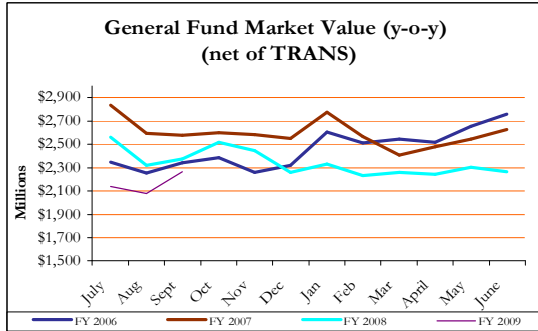


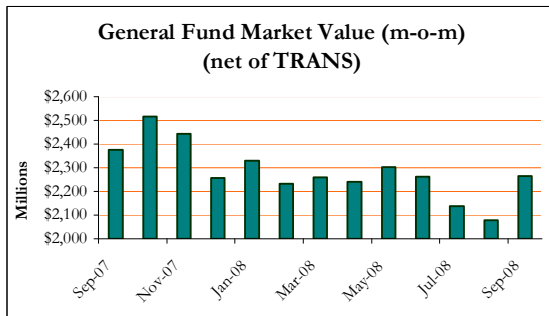
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of September 30, 2008

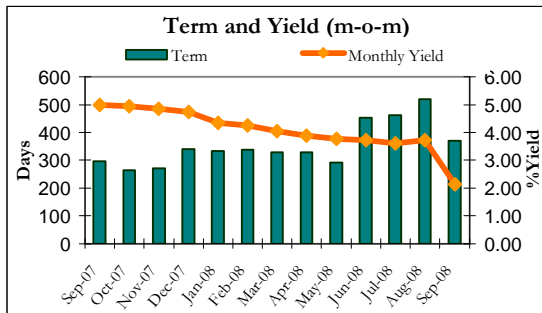
## GENERAL FUND INVESTMENT PORTFOLIO



- The market value of the General Fund Investment Portfolio, net of TRANS, on September 30, 2008, was \$2.27 billion, this compares to \$2.26 billion at June 30, and to \$2.37 billion at the same point last year and \$2.58 billion at the same point two years ago.



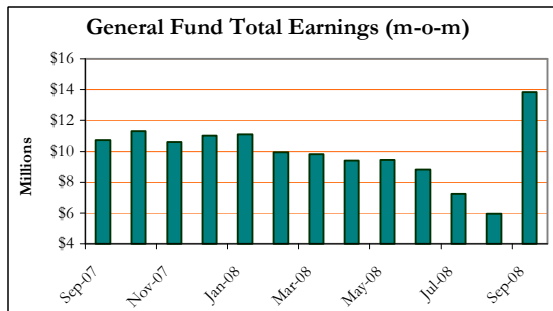
- The market value of the portfolio increased 9.06% to \$2.27 billion from \$2.08 billion at August month-end.



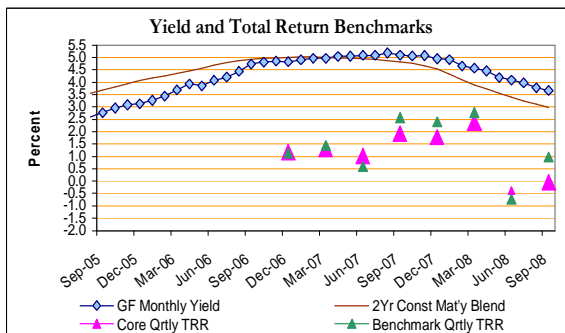
- Purchase yield was 2.15% at month-end, down from 3.72% in August. The weighted average term of the portfolio decreased to 369 days. Effective duration of the CORE segment was 2.18 years, which is 110% of the benchmark's duration, 1.96 years.

