate of Deposit was purchased under the new Linked Deposit Program in the amount of \$2 million in the LIQUIDITY portfolio. The Severance Tax sponge bonds in the amount of \$216.8 million were purchased during the month as was a City of Albuquerque sponge bond for \$37 million. At June 30, \$775 million was expended to redeem the TRAN leaving an approximately \$6 million balance which was transferred to the LIQUIDITY portfolio.



- June earnings were \$8.83 million representing a 6.57% decrease from May earnings of \$9.45 million. Fiscal year earnings total \$125.5 million, compared to \$148.6 million for last fiscal year.



- On a yield basis, the General Fund dropped below its benchmark with an earned yield of 3.77%, which compares to a 3.39% 2yr CMA/CMT 12 mo. m.a. month-end yield.
- Annualized total return for the CORE was 3.39% for the month of June while the benchmark realized an annualized total return 3.39%.

# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of June 30, 2008

## Investment Strategy Employed During the Past Quarter

- **General Fund:** Second quarter General Fund CORE portfolio activity was directed at extending duration to bring it more in line with its benchmark. This was achieved in June and at quarter-end duration stands at 1.88 years or 96.4% of benchmark duration of 1.95 years. The CORE portfolio remains laddered out to five years.

As State expenditures increased at a faster pace than did revenues, second quarter activity was driven by managing declining balances in the LIQUIDITY portfolio. Investments were allowed to mature into cash; however investment in the CD program was restored on a limited basis.

## Investment Strategy Plan For the Next Quarter

- **General Fund:** The US economy is weak, yet the Fed cannot lower rates to stimulate growth for fear of inflation getting out of control. By the same token, they cannot raise rates to control inflation for fear of choking off economic recovery. The Fed is backed into a corner and is likely on hold for the foreseeable future.

The Fed next meets on August 5. Currently, the Fed Fund Futures market has priced in an 85% probability that the Fed will leave rates unchanged. There seems to be consensus among analysts that the Fed will remain on hold until the first quarter of 2009. While STO is uncertain as to the exact timing and magnitude of future Fed action, current conditions lead us to believe that the economy must find its feet and the inflation picture must become clearer before the Fed will act.

In the absence of a clear market direction, we believe the market will be range bound. Duration will continue to be managed, using the benchmark duration as a target, while taking advantage of value along the curve. STO will be opportunistic and buy government and government related securities on weakness.

Similar to last quarter, the LIQUIDITY portfolio will carry excess dollar reserves in the next quarter and we will begin to invest in 7-21 day term investments. We are exploring a strategy to fund temporary LIQUIDITY portfolio deficits from TRAN proceeds. This strategy will allow the LIQUIDITY portfolio to target a longer WAM and enhance portfolio returns.

## Asset Mix and Maturity Targets

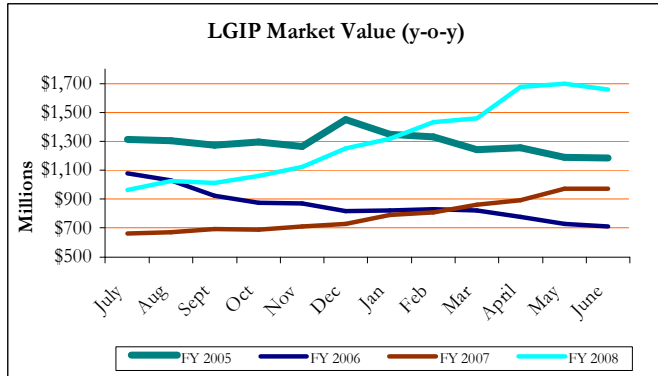
- **General Fund:** At quarter end, CORE portfolio duration was 96.4% of its target benchmark duration. WAM (effective duration) was 2.0 years (1.88 years) compared to 2.2 years (1.77 years) at first quarter end and 1.8 years (1.39 years) at fourth quarter end 2007.



