

TREASURER'S REPORT TO THE STATE BOARD OF FINANCE

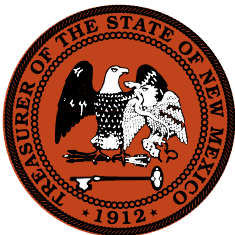
JUNE 2006

BILL RICHARDSON, GOVERNOR
MEMBERS OF THE STATE BOARD OF FINANCE

Photo Courtesy: of New Mexico Tourism Department



PRUDENT INVESTING
RESPONSIBLE BANKING
ENHANCING NEW MEXICO'S FUTURE



NEW MEXICO STATE TREASURER'S OFFICE
DOUGLAS MINGE BROWN, STATE TREASURER

EXECUTIVE SUMMARY

Information presented reflects the investment balances as of May 31, 2006.

GENERAL FUND INVESTMENT PORTFOLIO SUMMARY (EXCLUDING TRANS*)

- The market value of the General Fund Investment Portfolio on May 31, 2006, excluding the TRANS, was \$2.65 billion, compared to \$2.52 billion in the previous month (Graph 1).
- The yield of the General Fund Portfolio was 4.33 percent, up from 4.17 percent in April. The average term of the portfolio was 105 days, down from 131 days in May (Graph 2).
- The asset allocation of the General Fund was comprised of 44.2 percent in agencies, 14.2 percent in flex repurchase agreements, 5.8 percent in the overnight repurchase pool, 28.8 percent in commercial paper, 6.8 percent in certificates of deposit, and 0.3 percent in corporate bonds (Table 1).
- In May, investment activity included the purchase of \$1.36 billion in commercial paper with an average yield of 5.03 percent and a term of less than 45 days, and \$25.0 million in Certificates of Deposit with an average yield of 4.99 percent and a term not exceeding 180 days.
- The total General Fund earnings for May, as shown in Chart A, were \$10.87 million, an increase of 13 percent over April earnings of \$9.58 million. The fiscal year-to-date earnings total \$85.9 million.