General Fund (including TRANS)				
Asset Type	Yield	Market Value	% of Portfolio	Term (Years)
Agencies	3.95%	\$ 380,776,076	16.81%	3.572
Repurchase Pool	2.75%	\$ 531,557,468	23.47%	0.003
Certificate of Deposit	3.04%	\$ 195,100,000	8.61%	0.249
Money Market Fund	0.00%	\$ 830,350,000	36.66%	unknown
Municipal Bonds	3.30%	\$ 50,000,000	2.21%	0.003
US Treasury Bills & Notes	3.42%	\$ 159,294,600	7.03%	3.469
Corporate Bonds	5.07%	\$ 117,800,361	5.20%	2.524
<b>Total:</b>	<b>2.15%</b>	<b>\$ 2,264,878,505</b>	<b>100.00%</b>	<b>0.999</b>

- During September, there were thirty seven sales with an aggregate par value of \$530 million. There were two purchases in the CORE portfolio: \$20 million U.S. Treasury and \$381.7 million of the Reserve Primary Fund purchased from the LGIP portfolio under a pending repurchase agreement. Additionally, two Certificates of Deposit were purchased in the LIQUIDITY portfolio in the amount of \$2.4 million.



- September earnings were \$13.85 million representing a 133% increase from August earnings of \$5.95 million. Fiscal year earnings total \$27.05 million, compared to \$34.01 million through the same period last fiscal year.



- The General Fund outperformed its benchmark with an earned yield of 8.46%, compared to a 2.99% 2yr CMA/CMT 12 month moving average month-end yield.
- Annualized total return for the CORE was -8.08% for the month of September while the benchmark realized an annualized total return of 3.54%.

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

As of September 30, 2008

## Investment Strategy Employed During the Past Quarter

- **General Fund:** Third quarter General Fund CORE portfolio activity was directed at extending duration to bring it more in line with the total return benchmark. This goal was achieved during August when the portfolio matched that duration target. In early September, STO began implementing a strategy to take advantage of tighter agency spreads and reposition some portfolio holdings in expectation of a lower rate environment going forward. STO was able to recognize a gain on a short bullet agency maturity, maintain yield and improve quality by reinvesting the proceeds directly in Treasury securities. This type of trade was executed once before market events turned our attention elsewhere.
- Third quarter activity was dominated by the events of September. More specifically, activity was driven in response to events surrounding The Reserve Prime money market positions held in both the CORE and LGIP portfolios, as well as STO corporate exposure to the financial industry.
- Following these events and resulting activity, the CORE portfolio has taken on a barbell structure with maturities of 52% of the assets being twelve months or in. CORE WAM has dropped to 1.69 years from 2.06 years. Asset weights also shifted more heavily towards cash as 49% of the portfolio is in overnight or money market positions. Agency exposure dropped from 69% to 29% of the portfolio. The Treasury positions remain intact. The portfolio has the ability and inclination to hold all positions, deemed to be sound, that have unrealized losses while collecting interest until principal comes due at maturity.

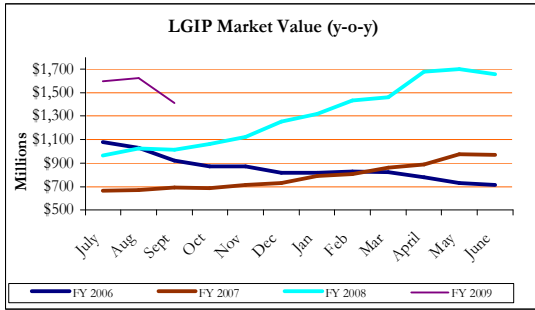
## Investment Strategy Plan for the Next Quarter and Asset Mix and Maturity Targets

- **General Fund:** As the uncertainty regarding STO's money market positions is resolved, STO will work to reestablish the ladder in the CORE portfolio. This will effectively shorten duration to be more in line with that of the benchmark
  - We anticipate the market will remain illiquid and as such, any short term moves in rates will be exaggerated. STO will continue to be opportunistic and will buy structure on weakness. We anticipate rates will remain at current levels or lower going into 2009 so will position the portfolio to reflect this market environment and will likely place a greater reliance upon Treasury securities.
  - 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. As noted last quarter, we are exploring a strategy to fund temporary LIQUIDITY portfolio deficits from TRAN proceeds thereby allowing the LIQUIDITY portfolio to target a longer WAM and enhance portfolio returns. TRAN issuance is on hold, as current market conditions will not support this strategy. We will revisit as the market allows.
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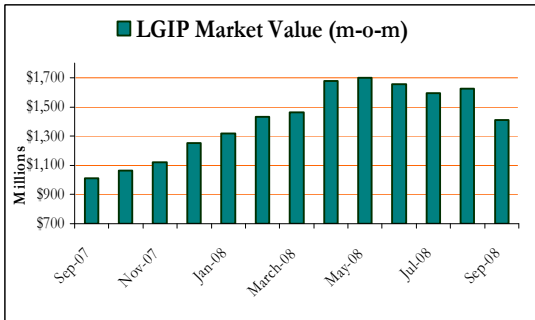
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of September 30, 2008

