

**OFFICE OF THE STATE TREASURER
STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES**

Wednesday, July 15, 2009

A meeting of The State Treasurer's Investment Committee (STIC) was called to order by Mark Valdes, Deputy State Treasurer, Chairman Designee, 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 Wednesday, July 15, 2009. Roll call revealed a quorum of the membership in attendance as follows:

I. CALL TO ORDER AND ROLL CALL

ROLL CALL

Members Present:

Mark Valdes, Chairman Designee and Deputy State Treasurer
Scott Newman, Interim Chief Investment Officer
Ms. Olivia Padilla-Jackson, State Board of Finance Director
Mr. Paul Cassidy, Public Member (via – telephone conferencing)

Members Absent:

The Honorable James B. Lewis, State Treasurer
Mr. Steve Bohlin, Public Member

Staff Present:

Mr. Bruce Perlman, Ph.D., Chief Financial Officer
Ms. Randilynn Lord, Legal Counsel & PIO
Mr. Orlando Romero, State Cash Manager
Mr. Joaquin Lujan, BPIP Portfolio Manager
Mr. Arsenio Garduno, Collateral Manager
Mr. Clarence Smith, Chief Operations Officer

Guests:

Ms. Stephanie Schardin, Board of Finance Deputy Director
Ms. Deanne Woodring, CFA, Investment Advisor
Mr. Daniel M. White, LFC Economist
Mr. Laird Graeser, DFA Chief Economist
Mr. Gillis Lang, DFA Senior Economist
Mr. Elwood G. "Woody" Farber, President at NMSL

NOTE: All items in the Committee packet for all agenda items are incorporated herewith to these minutes by reference. The original Committee packet is on file in the Office of the State Treasurer.

II. INFORMATIONAL

APPROVAL OF JULY 15, 2009 AGENDA

Chairman Valdes said that he would like to change action item 11 to an informational item. It is a Board of Finance Rule and staff would like to make recommendations; all approved.

APPROVAL OF JUNE 10, 2009 MINUTES

Member Paul Cassidy made the following changes to the minutes from pages 3-8:

pg.3, last line – change the word fund to fact;

pg.3, last line – after the words General Fund add the words market value;

pg.4, second sentence – last sentence in large paragraph, replace the words big ones with big depositors.

pg.5, last sentence – replace the words these people with local government division staff.

pg.8, third to last paragraph, second line, delete the word program before CD.

Member Olivia Padilla-Jackson motioned for approval of the minutes as corrected by Member Paul Cassidy; seconded by Member Scott Newman. The motion carried.

III. INVESTMENT REPORTS

GENERAL FUND INVESTMENT PORTFOLIO

Member Scott Newman presented a summarization of the investment activity as of the end of June 2009. The market value of the General Fund Investment Portfolio, net of TRANs, on June 30, 2009 was \$1.55 billion. This compares to \$2.26 billion at the same point last year and \$2.62 billion at the same point two years ago. The market value of the portfolio decreased by \$73.9 million or 4.5% from May 31 levels.

Purchase yield increased to 1.60% at month-end, up from 1.46% in May. The weighted average term of the portfolio increased to 377 days. Effective duration of the CORE segment was .96%, which is 50% of the benchmark's duration, 1.92 years.

During June, there were three purchases for the CORE portfolio with an aggregate par value of \$150 million – one \$100 million block of a 1-year average life Agency Collateralized Mortgage Obligation and one \$50 million block of the 2-yr on-the-run Treasury. Additionally, one security was sold during June, realizing a \$586 thousand loss on \$5 million par of International Lease Finance Corp. debt. There were two CD purchases in the LIQUIDITY portfolio with an aggregate par value of \$5 million, one \$43 million purchase of an Albuquerque Public Schools sponge issuance, and one \$25 million purchase of a City of Albuquerque sponge issuance.

June earnings were \$739 thousand representing a 70% decrease from May earnings of \$2.53 million. This decrease was due to realized losses on the sale of the ILFC/AIG bond. Fiscal year earnings total \$71.32 million, compared to \$125.48 million through the same period last fiscal year.