*Tax Revenue Anticipation Notes

STATE TREASURER - GENERAL FUND PORTFOLIO MAY 31, 2006

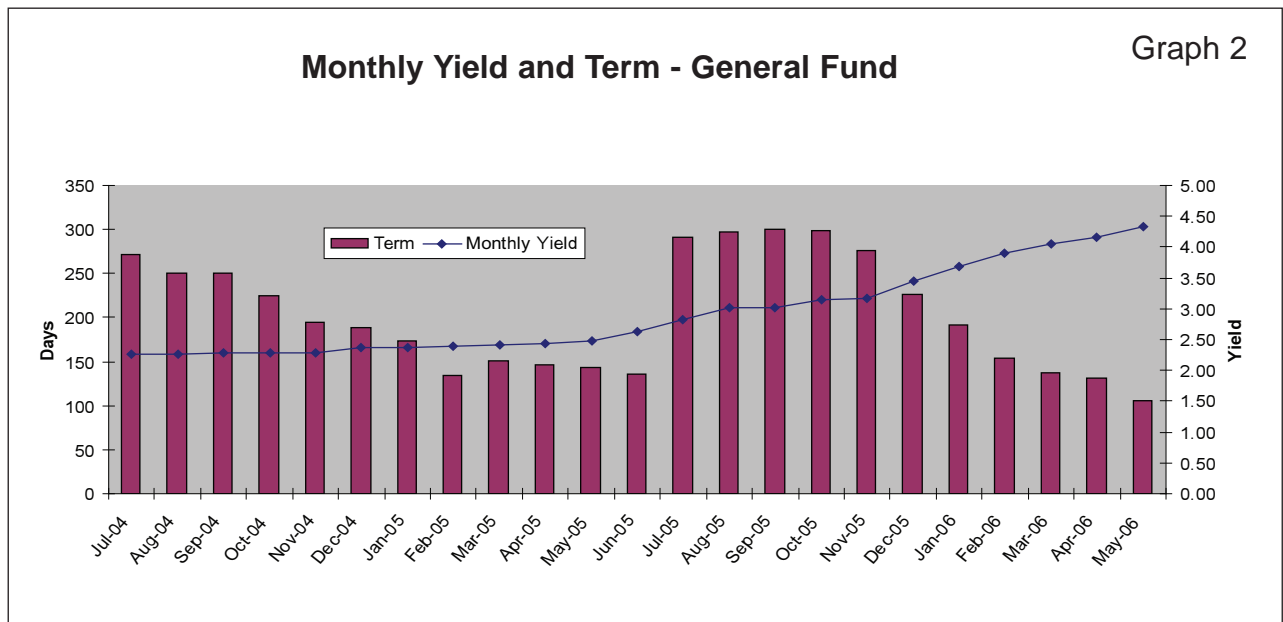
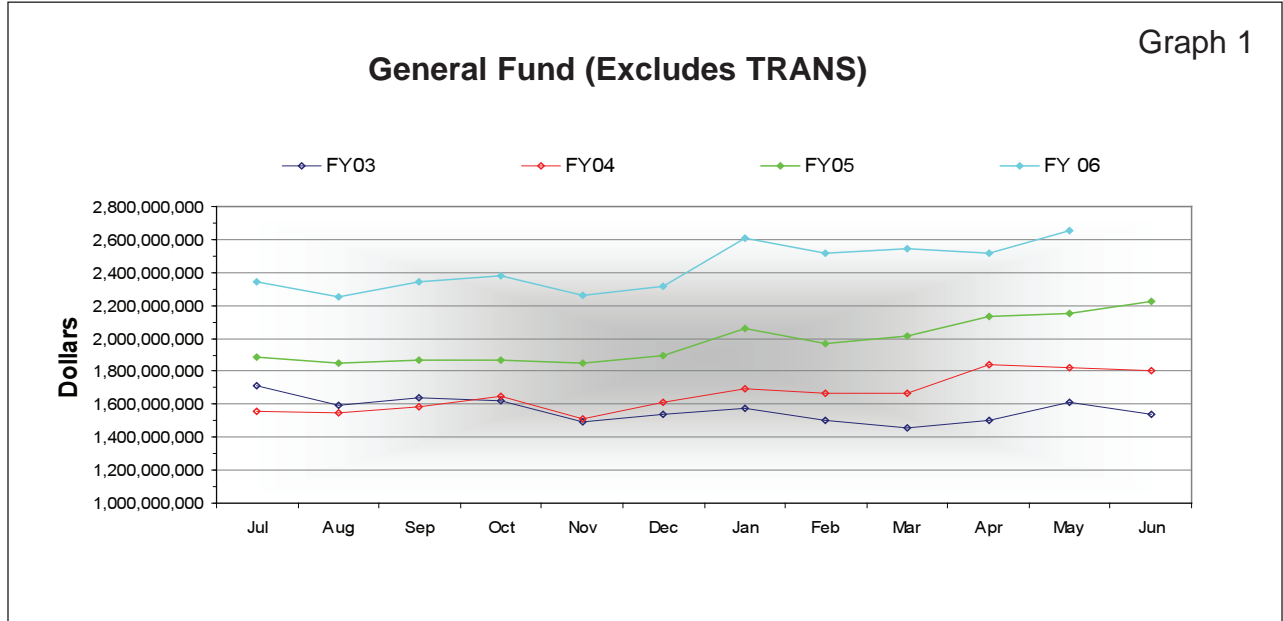


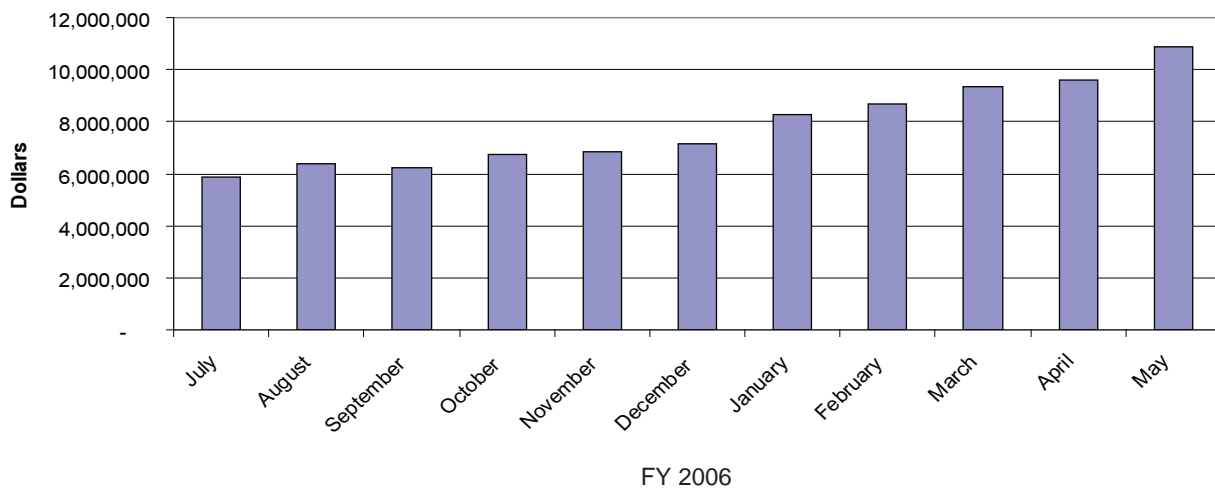
Table 1

General Fund Portfolio (Excludes TRANS)