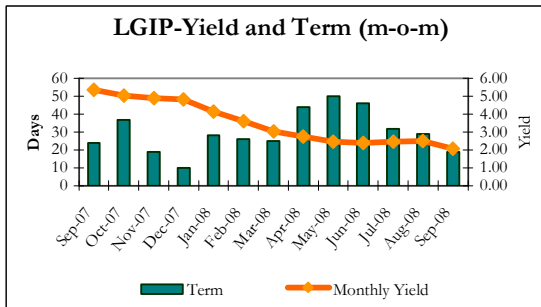
## NEW MEXIGROW LOCAL GOVERNMENT INVESTMENT POOL (LGIP)



- The market value of the LGIP portfolio as of September 30 was \$1.41 billion, compared to a market value of \$1 billion at the same period last year and \$691 million at the same period two years ago.



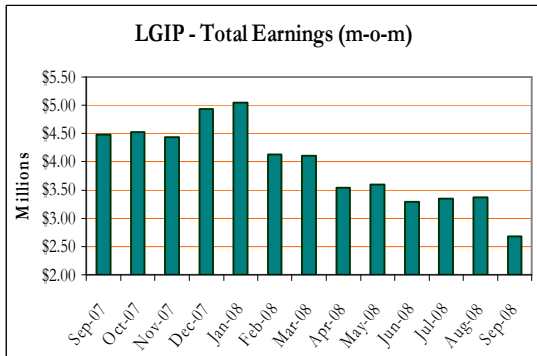
- During the month the market value of the portfolio decreased 12.9%, from \$1.62 billion at August month end to \$1.41 billion. Participant contributions for September totaled \$85 million and withdrawals totaled \$303 million. A single participant accounted for 63% of September's total withdrawals.



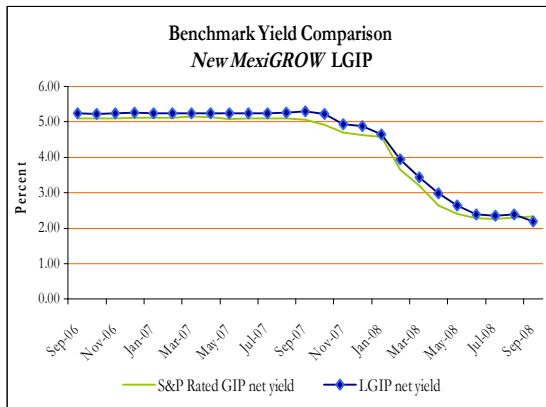
- The gross yield was 2.07% at September 30, a 17.8% decrease from August month-end of 2.52%. The weighted average maturity at September 30 was 19 days, down from the August 31 weighted average maturity of 29 days and within the rule 2a-7 requirement of 60 days or less.

Local Government Investment Pool				
Asset Type	Yield	Market Value	% of Portfolio	Term (Days)
Agencies	2.95%	\$ 159,137,200	11.28%	135
Money Market Funds	1.78%	\$ 404,900,000	28.70%	1.216
Commercial Paper	2.73%	\$ 99,752,426	7.07%	32.59
LGIP Bank Account	1.94%	\$ 747,150,319	52.95%	0.986
<b>Total:</b>	<b>2.07%</b>	<b>\$ 1,410,939,945</b>	<b>100%</b>	<b>19</b>

- September investment purchases in the LGIP portfolio totaled \$85 million of U.S. agency securities with an average annualized yield of 3.5% and an average term of 143 days. Sales of securities included \$214.76 million of U.S. agency securities, \$20 million of A-1+ commercial paper, and \$381.7 million of the Reserve Primary Fund under a pending repurchase agreement with the General Fund CORE. The liquidation of securities was a preemptive action to secure liquidity for significant participant redemptions, should they occur. The sale of the Reserve Primary Fund was necessitated by compliance with Section 6-10-10.1.I of NMSA 1978.