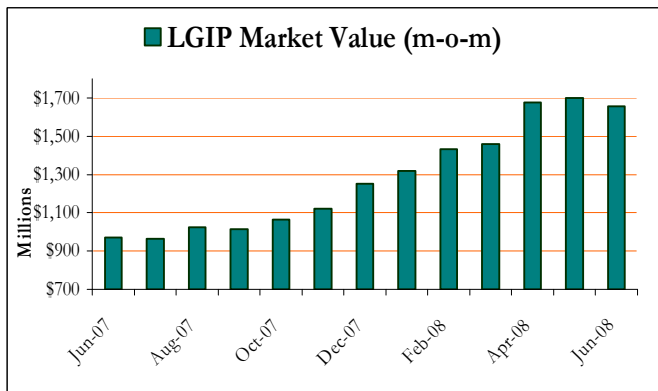
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of June 30, 2008

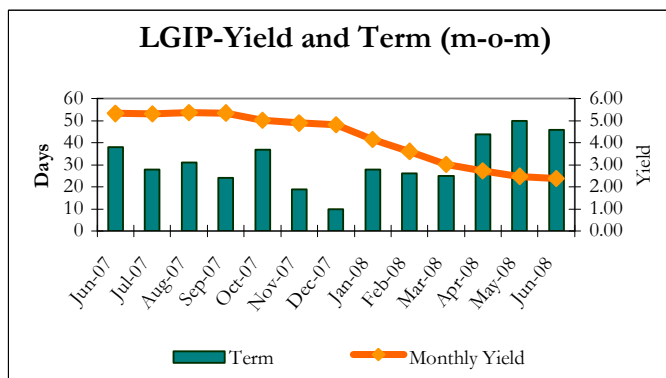
## NEW MEXIGROW LOCAL GOVERNMENT INVESTMENT POOL (LGIP)



- The market value of the LGIP portfolio as of June 30 was \$1.66 billion, compared to a market value of \$970 million at the same period last year and \$711 million at the same period two years ago.



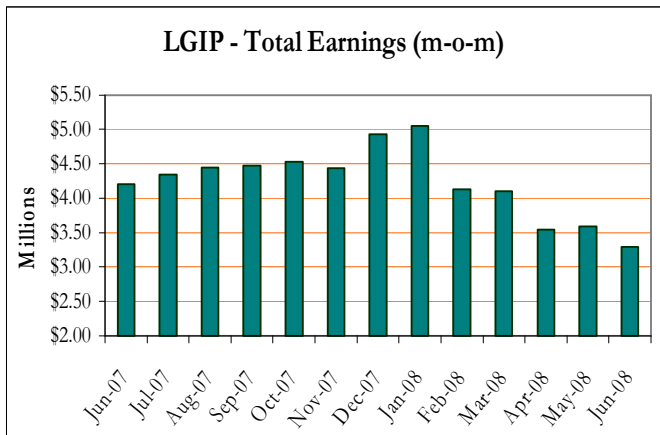
- During the month the market value of the portfolio decreased 2.35%, from \$1.70 billion at May month end to \$1.66 billion. Participant contributions for June were \$168 million; withdrawals totaled \$212 million.



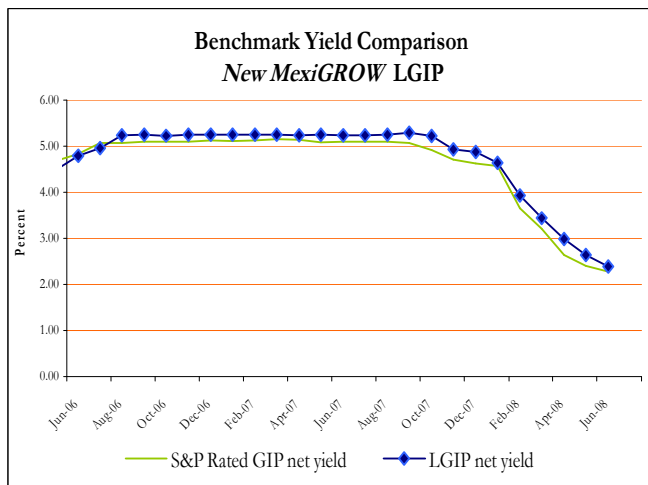
- The gross yield was 2.39% at June 30, a 3% decrease from May month-end of 2.47%. The weighted average maturity at June 30 was 46 days, down from the May 31 weighted average maturity of 50 days and consistent with the rule 2a-7 required 60 days or less.