Asset Type	Yield	Market Value	% of Portfolio	Term (days)
Agencies	3.84%	\$ 864,607,593	44.2%	177
Flex Repurchase Agreements	2.94%	\$ 185,000,000	14.2%	38
Overnight Repurchase Pool	4.74%	\$ 454,441,242	5.8%	1
Commercial Paper	5.10%	\$ 920,775,632	28.8%	6
Certificates of Deposit	4.45%	\$ 217,850,000	6.8%	167
Corporate Bonds	3.60%	\$ 9,976,450	0.3%	61
Total:	4.33%	\$ 2,652,650,917	100.0%	105

General Fund Total Earnings

Chart A



LOCAL GOVERNMENT INVESTMENT POOL (LGIP) SUMMARY

- The market value of the LGIP as of May 31, 2006, was \$728.0 million, compared to a market value of \$777.3 million in the previous month (Graph 4). The drop in the fund level can be attributed to participants drawing funds based on news from the trial of the former Treasurer.
- The average yield of the LGIP portfolio at month-end was 4.71 percent, up from 4.52 percent in April. The average term of the portfolio was 43 days, down from 52 days in April (Graph 5).
- The asset allocation of the fund was comprised of 6.9 percent in flex repurchase agreements, 40.5 percent in agencies, 39.9 percent in commercial paper, 11.2 percent in overnight repurchase agreements, and 1.6 percent in certificates of deposit (Table 2). Since January 2006, \$100 million in flex repurchase agreements have been drawn down from this low-yield asset class.
- In May, the investment activity included the purchase of \$120.0 million in commercial paper with an average yield of 5.12 percent and a term of less than 60 days. In addition, \$102.2 million in U.S. agency obligations were purchased with an average yield of 5.04 percent and an average term of less than 45 days.
- Total LGIP earnings for May, as shown in Chart B, were \$2.93 million, a 6 percent increase over April earnings of \$2.76 million. Fiscal year-to-date earnings for the LGIP total \$29.1 million.

