

New Mexico State Treasurer's Office,

STIC Committee Meeting

Meeting Minutes

Wednesday, October 14, 2009

I. Call to order

Madame Chair, Sheila Duffy called to order the meeting of the NMSTO- STIC Committee at **9:00 AM** on **10/14/09** in **NMSTO- Bob Barth Conference Room**.

II. Roll call

The following Committee Members (CM) was present:

Honorable Treasurer James B. Lewis

Olivia Padilla-Jackson

Paul Cassidy

Sheila Duffy, Madame Chair

Steve Bohlin

Presenters

Arsenio Garduno, STO

Deanne Woodring, Investment Advisor-Davidson & Company

Orlando A. Romero, STO

Scott Newman, STO

Other Attendees

Randilynn Lord, STO

Bruce Perlman, STO

Clarence Smith, STO

Kirene Bargas, STO

Mark Valdes, STO

Vickie Brown, STO

Gillis, Lang, DFA

White, Dan, LFC

III.

Approval of Oct. 14, 2009 Agenda

Madame Chair, Sheila Duffy asked for a motion for approval of the Oct. 14, 2009 Agenda. The agenda was 1st approved by CM Paul Cassidy and 2nd by CM Steve Bohlin. No questions or comments were made of the Agenda.

IV. Approval of minutes from Sept 09, 2009 meeting

Madame Chair, Sheila Duffy asked for a motion for approval or requested any changes of the Sept. 09, 2009 minutes.

CM Steve Bohlin suggested that changes submitted by Deanne Woodring be verified and revised if needed (Section 12), as such moved to have minutes approved.

The minutes were 1st approved by CM Steve Bohlin with changes and 2nd by CM Paul Cassidy.

V. General Fund Investments, Scott Newman

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

A correction was necessary while reporting the September earnings.

1. Page 2, ¶ 2, first sentence should read: September earnings were \$1.76 million representing a 10% decrease from August earnings of \$1.97 million.

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

1. Sheila Duffy asked if there was reporting available, if cash was removed from the invested position.
 - a. Scott Newman responded: The Northern Trust reports do not reflect the total return numbers; therefore the total return information presented in the STIC binder is accurate for the CORE portfolio. Although the reports do give an attribution to the cash position, the report does not give the total return information. The total rate of return was 2.67 for the month.
2. Sheila Duffy asked of how much cash we have now as a percent of everything that you are managing compared with historical data.
 - a. Scott Newman was unable to give a correct figure at this time. Scott did indicate that the cash position is significantly larger than recent times. Scott volunteered to get the number is the committee deemed necessary.

No further discussion on General Fund.

VI. LGIP, Scott Newman

The STIC binder LGIP contents were presented in its entirety.

A few statements was added during the presentation of materials, here are the results:

- While reporting the LGIP-Yield and Term (m-o-m) the following information was added to discussion:

- The current investment strategy is focused around guaranteed commercial paper straight-a funding program and U.S. treasury bills. We have taken a bigger position on straight-a funding since the beginning of the month; therefore yield has been increased.
- While reporting the LGIP Monthly Investments information was added to the discussion:
 - Declining rates and participant balances is the root cause of decreased monthly earnings.

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

1. CM Paul Cassidy asked the following question:
 - a. Is the LGIP position still within a liquid position because of the uncertainty of what LGP participants will do?
 - i. Scott Newman replied: The current WAM as of today is 35 days and in a few days we have an estimate of \$100mm maturing in the portfolio, we have a short ladder of securities which we are rolling about \$25mm to \$150mm a week; therefore the LGIP portfolio is in a liquid position.
 1. CM Paul Cassidy noted: Is confidence coming back as far as municipal participants? Scott Newman noted that yes. the LGIP portfolio has had a stable balance which appears that participants do still have confidence in the program as normal operating flows are in motion. Although we no longer have the high participant balances the portfolio has shown that those participants still in the pool plan on sustaining the balances thereof. The current daily target of cash within the portfolio is \$30 million.
 - ii. Deanne Woodring asked for an update on the bank account deposit fee. The balance of the portfolio at the time was \$145 million has this issue been resolved?
 1. Scott Newman replied: That position has been reduced as stated earlier to about \$30 million daily. The \$145 million at the end of the quarter was an anomaly because there was no where else to put the fund. Bills on that specific day were under 5 basis points maturity in November. Whereas, the bank

account on that day was paying 16 basis points. Whereas it was a conscious decision to hold the funds in the bank account for the weekend, over month end and take the 16 basis points rather than investing in 5> basis points.