Local Government Investment Pool				
Asset Type	Yield	Market Value	% of Portfolio	Term (Days)
Agencies	2.26%	\$ 774,978,768	46.73%	90.26
Money Market Funds	2.45%	\$ 660,810,000	39.84%	1.22
Commercial Paper	2.59%	\$ 222,084,054	13.39%	27
LGIP Bank Account	1.90%	\$ 581,871	0.04%	1
<b>Total:</b>	<b>2.39%</b>	<b>\$ 1,658,454,693</b>	<b>100%</b>	<b>46</b>

- June investment activity in the LGIP portfolio totaled \$316 million. Purchases included \$48.8 million in A-1+ commercial paper with an annualized yield of 2.41% and average term of 35 days; and \$267.2 million of U.S. agency securities with an average annualized yield of 2.28% and an average term of 70 days.



- LGIP earnings for June totaled \$3.3 million, an 8.3% decrease from May earnings of \$3.6 million. Fiscal year-to-date earnings totaled \$50.8 million compared to \$40.8 million through the same period last fiscal year.



- The 30-day net yield of the LGIP as of June 20 was 2.39%, outperforming the 30-day net S&P Rated Government Investment Pool (GIP) index (2.28%) by 11 basis points. The 30-day gross yield of the LGIP at June 20, 2.43%, underperformed compared to the 30-day gross S&P Rated GIP index of 2.49%. The administrative fee assessed to participants for June was 2.3 basis points; fees collected totaled \$384,000 for the FY07-08 fiscal year.

# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of June 30, 2008

## Investment Strategy Employed During the Past Quarter

- **New MexiGROW LGIP:** Asset mix and asset types purchased for the portfolio maintained a 99% level of A-1+ rated investments and the weighted average maturity (WAM) was maintained at 60 days or less, averaging 46 days. The due diligence process on commercial paper continued through the quarter with LGIP purchases restricted to only those names on the approved list. The approved commercial paper list currently consists of 8 guarantors with an A1+, P1, F1+ credit ratings from S&P, Fitch & Moody's. Research of potential guarantors will continue in efforts to expand commercial paper investments.
- Overall investment strategy changed during the quarter as the yield curve normalized and the pool received over \$300 million dollars from participants during the quarter. The pool continues to use money market funds as a primary source of liquidity as money market funds have shown a consistent 20 basis point improvement to commercial paper and agency discount notes. Attention was given to short-term commercial paper and agency discount notes with maturities not exceeding 120 days in order to create regular cash inflows. Consistent, disciplined investment throughout the quarter totaled \$912.6 million in fixed income securities.
- As the market continued to be unpredictable, and with high risk potential, the LGIP transitioned out of 3 AAA rated prime money market funds and opened 2 conservative government funds to allow time to research and verify the safety of holdings in the primary money market funds.

## Investment Strategy Plan For the Next Quarter

- **New MexiGROW LGIP:** Compliance with rating criteria will continue to mandate the investing strategy for the LGIP. The overnight repurchase program has shown an improvement in yield during the past quarter and research will continue before reintroducing the program into the LGIP portfolio. This is expected to occur when yields are more competitive than money market fund alternatives.
- Investment will continue on a consistent basis to aggressively place cash positions into fixed income holdings.
- As AAA rated government money market funds under-perform compared to AAA primary money market funds, the pool will transition back into primary money market funds as well as agency discount notes and commercial paper.
- As on-going investment training of the LGIP Portfolio Manager continues, the \$912.6 million of investment purchases this quarter were made by the Portfolio Manager utilizing the Bloomberg trading system. During the next quarter the portfolio manager plans on utilizing the TradeWeb and Bloomberg trading programs to compare yields and make the best possible investments for the pool.
- On July 21, 2008 the S&P annual review meeting will be held. The meeting maintains a dialogue with management of the funds with Standard & Poor's. The goal of the meeting is to re-familiarize S&P with day-to-day activities; discussion of S&P's rating criteria, and updates pertaining to S&P's rating policies.