STATE TREASURER - LOCAL GOVERNMENT INVESTMENT POOL
MAY 31, 2006

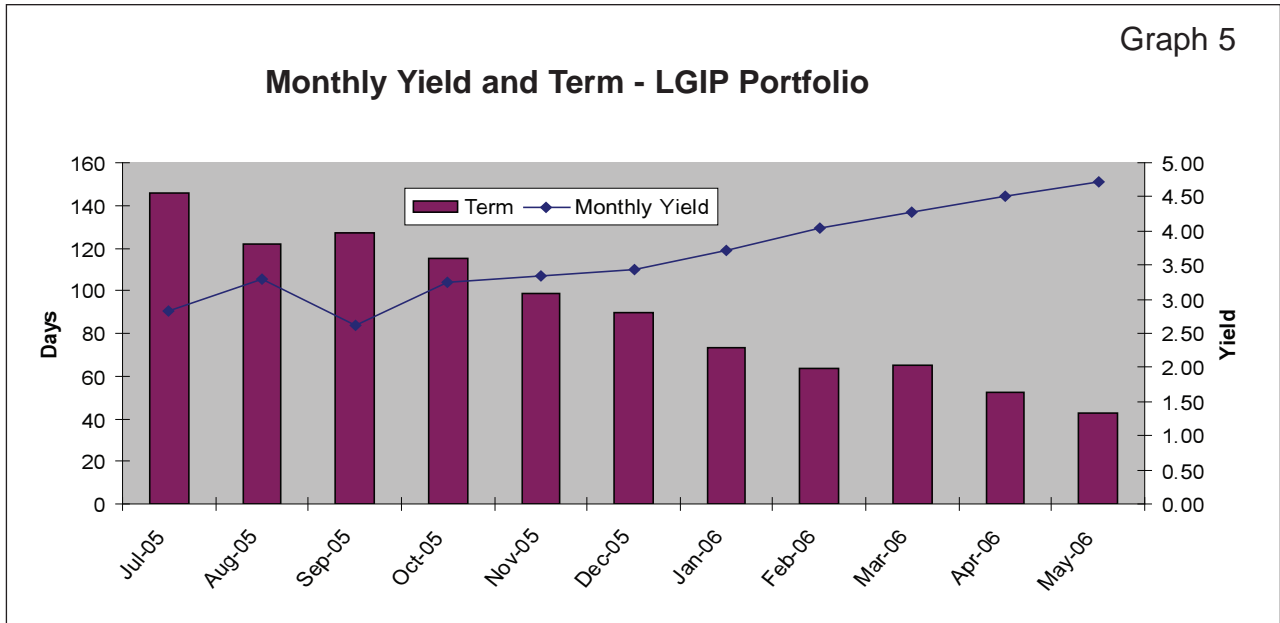
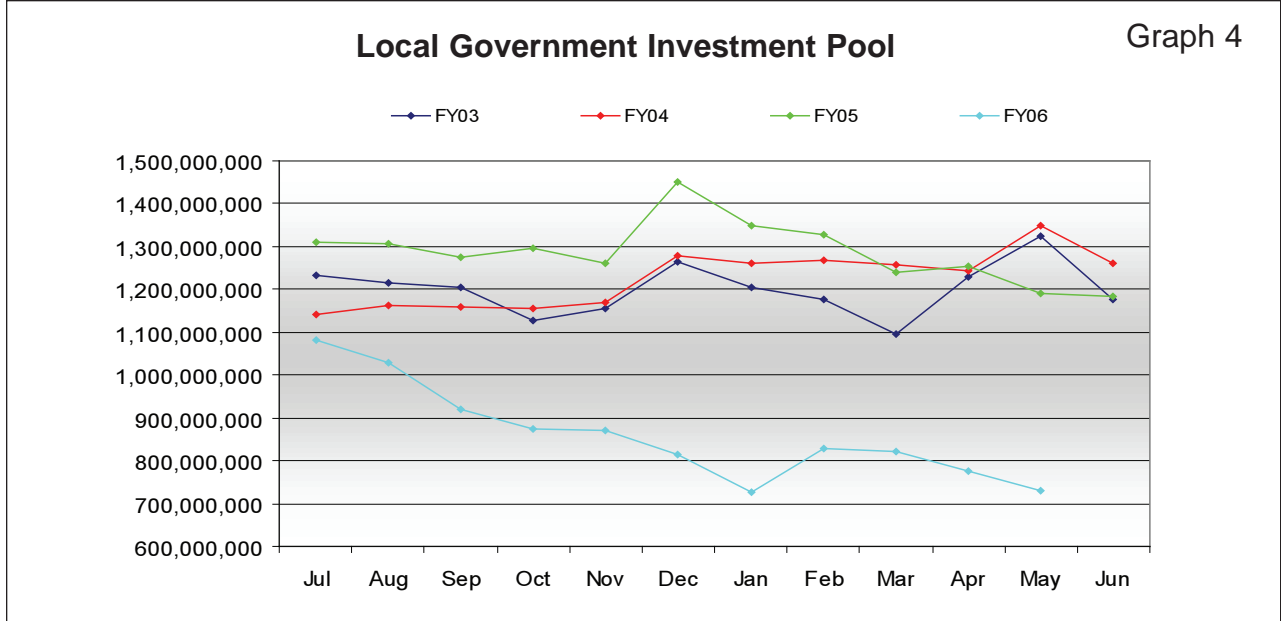


