

OFFICE OF THE STATE TREASURER

STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES
Tuesday January 13, 2009

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, January 13, 2009.

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. Steven Bohlin, Public Member
Mr. Paul Cassidy, Public Member

Members Absent:

None

Staff Present:

Mr. Mark Valdes, Deputy State Treasurer
Mr. Orlando Romero, State Cash Manager
Mr. Scott Newman, General Fund Portfolio Manager
Mr. Joaquin Lujan, BPIP Portfolio Manager
Ms. Kirene Bargas, LGIP Portfolio Manager
Mr. Arsenio Garduño, Collateral Manager
Ms. Hannah Chavez, LGIP Accountant
Mr. Clarence Smith, Chief Operations Officer

Guests:

Mr. Dan White, LFC analyst
Ms. Stephanie Schardin, Board of Finance Deputy Director

Approval of January 13, 2009 Agenda

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

Approval of December 10, 2008 Minutes

Member Cassidy motioned for approval of the minutes as corrected; seconded by Member Bohlin. The motion carried.

II. INVESTMENT REPORTS- Month and Quarter ending December 31, 2008

General Fund Report

Mr. Scott Newman presented a summarization of the market value, change in balance, investment activity, and interest earnings for the General Fund Investment Portfolio for the month and quarter ended December 31, 2008.

Member Padilla-Jackson inquired on the large security sales in the CORE segment. Mr. Newman explained that market dynamics along with new federal programs allowed STO to take gains while reducing U.S. Agency security exposure. Member Padilla-Jackson asked how the sales will impact long-term returns on the portfolio. Mr. Newman responded that proceeds from the security sales were reinvested so that purchase yields were higher than the bid (sell) yields, which benefits long-term returns. Mr. Newman outlined investment strategy for the quarter primarily accomplished three things: existing liquidity was invested in a large position of 2-yr Treasury notes, which were sold the next week and realized gains; a large exposure in US Agencies was sold off; and FDIC-insured TLG corporate bonds were added to the portfolio. Cash balances remain high, though, so deployment of cash into securities is ongoing.

Committee discussion regarding how market fluctuations can benefit overall return of STO portfolios, “buy-and-hold” vs. “passive management” strategies, and increasing credit quality.

Mr. Newman provided an overview to the committee about recent investment in the newly-issued FDIC insured TLGP corporate bonds and reiterated that each investment is made with the intent to hold the security to maturity but, if market forces create opportunities, securities may be sold to improve portfolio structure.

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

Ms. Kirene Bargas presented a summarization of the market value, change in balance, investment activity, and interest earnings for the LGIP portfolio for the month and quarter ended December 31, 2008.

Member Cassidy inquired on how the TLGP securities were being purchased: through a broker or directly from the issuer? Ms. Bargas responded that the TLGP CP purchases are made directly from the debt issuer.

Member Bohlin asked about the reaction from LGIP participants to the announcement of the Reserve Primary fund loss and was informed that the NM Assn of Counties, the NM Municipal League, and the ten largest LGIP participants were notified by phone on Friday Jan. 9th with overall positive response to news of the loss and the amortization plan.

Bond Proceed Investment Pools (BPIP)

Mr. Joaquin Lujan presented a summarization of the market value, change in balance, investment activity, and interest earnings for the Tax-Exempt and the Taxable Bond Proceed Investment Pools for the month and quarter ended December 31, 2008.

Member Bohlin questioned why Northern Trust continues to price STO positions in the Reserve Primary fund at 97 NAV instead of the estimated 98.5 NAV published in the liquidation plan. Mr. Lujan responded that STO will be working with

Northern on a number of performance calculation and portfolio maintenance issues and will address the fund's pricing discrepancy also.

Summary of Broker Participation

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

Mr. Newman brought to the committee's attention that STO used 22 of the 26 authorized broker/dealers for December investment activity, which proves that having a large, diversified list of broker representation benefits STO.

Economic and Investment Outlook

Mr. Scott Newman presented a brief economic outlook. Mr. Newman mentioned that STO appears to be the only New Mexico investing agency showing positive returns for this fiscal year.

Mr. Bohlin commended the investing staff for their astute reaction to the current market and taking advantage of disparities while not going overboard buying lower rated options and overall doing a very good job. He stated that the team is doing a very good job.

III. CASH MANAGEMENT & COLLATERAL REPORTS: November 30, 2008

Cash Management Report

Mr. Orlando Romero reported that, 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 through the month ended November 30, 2008.

Collateral Report

Mr. Arsenio Garduño reported that all financial institutions met their minimum collateral requirements for November 30, 2008. The ratio of collateral required by each institution is a result of a quarterly risk assessment analysis. Mr. Garduno also presented custodial bank holdings as of December 31, 2008.

Treasurer Lewis updated the committee on the status of NM banks. The banks are requesting additional state CDs and are supporting the introduction of the CDARs program to New Mexico. STO is in dialog with the bankers association to work out how to best address these issues.

IV. STAFF REPORTS

None

V. COMMITTEE REPORTS

Quarterly Investment Audits – June 2008 and September 2008

Member Padilla-Jackson explained to the committee that effective July 2008 the State Board of Finance assumed payment for STO's quarterly investment audits. However, the professional services contract for the audits has not yet been approved by the State Auditor so, even though the audits are completed, they cannot be presented. The presentation of these two audits is postponed pending approval of the contracts.

Quarterly Investment Performance Reviews – Quarters ended June 2008 and September 2008

Deanne Woodring and Dave Westcott of Davidson Fixed Income Management, STO's investment advisor, presented the two reports to the committee via telephone conference call. Deanne began by explaining to the committee that Davidson's review excluded information and market events subsequent to the reporting periods and focused their review of investment activity solely with information available in those timeframes. Each portfolio was reviewed for diversification, liquidity, and risk and how investment actions taken during the quarter impacted these components. The quarterly activity was detailed and performance was compared to each portfolio's established benchmarks. The review also compared investment activity to policy for compliance and a comparison of strategy goals to actual actions. Davidson then presented recommendations for duration, credit and diversification weighting, liquidity targets, and areas of the yield curve for investment.

Ms. Woodring also informed the committee that Davidson will be reviewing the existing benchmarks for both the General Fund CORE and the BPIP portfolios and will present recommendations to the committee within the next few months.

Member Padilla-Jackson asked if the market risk/price analysis could provide a market value change from quarter to quarter in order to read a result from the quarter's investment activity. Ms. Woodring agreed that an overlay of market price change would be a helpful relative tool and will add this into future reports. If rates move 1%, then the portfolios should move a certain dollar amount and if they move more than that, then it signals to the committee a need to question investment activity.

Ms. Woodring confirmed that STO's September decision to move the LGIP's Reserve Primary Fund position under a put agreement into the General Fund CORE was very needed and very important, while providing liquidity to LGIP participants. The move resulted in the need to liquidate short-end assets from the CORE, which extended the duration. The added duration to the CORE added value to the portfolio with the improvement of the fixed income markets.

Ms. Woodring mentioned to the committee that Davidson will review several items into the coming months: liquidity in all portfolios might be better managed in one portfolio by one manager instead of three managers duplicating efforts and would stabilize balance fluctuations in the LGIP; thorough review of benchmarks; and overall review of the investment policy and whether the LGIP should have its own policy.

VI. NEXT MEETING

The next STIC meeting will be held on Wednesday, February 11, 2009 at 9:00 a.m.

VII. ADJOURNMENT

Member Bohlin motioned to adjourn the meeting, seconded by Member Cassidy. The motion carried. The meeting adjourned at 11:10 a.m.

Respectfully submitted by:
Joelle Mevi, Investment Division Director