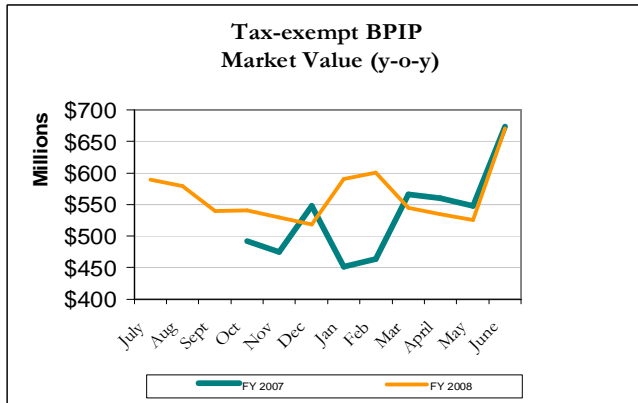
## Asset Mix and Maturity Targets

- **New MexiGROW LGIP:** The WAM for the LGIP will be maintained at 60 days or less. Asset allocation will fluctuate between direct issue commercial paper, agency discount notes and callable bonds, money market funds, and the overnight repurchase pool depending on the most favorable yield and portfolio investment compliance limits.
-

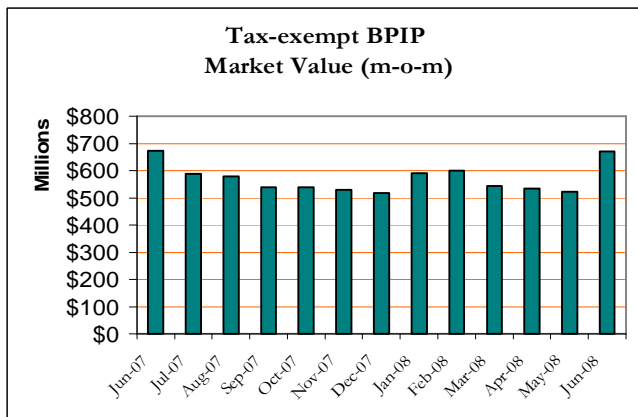
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of June 30, 2008

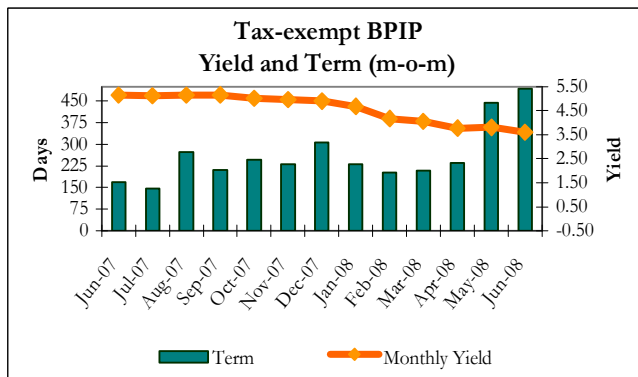
## TAX-EXEMPT BOND PROCEEDS INVESTMENT POOL (BPIP)



- The market value of the Tax-exempt BPIP as of June 30, 2008, was \$669.9 million. This compares to a market value of \$673.4 million one year ago.



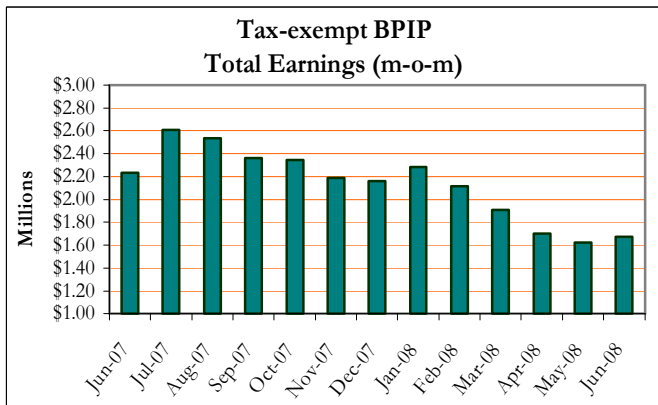
- During June, the market value of the fund increased 27% to \$669.9 million from \$524.9 million at May month end. The approximate \$145 million increase was the net result of new issue proceeds (~\$154 million) property tax revenues, interest earnings, and project expenditure draws.



- The Tax-exempt BPIP month-end purchase yield and term were 3.61% and 1.35 years. The month-end yield was 75 basis points below the selected benchmark yield, 4.36%, which is the highest arbitrage yield limit of any bond issue in the fund.