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The General Fund under performed its benchmark with an earned yield of .56 basis points, compared to a 1.09 basis points, 2yr CMA/CMT 12 month moving average month-end yield.

June's annualized total return for the CORE was 3.4% while the benchmark realized an annualized total return of 0% for the month. The CORE continued to benefit from its exposure to non-guaranteed corporates with exposure MBS and municipal securities adding to over performance by the CORE versus its benchmark.

Member Padilla-Jackson questioned Scott on a CD purchase for liquidity portfolio. She wanted to know how liquid they are since they are going out to 2014 and if they can they be sold or be placed back to the bank. Scott said that they were non-negotiable CDs and can not be sold. He went on to say that the only way we can do something is through a provision, however there are other ramifications involved. Banks are not happy with this provision. That would be a means of last resort and they would provide a negative impact on local banks and economic development. We are trying to provide stable deposits to these banking institutions. The reason for this program is provide economic opportunities for local banks. Ms. Padilla-Jackson expressed her concern and feels we should be very liquid within the next 12 months. She doesn't feel these are very liquid securities and would like to scale it back due to the economic outlook we are facing. Scott said that no new money is going toward new purchases at this time. They are unwilling to post additional collateral to continue in the CD program. Scott mentioned that banks do not want to renew CDs and we are trying to shorten to three months.

NEW MEXIGROW LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

Member Newman presented a summarization of the LGIP. The June 30th market value of the LGIP portfolio was \$921 million, compared to a market value of \$1.6 billion at the same period last year and \$969 million at the same period two years ago.

During the month the market value of the portfolio decreased 4.4%, from \$964 million at May month end to \$921 million. Participant contributions for June totaled \$120 million and withdrawals totaled \$160 million. The numbers did not match because of the \$40 million dollars in withdrawals.

The gross yield was .33 basis points at June 30, a 10% increase from May month-end of .30 basis points. The weighted average maturity at June 30 was 50 days, up from the May 31 weighted average maturity of 43 days and within the rule 2a-7 requirement of 60 days or less. June purchases in the LGIP portfolio totaled \$350 million. Purchases include government guaranteed asset-backed commercial paper and Treasury securities.

LGIP earnings for June totaled \$245 thousand, a 5% decrease from May earnings of \$258 thousand due to a smaller pool. Fiscal year-to-date earnings totaled \$18.8 million.

The 30-day net yield of the LGIP as of June 19 was 0.26 basis points, underperforming the 30-day net S&P Rated Government Investment Pool (GIP) index 0.43% by 17 basis points. The 30-day gross yield of the LGIP at June 19, at 0.31%, underperformed the 30-day gross S&P Rated GIP index of 0.62%. STO is concentrating on Safety and Liquidity and it has paid off.

The administrative fee assessed for June was 4.1 basis points. Year-to-date fees collected are \$320,004.22. YTD fees reflect 2 months (\$64,000) of waived fees due to the prior Reserve Primary Fund Amortization Plan and the creation of the Reserve Contingency Fund.

INVESTMENT STRATEGY EMPLOYED DURING THE PAST QUARTER

- **General Fund:** Economic statistics may show that the worst recession since the Great Depression ended in Q2 2009. While 'green shoots' of growth have appeared and harbor signs of hope for the economy, disinflationary tendencies remain dominant. The statistics only show signs of stabilization and not of recovery or growth and until the economy does show sustained strength, the Fed cannot be compelled to remove current accommodation. As a result, the short end of the Treasury curve remains anchored, while the longer end has sold off. The effect is a steeped and slightly higher yield curve.
- During the quarter, the CORE portfolio was divested of the majority of its position in TLG securities. Continued spread tightening warranted this action. Proceeds were used for liquidity purposes and reinvested into short Treasury securities. STO managers continue to analyze higher yielding investment options, which resulted in the purchase of both government guaranteed commercial paper and agency issued mortgage backed securities.