- LGIP earnings for September totaled \$2.68 million, a 20% decrease from August earnings of \$3.37 million. Fiscal year-to-date earnings totaled \$9.40 million compared to \$13.3 million through the same period last fiscal year.



- The 30-day net yield of the LGIP as of September 26 was 2.19%, underperforming the 30-day net S&P Rated Government Investment Pool (GIP) index (2.34%) by 15 basis points. The 30-day gross yield of the LGIP at September 26, 2.24%, underperformed compared to the 30-day gross S&P Rated GIP index of 2.55%. The administrative fee assessed to participants for September was 2.4 basis points; fees collected through September 30 are \$96,000.

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

As of September 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 26 days. Investment strategy remained disciplined and consistent with that of prior quarters until the week of September 15<sup>th</sup>. The events of that week, starting with the Lehman Bros. bankruptcy and leading to the massive crippling of institutional money funds, led STO to decide to preemptively liquidate most LGIP money market and US Agency holdings in preparation for unusually large participant redemptions.
- Strategy for re-investment of the liquidated proceeds was conservatively directed: utilizing only the interest-earning bank account (with 100% collateralization) and a pure government money market fund from STO's custody bank. During the week of September 22, some of the liquidity was reinvested in high-yielding, short-term, new issue bullet securities offered by FHLB.
- S&P renewed the AAA rating for the LGIP in August and the rating was maintained through the end of the quarter.
- The unprecedented events of September and the continuing market instability through quarter-end are cause for STO to re-evaluate the strategy and direction of LGIP portfolio management. Options for handling extreme market events and the potential impact to the LGIP will be thoroughly examined.

## Investment Strategy Plan for the Next Quarter

- **New MexiGROW LGIP:** Compliance with rating criteria will continue to mandate the investing strategy for the LGIP. Market events of the past quarter have proven the need to establish an overnight repurchase program for the LGIP and the process is currently underway: Columbia Management is identifying A-1+ repo counterparties for inclusion in the LGIP repo program. Investment will continue on a consistent and educated basis to place cash positions into fixed income US Government securities. Continuous market monitoring is ongoing.
- Because AAA rated prime money market funds have proven vulnerable to extreme market events, it is now apparent that those types of investment are not sufficiently safe for the LGIP portfolio, even though they have been a source of significant earnings over the past two years. Investment in this type of money market fund is on indefinite hold.
- Investment in commercial paper for the LGIP portfolio is on indefinite hold.

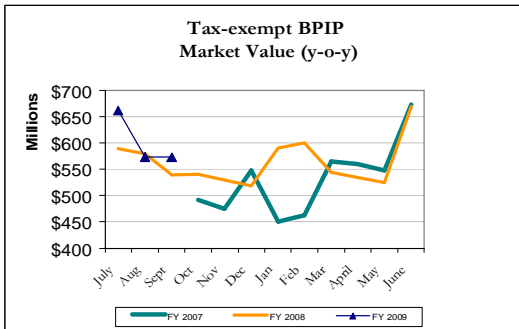
## Asset Mix and Maturity Targets

- **New MexiGROW LGIP:** Asset mix and maturity targets going forward will continue to comply with policy, statute and rating criteria. Until a re-evaluation of the investment direction for the LGIP portfolio is completed, a conservative asset allocation will primarily be concentrated in US Treasury and Agency securities, the collateralized bank account, governmental money market funds, and a collateralized overnight repurchase program.
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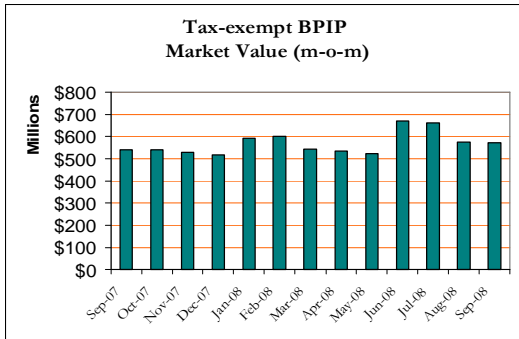
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of September 30, 2008

