

New Mexico State Treasurer's Office,

STIC Committee Meeting

Meeting Minutes

Wednesday, December 09, 2009

I. Call to order

Madame Chair, Sheila Duffy called to order the meeting of the **NMSTO- STIC Committee** at **9:02 AM** on **12/09/09** in **NMSTO- Bob Barth Conference Room**.

II. Roll call

The following Committee Members (CM) was present:

Honorable Treasurer James B. Lewis

Sheila Duffy, Madame Chair

Paul Cassidy

Steve Bohlin

Olivia Padilla-Jackson

Presenters

Arsenio Garduno, STO

Orlando A. Romero, STO

Scott Newman, STO

Other Attendees

Randilynn Lord, STO

Clarence Smith, STO

Kirene Bargas, STO

Lang Gillis, DFA

Dan White, LFC

Deanne Woodring, Davidson & Company- via teleconference (during LGIP Portion)

III.

Approval of Dec. 09, 2009 Agenda

Madame Chair, Sheila Duffy asked for a motion for approval of the Dec. 09, 2009 Agenda. The agenda was 1st approved by CM Steve Bohlin and 2nd by CM Paul Cassidy. No questions or comments were made of the Agenda.

Olivia Padilla-Jackson arrived during motion of approval.

No further discussion.

IV. Approval of minutes from Nov. 12, 2009 meeting

Madame Chair, Sheila Duffy asked for a motion for approval or requested any changes of the Nov. 12, 2009 minutes.

CM Steve Bohlin suggested changes to be revised in (Section 6b), “S&P does not recognize the SEC private letter ruling classifying Straight-A Funding investments as Government Agencies for diversification purposes”. Moved to have minutes approved.

The minutes were 1st approved by CM Paul Cassidy and 2nd by Honorable Treasurer James B. Lewis with changes.

No further discussion.

V. General Fund Investments, Scott Newman

The STIC binder General Fund contents were presented in its entirety.

Below is information presented during the presentation in addition to the STIC binder contents:

1. General Fund
 - a. Scott Newman noted that there was a court ruling made on the Reserve positions that the Reserve will distribute all assets of the fund on a pro-rata basis. The date of the distribution is still unknown.

Scott Newman asked for any questions or comments. Here is the result of such request:

1. CM Paul Cassidy asked questions of the Reserve information. Scott Newman and Madame Chair Sheila Duffy responded by verifying information of the specific current position of the portfolios and the recent court ruling on the Reserve.
2. CM Steve Bohlin asked questions about the Mortgage Backed Security purchases. Scott Newman responded that the purchases made one block of bonds \$50million for the CORE portfolio. What he thought he purchased was not what was delivered because there was a lock out on prepayments, so yield was not what was expected. We worked with the broker who honorably took back securities at purchase price on December 9, 2009, shortly after the error was discovered. Buying current pay mortgages to gain cash flow to a rising rate environment.

3. Treasurer Lewis asked if all stakeholders have been notified of the Reserve court ruling. Madame Chair responded that yes all LGIP stakeholders have been notified via mail and posted on web site.

No further discussion on General Fund.

VI. LGIP, Scott Newman

Madame Chair Sheila Duffy introduced the new Portfolio Manager Eamon Cargo. Eamon Cargo is responsible for the LGIP and BPIP portfolios.

Portfolio Manager Eamon Cargo provided a brief presentation on his educational, professional and personal background.

Deanne Woodring of Davidson & Company joined the meeting through teleconference.

The STIC binder LGIP contents were presented in its entirety.

No further discussion.

VII. Tax-Exempt BPIP, Scott Newman

The STIC binder Tax-Exempt BPIP contents were presented in its entirety.

One minor change includes pg 39; paragraph 1; During *November*, there was no investment activity in the tax exempt portfolio.

Scott Newman noted that he would continue with the taxable portfolio and stand for any questions after the presentation.

VIII. Taxable BPIP, Scott Newman

The STIC binder Taxable BPIP contents were presented in its entirety.

Scott Newman noted that he would stand for any questions; here is the result of such request:

1. CM Paul Cassidy asked Olivia Padilla-Jackson if DFA is selling Severance Tax bonds in December of this year. Olivia Padilla-Jackson answered; yes we are selling one series this year.
2. CM Olivia Padilla-Jackson provided additional comments on her thoughts of the upcoming legislative session and will provide information to NMSTO portfolio managers for investing.
3. CM Olivia Padilla-Jackson commented that she is currently working with NMSTO on the “sponge” and it appears the amount will be in the range of \$50 million. CM Olivia Padilla-Jackson will provide more information at a later date.

4. CM Olivia Padilla-Jackson also commented that there was a recent IRS audit on the bond proceeds 2001 STB. There were no findings and the audit is closed.
5. Honorable Treasurer James B. Lewis commented that there will be a webinar on Build America Bonds (BAB's) available on Monday, December 21, 2009 at 1:00 pm. CM Olivia Padilla-Jackson commented that they will continue to research these bonds and would love to sit-in on the webinar. Honorable Treasurer Lewis commented that STO will send an email to CM Olivia Padilla-Jackson with information.