INVESTMENT STRATEGY PLANNED FOR THE NEXT QUARTER

- **General Fund:** STO continues to utilize Treasury bills and notes, overnight repo and collateralized bank deposits for liquidity. In light of a steeper curve and having a stable to upward bias towards rates in the near term, STO will continue to be opportunistic in its purchases of short Treasuries and will continue to look to securities with favorable cash flow characteristics for reinvestment. Over the longer term, we anticipate rates to increase rapidly with sustained signs of economic strength and will position the portfolio accordingly.

INVESTMENT STRATEGY EMPLOYED DURING THE PAST QUARTER

- **New MexiGrow LGIP:** Following the Reserve Primary Funds Q3 announcement and STO's response of creation of the Reserve Contingency Fund, Q4 was relatively uneventful. STO managers continued to focus portfolio management strategy on safety and liquidity as evidenced by our continued purchases of short Treasury securities. We continued to research other asset classes, resulting in purchases of government guaranteed commercial paper. The LGIP maintains its AAAM rating and will continue to be managed within the guidelines that govern AAAM 2a-7 money market funds.
- STO continues to evaluate information received from the Reserve Primary Fund to determine whether it has any recourse in light of its actions. There will be some hearings taking place in the next month or so. Hopefully we will have a resolution of the problem pretty rapidly. There is no new information at this point.

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- Liquidity needs are now being met by a ladder of Treasury Bills and collateralized bank deposits. At quarter end, all assets of the LGIP carry either an explicit or implicit U.S. government guarantee.
- During the quarter, 9 accounts were closed resulting in withdrawals of approximately \$91 million. Assets under management decreased from \$1.2 billion to \$921 million at quarter end.

INVESTMENT STRATEGY PLANNED FOR THE NEXT QUARTER

- **New MexiGROW LGIP:** The focus of LGIP portfolio management strategy will continue to be on safety and liquidity. We will continue to invest in Treasury and TLGP securities, as available. We continue to research other asset classes.

ASSET MIX AND MATURITY TARGETS

- **New MexiGROW LGIP:** The LGIP portfolio continues to maintain a weighted average maturity within the guidelines that govern AAAM 2a-7 money market funds of 60 days or less. Use of Treasury Bills for liquidity has increased the WAM slightly.
- At quarter end, the portfolio held commercial paper guaranteed under the TLGP, CDs, Treasury Bills, corporate bonds and agency securities. Those securities will mature in April and May. At this point, we anticipate reinvesting those proceeds in Treasury securities.

Deanne Woodring said that she supports the strategy that is being implemented here. She went on to say that the risks are very high in this market and that the work that has been done to increase the credit in this portfolio has been fabulous. She also supports getting the duration on the CORE fund to about one year. She mentioned that it is a good protective on the portfolio because that is the market. Like the feds, we are avoiding risk and being patient. We are posturing the portfolio for when the market goes up. We must wait till the market gets to two years and longer, but it is just not there yet. By next meeting she will present a report on LGIP comparisons and go into more detail.

Member Cassidy asked if it is becoming apparent that the number of withdrawals in LGIP is slowing down. Scott answered yes in terms of accounts closing. He mentioned the accounts closed in June totaled a dollar amount of \$4 million in withdrawals. Some participants are pulling out their funds and not coming back and no new participants are coming in. We lost two large accounts during the quarter.

Member Cassidy asked Joaquin a question regarding the red highlighted items on the LGIP portfolio. Joaquin said the two red highlighted items on pages 16 and 36 – policy must be within 5% to comply with Investment Policy (of 5% or under at time of trade). He marks these for himself as a check list for the trading desk. Joaquin went on to mention two investments he made in keeping with the 5% to comply with the Investment Policy.

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Member Cassidy asked if these were the policy items that were going to be discussed later. Joaquin answered yes to that question.

