

OFFICE OF THE STATE TREASURER

STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES  
Tuesday, July 15, 2008

The State Treasurer's Investment Committee (STIC) meeting convened at approximately 9:00 a.m. in the Bob Barth Conference Room at the Office of The State Treasurer, 2019 Galisteo St., Bldg. K, Santa Fe, New Mexico, on Tuesday, July 15, 2008.

**I. CALL TO ORDER**

**Roll Call**

**Members Present:**

The Honorable James B. Lewis, State Treasurer  
Ms. Joelle Mevi, Chairperson Designee, Chief Investment Officer  
Ms. Olivia Padilla-Jackson, Board of Finance Director  
Mr. Paul Cassidy, Public Member

**Members Absent:**

Mr. Steven Bohlin, Public Member

**Staff Present:**

Mr. Orlando Romero, State Cash Manager  
Ms. Randilynn Lord, Legal Counsel  
Mr. Scott Newman, General Fund Portfolio Manager  
Ms. Kirene Bargas, LGIP Portfolio Manager  
Mr. Arsenio Garduño, Collateral Manager  
Ms. Hannah Chavez, LGIP Accountant

**Guests:**

Ms. Becky Gutierrez, LFC analyst  
Ms. Stephanie Schardin, Board of Finance Deputy Director

**Approval of July 15, 2008 Agenda**

Member Paul Cassidy motioned for approval of the agenda; seconded by Member Olivia Padilla-Jackson. The motion carried.

**Approval of June 11, 2008 Minutes**

Member Lewis motioned for approval of the minutes; seconded by Member Paul Cassidy. The motion carried.

## II. INVESTMENT REPORTS- Month and Quarter Ended June 30, 2008

### **General Fund Report**

Mr. Scott Newman presented a summarization of the market value, change in balance, investment activity, interest earnings and a quarterly recap for the General Fund Investment Portfolio for the month and quarter ended June 30, 2008.

Mr. Newman explained the current investment strategy of utilizing price dips in a range-bound market to execute purchases and presented the committee with a Bloomberg graphic of June's purchase dates against market agency yields.

Member Cassidy inquired on the recent FNMA and FHLMC problems and how STO was keeping track of the news and about the degree of STO exposure. Mr. Newman informed the committee that he read the Lehmann report on which the recent headlines were based and concluded that the media picked up only the title and didn't read the actual contents, which stated that it was highly improbable for a failure of the GSEs. The Treasury announced yesterday a plan to let FNMA and FHLMC utilize it as a liquidity backstop and also temporarily increased their lines of credit. Member Cassidy also asked if STO holds any subordiante lien agency debt. Mr. Newman responded that the STO only purchases/holds senior debt.

*Note: there were several typos in the benchmark section of the June report. Corrected info is as follows:: earned yield of the G/F portfolio was actually 3.77% and total return of the CORE was actually 3.39% for June.*

### **New MexiGROW Local Government Investment Pool (LGIP) Report**

Ms. Kirene Bargas presented a summarization of the market value, change in balance, investment activity, interest earnings, and a quarterly recap for the LGIP portfolio for the month and quarter ended June 30, 2008.

### **Bond Proceed Investment Pools (BPIP)**

Mr. Scott Newman presented a summarization of the market value, change in balance, investment activity, interest earnings, and a quarterly recap for the Tax-Exempt and the Taxable Bond Proceed Investment Pools for the month and quarter ended June 30, 2008.

Member Cassidy asked about the status of identifying project-related cash flows in the BPIPs. Chairperson designee Mevi explained that Joaquin Lujan has historical cash flow analysis and tracks the outflows, however, the pools continue to experience unexpectedly large draws. Joaquin is able to commit sufficient liquidity to the money market fund for purposes of satisfying these draw requests and is in regular communication with the appropriate agency staff. Member Padillia-Jackson explained that the Board of Finance is also in communication with the agencies responsible for spending bond money to facilitate timely project draws but that future debt/projects may be related to different agencies and the training (about timely draws) will have to begin again.

### **Summary of Broker Participation**

Chairperson designee Mevi presented a summarization of the broker participation for security purchases for June and the entire fiscal year, with additional breakdown by asset type and market.

Member Padilla-Jackson requested a different presentation of broker participation to reflect purchases by broker broken down by asset type. She stated that a presentation of this info on an annual basis would be sufficient. Chairperson designee Mevi agreed to prepare this report for the Board of Finance annual report of investment activity. Member Cassidy inquired as to when STO will review the B/D list. Chairperson designee Mevi informed the committee that the list is up for review beginning in August or September. He also inquired about STO's new issue agency purchases. Ms. Bargas informed the committee that new issue securities are not typically one year or less in term and, therefore, not appropriate for the LGIP. Mr. Newman informed the committee that the G/F hasn't purchased new issues because STO doesn't feel that there is sufficient relative value and that the convexity is currently too high.

### **Economic and Investment Outlook**

Mr. Scott Newman reported that, looking back over the quarter, the economy is still experiencing the negative effects of the sub-prime blow up. Increased defaults on mortgages and the subsequent corporate write-downs continue to cause consternation in the bond market. Housing, employment and consumer spending continue to show signs of significant deterioration. The surging growth of emerging nations has put a significant drain on the world's commodities, making these more expensive to America. With energy and food costs omitted, inflation is perceived as a moderate threat, but the Fed is in a tough spot to address inflation without compromising a recovery. Future Fed moves are unclear given recent data. STO expects the bond market to continue to be range-bound and will take advantage of opportunities as they arise, managing to duration using the benchmark as a target. When the market get range-bound, the market gets bored; bored to the point where little things (such as the GSE news) get blown out of proportion causing market overreaction.

## **III. CASH MANAGEMENT & COLLATERAL REPORTS: May 31, 2008**

### **Cash Management Report**

Cash Manager Orland Romero reported pursuant to section 8-6-3.1 NMSA 1978, the State Cash Manager shall submit to the State Board of Finance a report showing state fund balances in each financial institution established pursuant to this section. He presented a summary of state agency accounts in each institution though the month ended May 31, 2008.

### **Collateral Report**

Mr. Arsenio Garduño reported that all depository institutions holding public funds for the month ended May 31, 2008 met the minimum collateral requirements. The ratio of collateral required by each institution is a result of a quarterly risk assessment analysis.

Mr. Garduno presented a quarterly report for the quarter ended June 30 of Custodial Bank pledged collateral.

**IV. STAFF REPORTS**

None

**V. COMMITTEE REPORTS**

None

**VI. NEXT MEETING**

Wednesday, September 10, 2008 at 9:00 a.m.

**VII. ADJOURNMENT**

Member Padilla-Jackson motioned to adjourn the meeting, seconded by Member Cassidy.  
The meeting adjourned at 10:00 a.m.

Respectfully submitted by:

Joelle Mevi, Investment Division Director