2. CM Olivia Padilla-Jackson responded that the issue has been resolved since the \$145 million dollar balance in June and July within the LGIP pool. It has come to our attention that the fees associated with such can not be covered under the state appropriation; there is a possibility that this may be illegal for us to do such. We did cover the fees in 2009 not knowing that this was the source of the fees. We have been in communication with the state treasurers office to resolve the issue on how to handle the fees in the future, whether Bank of America (BoA) waive the fees or to have participants pay for these fees. It was said from BoA that LGIP would not have to pay these fees, but these charges did occur and were paid in 09. The current fees have not been paid yet so a decision still needs to be made to resolve this issue.
 - a. Deanne Woodring (DW) noted that the FDIC slid the charges, was there any notification of such charges?
 - i. CM OPJ noted that the notification of the fees were received verbally. The reason BoA is able to do such is because the contract states that BoA is allowed to pass on third party expenses, therefore they are looking at these fees as third party expenses. We have always had these charges (fees) just not at these amounts.
 - ii. DW noted that there have been waivers on fees and that STO would have an influential factor of asking for such a waiver. We know that other states have had such fees waived, so I recommend that I would push for the waivers.

- iii. CM OPJ noted that to clarify these fees, there are no TLGP fees, these are increased regular FDIC fees. I have talked with FDIC about these fees but it has been difficult. The problem is that each banks fees ios based on a credit assessment by the FDIC which is not public information. Therefore part of the fee is based on BoA our balances. From my understanding BoA is still in the highest tier, therefore BoA is still very safe.
- iv. DW noted that is Scott Newman is making a decision based on the bank rate of 16 basis points but the fee is 10 basis points, therefore the decisions to keep funds in the account is earning 6 basis rather than the 16 basis points. This information needs to be understood in order to invest properly because if the information is unknown how is an investor to know that the actual basis points earned is lower.
- v. MC SD noted that STO has been working with BoA and Mark Valdes(MV) has been the lead contact. MC SD asked if MV had any comments.
 - 1. MV noted that BoA did not respond as well as STO had anticipated and were told that STO was in discussion of an alternate bank that would yield 50 basis points. The other bank has asked for STO to provide three months worth of statements. The information has been gathered, therefore once an analysis is complete a decision will be made by the Treasurer if a change of

custodian bank for LGIP is approved. There has been discussion with BoA and were told to ask specific questions of the potential bank such as yield and fees.

No further discussion.

VII. Tax-Exempt, Scott Newman

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

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

There were no questions.

No further discussion.

VIII. Taxable, Scott Newman

The STIC binder Tax-Exempt 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 SB asked what is the duration of taxable versus benchmark?
 - a. SN responded that he did not have the information available but will provide such at the next STIC meeting.
2. DW noted that the portfolio is right on the edges of the Asset Back categories TLGP, you will probably see higher balances because of these.

No further discussion.

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

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

MC SD noted that she would stand for any questions; here is the result of such request:

1. CM OPJ asked if the updated Broker dealer List should go through the process of approval through the STIC committee?
 - a. MC SD responded that the approval is scheduled to be presented to the Board of Finance next week.

- b. CM OPJ responded that the policy seems vague and thinks that STIC will need to approve before recommendations should go to the Board of Finance meeting. The item is on the informational portion of the agenda therefore the committee is unable to approve selection recommendation before going to the Board of Finance meeting for approval.
 - i. There was a consensus that last year the STIC committee did provide an approval of selection to STO before submitting for approval from the Board of Finance.
 - ii. The question was then directed to Randilynn Lord for legal advise.
 - 1. It was discussed that an analysis be completed at the current STIC meeting and a phone call containing a quorum for the approval of broker recommendation.
 - 2. A decision was made that a special meeting would commence on Monday, October 19, 2009 at 10:00 am via teleconference at the STO Bob Barth Conference room.
 - iii. The Broker Dealer Participation and analysis was presented by SN.