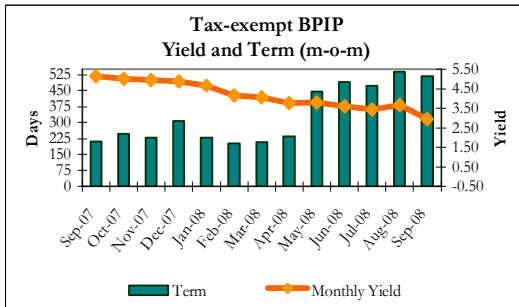
## TAX-EXEMPT BOND PROCEEDS INVESTMENT POOL (BPIP)



- The market value of the Tax-exempt BPIP as of September 30, 2008, was \$572.9 million. This compares to a market value of \$539.8 million one year ago.



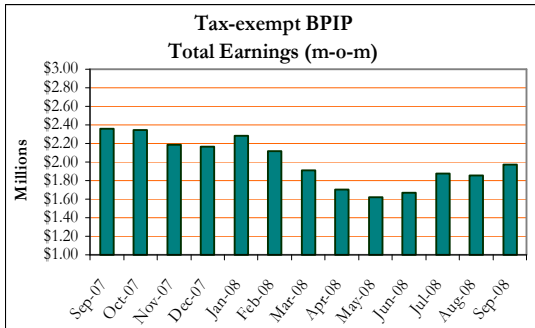
- During September, the market value of the fund decreased 0.1% to \$572.9 million from \$573.4 million at August month end. The approximate \$.5 million decrease was the net result of property tax revenues, interest earnings, and project expenditure draws.



- The Tax-exempt BPIP month-end purchase yield and term were 2.96% and 1.42 years. The month-end yield was 139 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	4.21%	\$ 370,951,407	64.75%	2.15 yrs
Money Market Funds	0.00%	\$ 126,183,000	22.02%	unkown
US Treasuries	3.72%	\$ 8,126,114	1.42%	2.06 yrs
Corporate Bonds	4.62%	\$ 29,473,600	5.14%	284 days
Repurchase Pool	2.75%	\$ 38,198,078	6.67%	1 day
<b>Total:</b>	<b>2.96%</b>	<b>\$ 572,932,199</b>	<b>100%</b>	<b>1.42 yrs</b>

- During September, rich Treasury securities maturing within the next six months were sold and cheap FHLB discos were purchased. The transactions totaled about \$48 million.

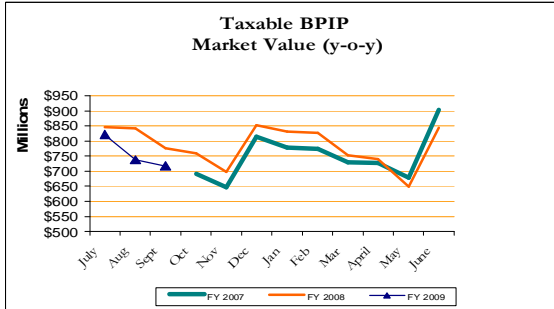


- Interest earnings for the month totaled \$1.97 million, an increase of 6.1% from August earnings of \$1.85 million. Fiscal year to date earnings totaled \$5.70 million.

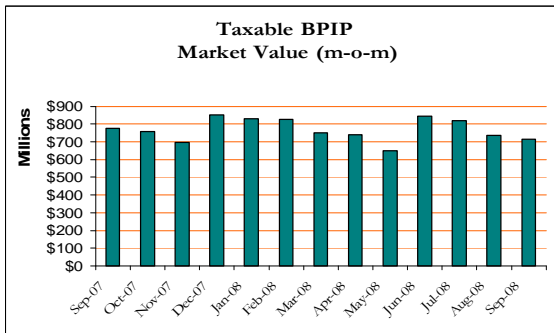
# NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of September 30, 2008

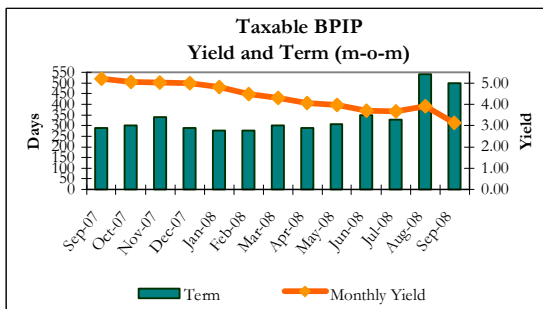
## TAXABLE BOND PROCEEDS INVESTMENT POOL (BPIP)



- The market value of the Taxable BPIP as of September 30, 2008, was \$716.9 million. This compares to a market value of \$775.7 million one year ago.