Tax-exempt Bond Proceeds Investment Pool					
Asset Type	Yield	Market Value	% of Portfolio	Term	
Agencies	4.63%	\$ 369,247,507	55.12%	2.23 yrs	
Money Market Funds	2.85%	\$ 72,183,000	10.77%	1 day	
US Treasuries	4.79%	\$ 36,053,793	5.38%	146 days	
Corporate Bonds	4.62%	\$ 29,957,300	4.47%	1.03 yrs	
Repurchase Pool	2.70%	\$ 162,482,829	24.25%	1 day	
<b>Total:</b>	<b>3.61%</b>	<b>\$ 669,924,429</b>	<b>100%</b>	<b>1.35 yrs</b>	

- During June, approximately \$116 million Agency callable and bullet securities were purchased for the Tax-exempt pool. Trading activity took advantage of a temporary back-up in yields and a steeper yield curve.

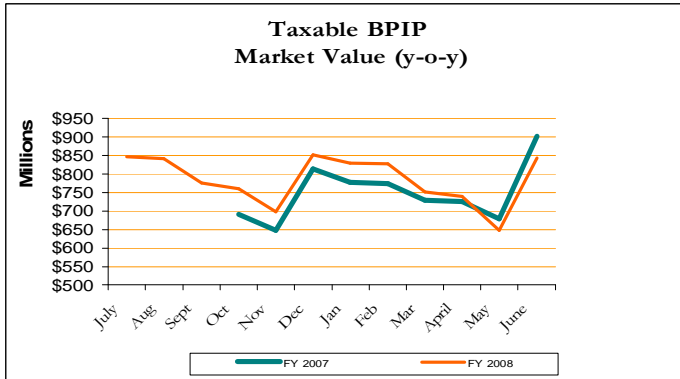


- Interest earnings for the month totaled \$1.67 million, an increase of 3.1% from May earnings of \$1.62 million. Fiscal year earnings totaled \$25.5 million.

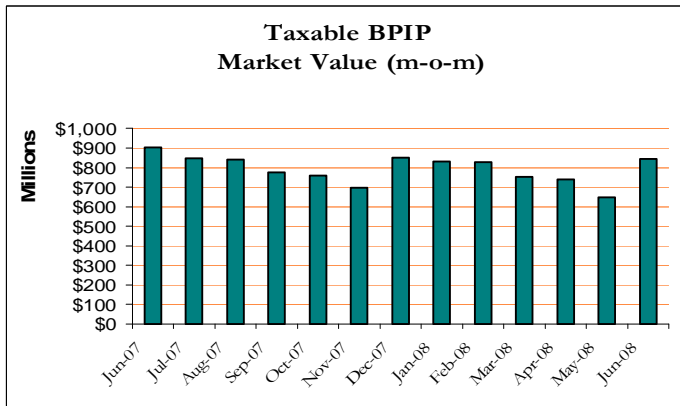
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of June 30, 2008

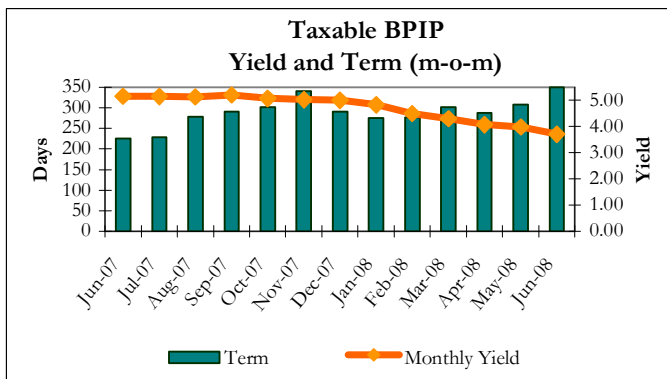
## TAXABLE BOND PROCEEDS INVESTMENT POOL (BPIP)



- The market value of the Taxable BPIP as of June 30, 2008, was \$843.3 million. This compares to a market value of \$902.0 million one year ago.