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

- 1. CM Steve Bohlin (CM SB) asked in terms o the brokers you wish to drop, has there been any direct communication with such firms of the dissatisfaction of service?
 - a. SN replied that no communication has been made of the dissatisfaction of service. SN added that this practice is performed when he feels that the practice has something of value to offer STO. SN also added that the two brokerage have not shown any value to STO therefore no attempt was made to discuss the dissatisfaction of the brokerage.
 - b. CM SB noted that as the markets continue it is recommended to have more brokers than less. CM SB noted that smaller brokerages and minority brokers have strong specialty areas that would be beneficial to STO when new issues are presented to only select or specialty issues.
 - i. SN noted that he concurred with CM SB response and also noted that there are other minority firms on the list but because these particular firms have not shown any value to STO, he still feels strongly that removing such firms from the list would be beneficial to the management of the Broker Dealer List.

- ii. Discussion amongst members noted that in the past a few assets were traded right before assets became junk bonds that were issues by specialty brokerages.
- c. Treasurer James B. Lewis noted that a few similar concerns are that no matter who these brokers are and what the process of adding or eliminating, we should be giving all brokerages the benefit of the doubt and giving them the opportunity to work with us. If portfolio managers are not talking to these brokerages how are these brokerages able to fix the dissatisfaction if they are unaware of the problem. There needs to be a written process of the Broker Dealer List of updating, adding, and eliminating for future use.
 - i. Several Committee Members agreed that a written process needs to be created before brokerages are added, removed and maintained.
 - ii. SN noted that there is no problem adding new brokerages but as a portfolio manager, when investments are sent and response is made by the same brokerages the dependable brokerage environment then becomes small to those who do “drop everything” to service STO.
 - iii. There were then additional comments by Committee members and audience of the importance of a policy and procedure of the Broker dealer List. It was decided that the policy and procedure be developed in the near future for review of the STIC committee. Several suggestions were made of what should be included in the policy/ procedure. A rotation is also recommended to provide equal opportunity to all brokerage.

No further discussion.

X. Economic Outlook

The STIC binder Economic Outlook contents were presented in its entirety.

No further discussion.

XI. June 30, 2009 Quarterly Report; follow –up discussion on benchmarks for GF portfolio

The STIC binder June 30, 2009 Quarterly Report; follow –up discussion on benchmarks for GF portfolio contents were presented in its entirety.

No further discussion.

No further discussion.

XII. GF Portfolio Attribution Analysis

The STIC binder GF Portfolio Attribution Analysis contents were presented in its entirety.

No further discussion.

CM Paul Cassidy excused himself from the meeting.

XIII. State Agency Deposit Balances

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

No further discussion.

XIV. Collateral Report July 31, 2009

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

Arsenio Garduno also commented:

No further discussion.

Member Paul Cassidy excused himself to join a conference call outside of the STIC meeting.

XV. Investment Policy Review, Madame Chair Sheila Duffy

There is a committee that is meeting Oct. 14, 2009 (today) to discuss the policy. The committee has met for several weeks and will continue to go through the policy “line-by-line” for accuracy and updates; we anticipate that STO will not be able to meet the SBOF meeting in November to view changes or updates. The committee is confident that the policy will be in draft form in January 2010.

No further discussion.

XVI. Discuss going semi-paperless, Madame Chair Sheila Duffy

In efforts of reducing cost at STO, we would like to request that STIC binders are only printed for STIC committee members. The information will be available via web site on the same day the binders are distributed to board members. This task will begin starting the November 2009 STIC binder.

No further discussion.

XVII. Question period

There were discussion between members and audience of legislative actions, discussion did not include STO, therefore the brief discussion is not included in this document.

No further discussion.

XVIII. New business

Next Meeting- Thursday, November 12, 2009 @ 9:00am at STO.

XIX. Adjournment

Sheila Duffy adjourned the meeting at **11:20am**. The adjournment was 1st approved by The Honorable Treasurer James B. Lewis and 2nd by CM Steve Bohlin.

Minutes submitted by: Kirene M. Bargas, on November 03, 2009.

Minutes approved by: Sheila Duffy, on .