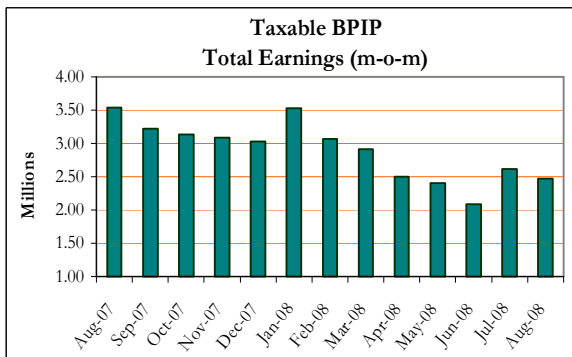
- During September, the market value of the fund decreased 2.8%, to \$716.9 million from \$737.6 million at August month end. The approximate \$20 million decrease was the net result of monthly project expenditure draws.



- The Taxable BPIP month-end purchase yield and term were 3.13% and 1.37 years.
- The month-end yield was 54 basis points below 3.67%, 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%	\$ 436,095,082	60.82%	1.03 yrs
Money Market Funds	0.00%	\$ 185,400,000	25.86%	unknown
US Treasuries	na	\$ -	0.00%	na
Corporate Bonds	4.51%	\$ 63,149,059	8.81%	2.29 yrs
Asset-backed Sec.	4.77%	\$ 9,925,805	1.38%	1.48 yrs
Repurchase Pool	2.75%	\$ 22,404,927	3.12%	1
<b>Total:</b>	<b>3.13%</b>	<b>\$ 716,974,873</b>	<b>100%</b>	<b>1.37 yrs</b>

- During September, rich front-end Treasuries were sold and cheap four-month FHLB discos were purchased. Both transactions totaled to about \$30 million.



- August interest earnings totaled \$2.60 million, a 5.2% increase from August earnings of \$2.47 million. Fiscal year to date earnings totaled \$7.69 million

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

As of September 30, 2008

## Investment Strategy Employed During the Past Quarter

- **BPIP:** The BPIP investment portfolios have been managed and structured since inception to protect capital, provide liquidity, and earn market returns. Although September's market events presented substantial challenges, both BPIP portfolios continue to deliver on these mandates.
- On capital preservation: Yes, fire sale mark-to-market marks pervade roughly 20% of the portfolios, but we are very comfortable with our ability to hold these investments *while* they pay interest and *until* principal comes due at maturity.
- On liquidity: With the portfolio ladders in place cash flows are entirely sufficient to fund draws/expenses.
- Lastly, on returns; Our unique ability to pool and forecast the State's project expenses ,and thus extend WAM beyond that which most proceed pools are invested, enables us to continue earning yields above other proceeds pools, adding to the coffers for debt service and adding to the State's bonding capacity.
- Discipline and due diligence has taken the portfolios this far and will guide them the rest of the way.

## Investment Strategy Plan for the Next Quarter and Asset Mix and Maturity Targets

- **BPIP:** Given the uncertainty surrounding the NAV and liquidity of our money market fund positions, we plan to build cash positions and shorten WAM in anticipation of normal-to-large draw projections. We anticipate illiquidity to persist in the market and will thus rely on maturities to fund project expenditures and possibly roll cash positions in short treasuries and government-backed discount notes if those cash positions grow too large. In doing so we will likely trade yield for safety and liquidity, but paying our bills and avoiding fire sale liquidation takes priority.
  - During the next quarter we will back-test the portfolio's structure and ability to withstand shocks and scenarios unlikely during normal times. For example, the BPIP portfolios are structured under the assumption that at least every six months new proceeds come into the pool. If funding issues prevent that from happening, then how must the structure of the portfolio's change and what adjustments must be put into place where that to happen with little notice? In short, as we ride the wave of this storm, we learn from it and institute a direction that allows us to weather the next one.
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