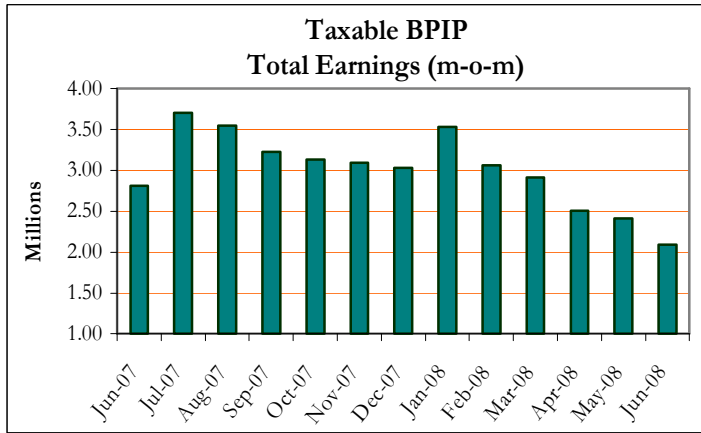
- During June, the market value of the fund increased 30.1%, to \$843.3 million from \$648.2 million at May month end. The approximate \$195 million increase was the net result of monthly project expenditure draws (~\$47mm) and new issue proceeds (~\$242mm).



- The Taxable BPIP month-end purchase yield and term were 3.69% and 350 days.
- The month-end yield was 17 basis points above 3.52%, which is the month-end yield for the 2-year CMA 12 month moving average index.

Taxable Bond Proceeds Investment Pool				
Asset Type	Yield	Market Value	% of Portfolio	Term (Days)
Agencies	4.92%	\$ 356,206,762	42.24%	377
Money Market Funds	2.85%	\$ 180,400,000	21.39%	1
US Treasuries	4.79%	\$ 15,184,350	1.80%	178
Corporate Bonds	4.51%	\$ 68,630,813	8.14%	2.5 yrs
Asset-backed Sec.	4.77%	\$ 10,153,480	1.20%	2.4
Repurchase Pool	2.70%	\$ 212,783,105	25.23%	1
<b>Total:</b>	<b>3.69%</b>	<b>\$ 843,358,510</b>	<b>100%</b>	<b>350</b>

- During June, approximately \$83 million Agency callable and bullet securities were purchased for the Taxable pool. These trades took advantage of a back-up in treasury benchmark yields around mid-June and historically wider spreads on agency securities.



- June interest earnings totaled \$2.08 million, a 13.4% decrease from May earnings of \$2.40 million. Fiscal year earnings totaled \$36.23 million

# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of June 30, 2008

## Investment Strategy Employed During the Past Quarter

**BPIP:** During June, bond market flows priced in higher future fed funds target rates due to heightened inflationary risks. These flows (resulting in low bond prices & high yields) reached their peak by mid June, which is when the BPIPs invested approximately \$200 million in Agency callable and bullet securities. Aggressive investment during this period (with relative inactivity during the rest of quarter) proved hugely advantageous as the bond market consensus turned back to focus on weak economic fundamentals, weak demand that might alleviate inflationary pressures, and the probability that the target fed funds rate would remain unchanged or even lowered (resulting in higher bond prices & lower yields). In short, STO was able to add high quality assets to the BPIP portfolio at cheap prices (locking in higher yields) unavailable in the market since last year.

## Investment Strategy Plan For the Next Quarter

**BPIP:** With a year's worth of experience getting to know the agency draw processes, better forecasting ability, and a bleak economic picture (rates will stay low or go lower), BPIP target WAMs are set to increase to between 365 and 475 days. As the yield curve steepens, such an increase will result in higher interest earnings over shorter portfolios. Already, the BPIP enjoys better yield than other similarly comprised bond proceeds pools, which are managed as money market funds and yield around 100 basis points less than the BPIPs.

## Asset Mix and Maturity Targets

**BPIP:** Because consumers are increasingly strained by losses of real disposable income and corporate profit margins are similarly squeezed, the BPIP portfolios will continue to invest almost exclusively in government and government-related securities. Corporate defaults are set to rise and while securities today are appropriately valued or priced for such risk, the extent and magnitude of the deterioration is difficult to ascertain with sufficient certainty at this time. Research in the sector (including asset-backed commercial paper) continues nonetheless.

---