TAX-EXEMPT BOND PROCEEDS INVESTMENT POOLS (BPIP)

Mr. Joaquin Lujan presented a summarization of the Tax-Exempt Bond Proceeds. The market value of the Tax-exempt BPIP as of June 30, 2009, was \$722.1 million. This compares to a market value of \$669.9 million one year ago and \$673.4 million two years ago.

During May, the market value of the fund decreased by 2.2% to \$722.1 million from \$738.5 million at May month end. This was the net result of project expenditures and interest earnings.

Fluctuation in the market value of the fund is largely a function of net flows (i.e., new issue proceeds, project expenditures, etc.) more so than gains or losses on portfolio holdings.

The Tax-exempt BPIP month-end purchase yield and term were 1.65% and 525 days respectively.

Annualized 1mo., 3mo., and last twelve months (LTM) total rate of returns were 1.81%, 2.26% and 4.23% respectively. The three highest true interest costs of any bond issue outstanding in the pool were 4.15%, 4.14% and 4.03%.

During June, bond proceeds were invested in US Treasuries (\$25 million), TLGP debt (\$125 million) and short-final Agency CMOs (\$120.5 million). Yield and WAM both increased as a result.

Interest earning for the month totaled \$638 thousand, a decrease from May earnings of \$949 thousand. Fiscal year-to-date earnings total \$21.1 million, which compares to last year's FYTD earnings of \$25.5 million.

TAXABLE BOND PROCEEDS INVESTMENT POOL (BPIP)

The market value of the Taxable BPIP as of June 30, 2009, was \$867.3 million. This compares to a market value of \$843.3 million one year ago and \$902.0 million two years ago.

During June, the market value of the fund increased to \$867.3 million from \$791.4 million at June month end. This increase was the net result of new issue proceeds (\$154.6 million) and project expenditures (\$78 million).

Fluctuation in the market value of the fund is more a function of net flows (i.e., new issue proceeds, project expenditures, etc.) than gains or losses on portfolio holdings.

The Taxable BPIP month-end purchase yield and term were 1.94% and 1.27 years.

Annualized 1mo., 3mo., and LTM total rate of returns versus the benchmark follow:

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- 1 mo. 3.04% v 0.29%;
- 3 mo. 4.03% v 2.80%;
- LTM 4.83% v 5.54%.

During June, new issue proceeds were invested in US Treasuries (\$25 million) and short-final Agency CMOs (\$120.5 million).

June interest earnings totaled \$1.16 million, a decrease from May earnings of \$1.52 million. Fiscal year-to-date earnings totaled \$27.9 million, which compares to last year's FYTD earnings of \$36.2 million.

BROKER PARTICIPATION

Member Newman spoke about Broker Participation. He said that they continue to distribute business according to company strengths for approved brokers.

MONTHLY ECONOMIC AND INVESTMENT OUTLOOK BY JOAQUIN LUJAN

Serving up a splash of cold water in the face of rallying markets, **June's unemployment report detailed higher payroll declines than expected, firmly establishing the jobless rate at 9.5%, the highest since August 1983.** Moreover, earnings per hour climbed at a 0.7% annual pace on average over the last three months, the smallest gain since records began in 1964, dashing any hope of a quick revival of either consumer confidence or consumer spending.

In short order, as a result, stocks and bond yields declined taking away most of the optimism that 2Q09's \$12 trillion equity rally inspired. The consensus view is that the economy has hit bottom, of a U-shaped recessionary cycle with little in the way of growth, inflation, or "green shoots" in the near horizon. **What divides the investor base currently is not whether recovery is V or U shaped but whether a 9.5% unemployment rate nearing 10% is a leading indicator as opposed to a lagging indicator,** as the unemployment rate is traditionally considered. What can be read into these numbers is that people are staying unemployed for longer periods of time than other recessionary periods, dropping out of the work force because they are discouraged, and more people are underemployed because they got their hours cut and receiving less pay. So with that portent there is no more debate about a V or U shaped recovery. The question is if the 10% is a leading indicator as opposed to a lagging indicator. Let the market and the numbers tell us what is in the future.