No further discussion.

IX. Broker Participation, Madame Chair Sheila Duffy & Scott Newman

The STIC binder Broker Participation contents were presented in its entirety.

1. CM Paul Cassidy asked Scott Newman which broker did NMSTO have a problem with on \$50 mm MBS purchase? Scott Newman responded with Jefferies as the broker as the confirmation was correct and the delivery incorrect. Scott Newman also commented that he was pleased with Jefferies as they provided the necessary information and handled the situation professionally, by taking the bonds back.

No further discussion.

X. Economic Outlook, Scott Newman

The STIC binder Economic Outlook contents were presented in short by Scott Newman. Below is a synopsis of the presentation.

The investment environment remains the same dependant on where we see rates going. The Fed funds rate is stable, no action taken towards interest rate policy. We do not anticipate any activity in the near future. It appears that the Fed will move slower rather than more quickly in terms of raising rates. The economic outlook remains the same as prior months.

There was a short discussion amongst members on compliance issues. A compliance form was presented which provides a current quantitative detail of the present compliance positions for all portfolios. Current in out-of-compliance- Straight A positions will correct themselves by January VRN's in compliance per slight change to investment policy. To be presented to SBOF at December 2009 meeting. We expect SBOF to approve the policy.

No further discussion.

XI. State Agency Deposit Balances

Orlando Romero, State Cash Manager presented the information outlined in the binder.

No further discussion.

XII. Collateral Report September 30, 2009

Arsenio Garduno, Collateral Manager presented the information outlined in the binder.

CM Olivia Padilla-Jackson asked how many problem institutions are New Mexico Institutions? Arsenio Garduno commented that the FDIC does not publish such information because of privacy.

Honorable Treasurer James B. Lewis commented that NMSTO has started to visit New Mexico Banks that are at the 100% - 75% collateralization to discuss current banking environment and their current health/outlook.

CM Paul Cassidy asked if there could be discussion on the banks that are problematic and hold NM deposits, what we are doing to secure these deposits. Madame Chair Sheila Duffy commented that several CDs have rolled-off or have not been renewed and are no longer in the portfolios.

No further discussion.

XIII. Investment Policy Review, Madame Chair Sheila Duffy

No further discussion.

XIV. The Reserve Court Decision

No further discussion.

XV. Discuss LGIP Bank Account fee/ earnings

Madame Chair Sheila Duffy commented that NMSTO is still in discussion on changing the LGIP bank account with several banking entities in and out-of-state. Mark Valdes submitted a request to a number of banking entities and anticipate a decision in the near future.

CM Olivia Padilla-Jackson commented that they are currently working on the RFP for a fiscal agent and custodian banks and anticipate a completion in the near future. She also commented that there is a shortage in paying the \$200 thousand in fees for this fiscal year and anticipate the fees for next 2010 year will be more.

Madame Chair Sheila Duffy commented that in an investment point of view, there are few opportunities for the LGIP portfolio to invest. Treasuries are starting to yield a negative return therefore such treasury opportunities are dwindling. The bank account

pays 10 bp and therefore, the issue is more pressing and cannot wait for the fiscal agent agreement to be completed.

XVI. Custodian Bank RFP- Timeline

Madame Chair asked CM Olivia Padilla-Jackson of the date of the award? CM Olivia-Padilla Jackson indicates date the award should be in April 2010. Honorable Treasurer James B. Lewis asked who will be reviewing the RFP selection. CM Olivia Padilla-Jackson responded as saying that there is an evaluation committee consisting of NMSTO employees, DFA, and other major custody users.

XVII. Question period

CM Steve Bohlin asked how well have we been able to track the declining balances in the General Fund? Presenter Orlando Romero commented that cash management receives a monthly report regarding ARRA funds and is currently working off of the report to track balances. Spending has not been fully reimbursed. Honorable Treasurer James B. Lewis also commented that NMSTO has met with Transportation and other entities to discuss the negative accounts and concluded that such entities must provide a plan of action to clear up negative balances, which NMSTO will review.

No further discussion.

XVIII. New business

Next Meeting- Wednesday, January 13, 2010 @ 9:00are at STO.

XIX. Adjournment

Sheila Duffy adjourned the meeting at **10:22am**. The adjournment was 1st approved by CM Olivia Padilla-Jackson and 2nd by CM Steve Bohlin.

Minutes submitted by: Kirene M. Bargas, on December 30, 2009.

Minutes approved by: Sheila Duffy, on January 7, 2010.

Revised minutes completed by: Kirene M. Bargas, on February 02, 2010.

Revised Minutes approved by: Sheila Duffy, on 2/3/10.