New MexiGROW

Local Government Investment Pool

New Mexico State Treasurer's Office

February 27, 2009

Dear *New MexiGROW* LGIP Participant:

This announcement is a follow-up to the January 9, 2009, announcement with respect to the Reserve Primary money market fund (the "Reserve"), a copy of which is attached.

As we told you at that time, on December 3, 2008, the Reserve announced a preliminary liquidation plan for shareholders. Based on that liquidation plan, the State Treasurer's Office developed its own plan to amortize the estimated loss amount from the Reserve against future LGIP investment earnings. At that time, we believed that our plan was the best solution to the unprecedented market influence on LGIP holdings.

On February 26, 2009, the Reserve unexpectedly announced that it was setting aside an initial \$3.5 billion for the purpose of anticipated and pending litigation against it, which amount may increase or decrease as the Reserve continues to evaluate information related to such litigation. As a result of this announcement, we believe that our original plan must be revised.

We have developed a revised plan that we believe will best protect participants' contributions and should not need to be revised again. The plan will include the following elements:

- We are no longer deducting from your interest earnings according to the amortization plan described in our January 9, 2009, announcement. Instead, we will isolate the LGIP's Reserve position into a fund to be named The Reserve Contingency Fund, so that it is separate from the remainder of the LGIP portfolio. Only that portion of a participant's LGIP holdings that were attributable to the Reserve position as of September 15, 2008, will be placed in The Reserve Contingency Fund. The Reserve Contingency Fund will not earn interest. Any future distributions made by the Reserve will be placed into that fund and then distributed to participants based on each participant's pro rata share of the LGIP balance as of September 15, 2008.

- The remainder of the LGIP fund will continue as a money market fund. In order to protect participants in the future, the LGIP has already been divested of Prime and Government money market funds and those proceeds have been reinvested in 7-day and 14-day Treasury bills and fully-collateralized bank deposits. Over the next few weeks, withdrawal of deposits from the LGIP will be limited as we implement our revised plan. We will notify participants in writing as to how the revised plan affects each participant's account(s).

STO is evaluating the new information received from the Reserve to determine whether STO has any recourse in light of the Reserve's actions.

STO will continue to manage LGIP funds with discipline and expertise. Your patience and support of the Treasurer's Office and continued participation in the *New MexiGROW* LGIP are greatly appreciated. We will continue to keep you informed of any developments affecting the LGIP.

Sincerely,

James B. Lewis
New Mexico State Treasurer

Scott Newman, CFA
Interim Chief Investment Officer

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New MexiGROW
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New Mexico State Treasurer's Office
***New MexiGROW* LGIP**

January 9, 2009

ANNOUNCEMENT

In September the Local Government Investment Pool (LGIP) portfolio, like many investment funds throughout the country, experienced significant market volatility, which negatively impacted the market value of the portfolio. A single LGIP investment, the Reserve Primary money market fund, was downgraded from "AAA" to "D" on September 16, 2008 which threatened to downgrade the credit quality of the LGIP. The Reserve Primary Fund was the nation's oldest SEC-registered money market fund and widely considered one of the most conservative "AAA" rated funds. A seven-level drop in credit quality rating of a money market fund in a single day was unprecedented. LGIP shares in the Reserve Primary Fund were frozen until the fund's liquidation process could begin. In the best interests of LGIP participants and to maintain the pool's "AAA" rating, the LGIP temporarily sold this security to the State's General Fund investment pool at par under a put agreement. The put agreement allows the State's General Fund investment pool, the purchaser of the security, to reverse the purchase transaction at any time and sell the security back to the LGIP at par by requesting repayment from the LGIP in exchange for the security. The put agreement is scheduled to expire on October 31, 2009 but is subject to extension.

As of September 15, 2008 the LGIP had $381,700,000 invested in the Reserve Primary money market fund. This amount represented 23.1 percent of the total assets of the LGIP which were $1,652,530,161 on September 15, 2008. Information regarding an accurate market valuation of the loss and the status of shareholder positions in the Reserve Primary Fund has been difficult to obtain and slow in coming. The fund finally published a liquidation plan for shareholders on December 3, 2008. The liquidation plan estimates a loss of 1.5 percent on funds invested in the Reserve Primary Fund. For the LGIP, this amounts to a loss of .3465 of one percent or $5.7 million on the September 15, 2008 LGIP portfolio balance of $1,652,530,161. *However, until the final distribution from the Reserve Primary Fund is received, the actual loss amount remains unknown.* The LGIP has distributed a total of $16 million of Reserve Primary Fund interest earnings to LGIP participants over the two years that the fund has been an authorized investment. As of December 31, 2008, 78% of the LGIP Reserve Primary Fund holding has been recovered and repaid to the state's General Fund investment pool as per the put agreement.

To minimize the impact of this liability on the LGIP portfolio, the State Treasurer's Office (STO) has developed a plan to amortize the estimated loss amount against future LGIP investment earnings. This process will begin in January 2009 and will continue for approximately ten months (the term is contingent upon the Reserve Primary Fund's final liquidation date and amount). Each participant that held balances in the LGIP on September 15, 2008 will share the loss based on their pro-rata share of the September 15th LGIP balance.

What this amortization plan means to you is that the yields on your holdings in the LGIP will be slightly less than the actual earnings achieved (the posted daily rates) during the first ten months of 2009. Your specific prorated share of the $5.7 million dollar loss will be deducted from your interest earnings over at least the next ten months. Assuming you maintain the same LGIP balance that you held on September 15, 2008 you will have a deduction of .3465 of one percent in total or 3.465 basis points in yield per month over each of the next ten months. If your LGIP average balances over the next ten months exceed your September 15, 2008 balance your adjustment will be less than 3.465 basis points per month. Inversely, if your average balances are smaller than the amount you held on September 15, 2008 your monthly deduction will be greater than 3.465 basis points per month. It's important to remember that the prorated dollar amount of each participant's loss will be allocated to your LGIP balances over the next ten months and balances invested in 2009 that are larger than investment balances as of September 15, 2008 will result in minimal impact to total returns. <u>The goal of this plan is to avoid negatively impacting your principal balances but STO is relying on continued participation from all existing LGIP shareholders for the success of the plan as described</u>. As part of this plan The Treasurer's Office will waive the LGIP administrative fee (which is currently 2.5 basis points per year) through the end of October 2009.

STO may also sell securities in order to realize gains if and when it proves to be a prudent, safe and viable strategy to enhance investment earnings to benefit this plan. Market conditions warranted the sale of securities for profit (realized gains) during December, which partially accounts for the higher-than-normal December LGIP yields. The high yield on your December account statement is also due to a one-time adjustment for additional bank account interest earnings from September and October, which had been understated due to delayed rate information. STO anticipates that LGIP yields over the next several months will decline in unison with current market rates of return on short-term investments.

It should be noted that the LGIP has paid participants a total of $14,511,185 in investment earnings during the first six months of the 2008-2009 fiscal year. The *New MexiGROW* LGIP continues to be "AAA" rated.

STO is committed to protecting your government's principal and will continue to manage LGIP funds with the discipline and expertise necessary through these extraordinary and ongoing market circumstances. We feel this plan is the best solution to this unprecedented market influence on your holdings in the LGIP but we welcome your input on possible alternatives. Your patience and support of the Treasurer's Office and continued participation in the *New MexiGROW* LGIP are greatly appreciated. Please call (505) 955-1125 or (505) 955-1136 for detailed information specific to your account(s) or with any questions.

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