Ms. Woodring said we are just trying to find out where the bottom is and the housing market is still struggling and until the housing market can support itself and until employment can hold, the feds are not going to be able to do anything. The other side of it is inflation and we are waiting for it to rear its head and push rates up. The feds will focus on getting the economy to recover. As companies are preparing for a longer recession, more layoffs are occurring. She expects unemployment to reach 10% or higher.

Member Padilla-Jackson asked Ms. Woodring if she represented any other states. Ms. Woodring said she does not represent any other states in the advisory capacity; however she does serve on the Oregon Short-term Investment Board and as such oversees their

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pool. She also works in another capacity with the states of California and Montana as a broker/dealer. She went on to say that she has a lot of flow with different states, and that everyone is using up their liquidity, shortening their duration and increasing their quality.

Member Cassidy mentioned various unemployment rates that are being mentioned out there and concurred with what we are doing.

Ms. Woodring mentioned that the shape of the yield curve is getting very very steep, 10 years to 2 years. That is an indication that the trend is going to be up, it is just the timing of the wind.

Chairman Valdes and Member Cassidy commended the STO on the hiring of Bruce Perlman, Ph.D. and spoke of his distinguished background. Member Cassidy said that was a coup for STO and he especially wanted to mention that Bruce was the guy who personally oversaw the City of Albuquerque getting the AAA rating from S&P. Chairman Valdes mentioned that rating is very hard to get and very easy to lose.

IV. CASH MANAGEMENT - JUNE 30, 2009

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. **A summary of State Agency Accounts in each institution through the month ending May 31, 2009 was provided.**

Additionally, the State Treasurer's Office is required to report to the State Board of Finance any Financial Institution that exceeds certain equity capital and deposit ratios and notify all state agencies who maintain State Fund Deposits within those institutions of the violation. The agencies are advised not to make any new deposits to those accounts until the violations are corrected. Pursuant to section 6-10-24.1 NMSA 1978, there were no Financial Institutions exceeding the statutory limitations on equity capital and deposit ratios for the month ending May 31, 2009.

There were 281 state fund accounts for a sub-total dollar amount of \$19,451,176. There were 173 non-state funds with a sub-total dollar amount of \$170,999,140. There are 454 total accounts with a total state agency balance dollar amount of \$190,450,316.

Orlando went on to say that the cash management division continues to work on consolidating accounts, but their daily work prevents rapid progress. They are working with our fiscal agent bank and eventually will need outside assistance.

Member Padilla-Jackson asked where the LGIP participant monies are held. Arsenio answered that they are at Bank of America. She said the broader coverage that FDIC is charging us in increased fees because of LGIP went from \$1,000 to \$60,000 in one month. We need to decide what we are going to do. Should we pass these fees to participants? When asked, Member Padilla-Jackson said the fees began to increase last fall. She stated that at this rate, the appropriation will be wiped out by FY10. We need to come up with an immediate solution.

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Ms. Woodring spoke about the FDIC points being 10 basis points but headed up to 25 basis points by the end of FY09. She went on to mention that this is what the banks did to avoid collateralizing their costs by sweeping them into the FDIC insured in the NOW accounts. So the banks moved all the monies into the NOW accounts and passed the charges to the investors. The state needs to look at this very closely, make them itemize them out because it will wipe them out. The LGIP should be reassessed with regards to this issue. There are no earnings if we are being charged 25 basis points.

Joaquin said that part of the puzzle is that if we are being assessed fees that we are not seeing, they are really not paying us the 20 basis points that they say they are paying us for our cash position, so we could move some of that into short bills, which sometimes have negative rates because people in the same situation are paying, literally paying just to get their principal back.

Member Cassidy needed to sign off at this time.

