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NM STATE TREASURER'S OFFICE  
EXECUTIVE OFFICE



## Attorney General of New Mexico

**GARY K. KING**  
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Chief Deputy Attorney General

April 20, 2009

The Reserve  
1250 Broadway  
New York, NY 10001-3701

Re: Litigation Concerning the Primary Fund

To Whom It May Concern:

This letter, written in response to your February 26, 2009 "Statement Regarding Special Reserve Under the Plan of Liquidation," is a demand that the Reserve immediately release funds or assets sufficient to cover the entirety of the New Mexico State Treasurer's Office's ("STO") and the New Mexico Finance Authority's ("NMFA") current position in the Reserve Primary Fund into an escrow account. The funds belonging to the STO and NMFA would then be paid to the STO and NMFA as the assets are liquidated according to the maturation schedule set forth in the Reserve's December 3, 2008 "Plan of Liquidation and Distribution of Assets." Given the large, active docket of pending litigation concerning the Primary Fund, time is of the essence. Be advised that if the New Mexico Attorney General's Office does not receive notification within fourteen days of the date of this letter that the Reserve has established the escrow account described in this paragraph, this office will take any and all legal steps to protect the STO's and NMFA's rights, including filing a state court action in New Mexico for conversion and other state law remedies.

Your February 26, 2009 correspondence indicates that you have set aside approximately \$3.5 billion of the Primary Fund to pay "(a) anticipated costs and expenses of the Fund, including legal and accounting fees; (b) pending or threatened claims against the Fund, its officers and Trustees; and (c) claims, including but not limited to claims for indemnification that could be made against Fund assets." The letter also indicated that you may increase the Special Reserve if you determine that additional funds are necessary.

In 2006, the STO opened three separate investment accounts with the Reserve. All three accounts invested in the Reserve Primary Fund. The STO opened the first account on behalf of New MexiGROW LGIP on or about July 14, 2006, the second account on behalf of the General

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Fund on or about September 29, 2006, and the third fund, the Bonds Proceeds Investment Pools fund, on or about August 31, 2007. Additionally, NMFA, both on its own account and for the New Mexico Department of Transportation, opened accounts on October 31, 2007, November 21, 2007, and January 8, 2008. Those accounts were also invested in the Primary Fund.

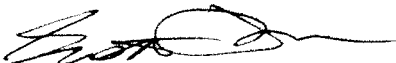
On September 15, 2008, following the failure of Lehman Brothers Holdings, Inc., there was a run on the Primary Fund that ultimately resulted in the fund's breaking the dollar. The Reserve froze all assets in the fund shortly thereafter. It is our understanding that several investors in the Primary Fund have since filed claims against the Reserve arising out of the losses those investors sustained. The STO and NMFA have not filed such a claim. Consequently, money belonging to the STO and NMFA is being used to defend the Reserve against claims the STO and NMFA have not made. Under such circumstances, the Reserve is unacceptably discriminating against certain of its shareholders, including the STO and NMFA, in favor of others.

Based on your description of the manner in which the \$3.5 billion Special Reserve has been set aside and the percentage of the Primary Fund held by the STO and NMFA, we estimate that approximately 2.5% of the Special Reserve consists entirely of the STO's and NMFA's assets. By holding those assets out of the pool of assets being liquidated as the Primary Fund winds down, the Reserve appears to have converted funds rightfully belonging to the STO and NMFA and appears to have no intention of ever paying those funds to the STO or NFMA.

Such conversion will have an obviously negative effect on the STO, NMFA, and the entities on whose behalf the STO and NMFA have invested money in the Primary Fund. The Reserve's conduct threatens the investment portfolios of several New Mexico communities as well as the completion of necessary state highway and other road construction projects.

Thank you for your prompt attention to this matter, and let me know if you have any questions concerning this letter.

Sincerely,



Scott Fuqua  
Assistant Attorney General