V. COLLATERAL REPORT – JUNE 30, 2009

Mr. Arsenio Garduño reported that all depository institutions holding public funds for the month ending May 2009 met the minimum collateral requirements. The ratio of collateral required by each institution is a result of a quarterly risk assessment analysis. This analysis is composed of five different ratios. We look at:

1. total state funds to their equity;
2. total state funds to their total deposits;
3. primary capital to their asset ratio;
4. net operating income to their total average asset ratio and
5. non-performing loans to their primary capital.

As of June 31, 2009 there have been six institutions that have failed in 2009. Arsenio presented a chart with the balances, deposited amounts, and collateral pledged for those amounts through May 31, 2009.

Chairman Valdes stated that the BOF had asked that STO review the Collateral Rule and give any changes or suggestions. Randilynn Lord, STO general counsel began the discussion on the changes by distributing a draft of the rule governing Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements which she referenced as the Collateral Rule. The draft revision was worked on by STO and the BOF. She stated that although some of the changes are for clarity or consistency throughout the Rule, others are substantive changes. Ms. Randilynn walked the committee through the substantive changes. The changes made are as follows:

1. On page 2, a definition was added for Depository Bank;
2. The FDIC transaction account guarantee program and the non-performing loan were moved from another section to definitions;
3. On the designation section, the State Treasurer's Office has suggested adding #4 to allow for other information requested by the State Treasurer from those applying to be depository banks;

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4. On the Risk Assessment Ratios, the STO has proposed increasing the 100% requirement to 102% requirement of the amount of deposits, other changes on that page are more for clarity and consistency;
5. On page 4, the STO and BOF have been working on section E. which addresses the depository bank and the banks' participation in the FDIC's transaction guarantee program and maintain collateral of at least 50% as well as a reporting requirement should there be any discontinuation or disqualification from the program, and
6. On page 5, the STO has recommended or suggested clarifying the notification requirement for an adverse event or the occurrence of an adverse event for a depository bank and this section also adds what may constitute or be considered a potentially adverse event materially impacting the overall financial health of a depository bank. The same change occurs in the custodial bank reporting on page 6, subsection E.

At this point, Ms. Lord turned the floor over to Mr. Garduño for comments before the Boards' discussion. Mr. Garduño pointed out that there is one section that has been giving him trouble, and that is finding third party custodians in Section 2.60.4.13, the Requirements to Providing Custodial Bank Services. What is happening in the banking industry is that there are a lot of banks that aren't earning money, so they fall out of the criteria especially for the net income over average asset ratio in Section B. Mr. Garduño mentioned that he had been working with Chairman Valdes in trying to resolve this problem and look at other options to find third party custodians.

Chairman Valdes mentioned to the committee that Treasurer Lewis had been in contact with the NM Bankers Association checking if there are some in-state banks that are eligible to become custodians and if they are qualified with all the ratios that Mr. Garduño has to look at. We actually had some interest expressed by several larger New Mexico banks, so that is a good opportunity for this office. It is looking like one by one some of our larger banks that have acted as third party custodians are becoming disqualified. He went on to say that Mr. Garduño had stated that it would be good to have several additional custodial banks in place, in case we need to do something. The banks interested in doing so must submit an application and go through the process.

Member Padilla-Jackson asked if there is any thing STO can think of that it would feel comfortable changing within the financial ratios that would broaden the current pool but would still maintain the state funds.

Mr. Garduño stated that it is a touchy situation because you want your custodials to be held up to standards. In this banking industry, at this point in time, it is hard to find qualified institutions that would meet these requirements.

Member Padilla-Jackson asked Mr. Garduño what the minimum number of custodial banks he feels comfortable having. Mr. Garduño stated that STO had 3, but by the end of the June quarter report, we will drop to 2. He went on to say that the hard thing with the custodians that would be left is one of them requires them to be members of their institution which is Federal Home Loan Bank in Dallas and the other one is Independent Bankers Bank located in Texas.

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Member Padilla-Jackson had some questions and comments for Mr. Garduño regarding the Bank of America's statement that it is harder because they are not allowed to use tri-party custodial service providers and that makes it easier for some of the banks.

Mr. Garduño stated that the Federal Reserve holds all securities and these third party custodians have an account with the Federal Reserve. He went on to say that each custodian has sub accounts for each depository's pledges.

Chairman Valdes asked Mr. Garduño if he would like to comment on the new paragraph **E** on page 4, and the number of banks that would affect. Mr. Garduño mentioned that one would be the state's fiscal agent and other banks that the state has NOW accounts with that are participants in the FDIC's TAG Programs. He asked Mr. Garduño how this particular change would impact him.

Mr. Garduño said that he would have to watch the banks that fall into the NOW Program that pay less than .5, which would be about 95% of the banks that fall into this category. He referred the committee to page 96, which shows a break down of state funds and non-state funds. There are 454 accounts that are associated with this, totaling about \$180 million. That would leave about \$10 million outside of this program that would be insured up to \$250 thousand.

Chairman Valdes referred the committee to page 99 which shows all the financial institutions and collateral pledged. He asked Mr. Garduño if that meant that any bank that had 50% collateral would not change. Mr. Garduño stated that any of the banks that are in the TAG program are currently above that 50% and are at either 75% or 100% collateral. Mr. Valdes asked Mr. Garduño if the implementation of this rule would allow those banks on the TAG program to drop their collateral to 50%. Mr. Garduño said that the hard thing with that is there are different types of deposits. He went on to say that if a bank is required to pledge at 100%, and has \$20 million in CDs that is not associated with the Transaction Guarantee Program, he does not believe that those transactions would fall under 2.60.4.9, Section E. It would be more for the state agency deposits and specifically for the non-interest bearing for those that pay less than .5, with banks that participate in this program.

Chairman Valdes mentioned that Member Padilla-Jackson would be taking these proposed changes to the BOF and asked Mr. Garduño if he was OK with the changes if they were implemented after the public comment period. Mr. Garduño said that his concern is that he does not know if they are taking into consideration all the different types of accounts that are associated with this. He also stated that it would double his work because he would have to separate the accounts that fall under the Transaction Account Guarantee Program to prove that they have to keep a 50% level.

Member Padilla-Jackson brought it to the committee's attention that statute currently states that they don't have to post any collateral if they are covered by insurance. So, technically this situation already exists under law. What we are trying to do with this rule is to bring it up that they always have to post 50% instead of zero. She went on to say that it is an interesting issue, and Mr. Garduño is already receiving notification from financial institutions that are participating that want to post zero. This will probably begin without the rule change. Ms. Padilla-Jackson suggested putting the burden of reporting on the financial institutions as opposed to having Mr. Garduño figure out which

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accounts qualify and have them certify every time they report in maybe two separate reports, the NOW accounts and everything else. This way there is less guess work and due diligence has to be down by Mr. Garduño. It will increase the total amount of accounts that Mr. Garduño will have to monitor but at least it takes away some of the guess work away.

Someone made the suggestion that on page 4, line 5, to spell out the word **400** percent.

VI. COMMITTEE REPORTS

Deanne Woodring, STO's Investment Advisor presented a project update on behalf of Davidson Fixed Income Management. A hand-out was provided which included the Investment Policy Updates; Reporting Tools; Benchmarks; Collateralization Review; LGIP Pool; the new SEC rule amendments overseeing money market funds and some State and Local Pool Funds and the FDIC proposal to extend deadline on Transaction Account Guarantee Programs (NOW) Accounts. For a more detailed report of her presentation, please refer to the hand-out.

VII. ADJOURNMENT

There will be no STIC meeting during the month of August since the Board of Finance will skip an August meeting. The date for the next STIC meeting is to be announced.

Member Padilla Jackson requested a STIC report be produced for August, even though no meeting takes place.

Member Padilla-Jackson motioned to adjourn the meeting, seconded by Member Scott Newman. The motion was approved and the meeting was adjourned.

**MARK VALDES
CHAIRMAN DESIGNEE AND DEPUTY STATE TREASURER**

Respectfully submitted by:
Judy A. Espinosa, Compliance Officer