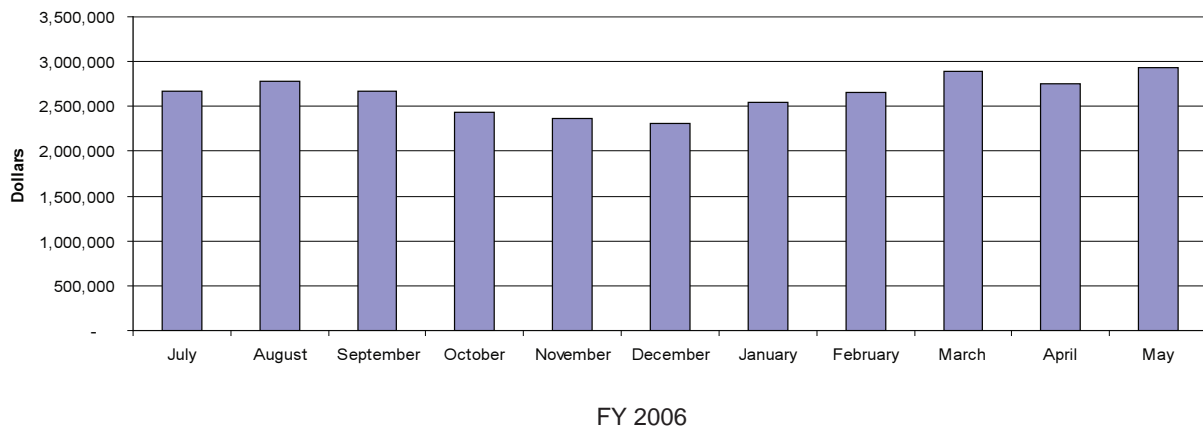
Table 2

Local Government Investment Pool Portfolio

Asset Type	Yield	Market Value	% of Portfolio	Term (days)
Flex Repurchase Agreements	2.46%	\$ 50,000,000	6.9%	68
Agencies	4.54%	\$ 295,006,135	40.5%	63
Commercial Paper	5.06%	\$ 290,301,188	39.9%	19
Overnight Repurchase Pool	4.92%	\$ 81,194,992	11.2%	1
Certificates of Deposit	4.39%	\$ 11,500,000	1.6%	176
Total:	4.71%	\$ 728,002,315	100.0%	43

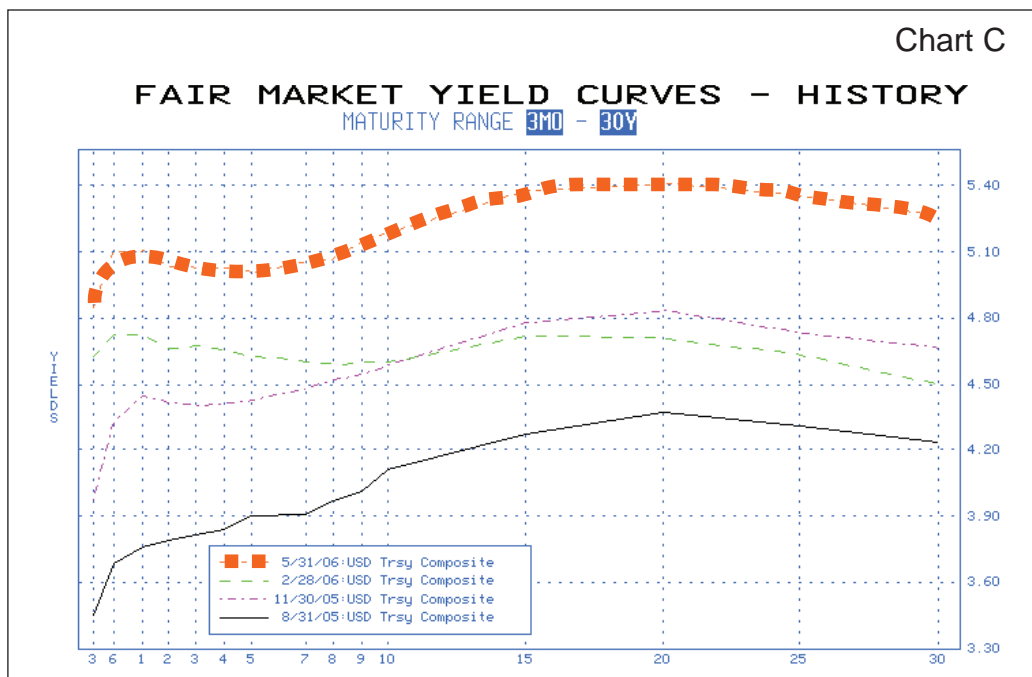
Chart B

Local Government Investment Pool Total Earnings



INVESTMENT OUTLOOK

- The Federal Reserve raised interest rates by a quarter of a point to 5 percent at its May 10, 2006, meeting. Above-trend wage and labor reports, in conjunction with commodity inflation, sent rates higher as markets overreacted. Higher wage inflation meant the Federal Reserve would likely increase rates once again in June, and traders priced in a 75 percent probability of a June rate hike. Fixed and equity markets reacted again sending rates back down. Other factors (crude and metal prices) fell temporarily, greater oil reserves were reported, and the Chinese stated they would rein in their excess demand as they were growing at unsustainable rates.
- The factor most relevant to the STO's investment of funds is that economic growth continues at a slower and more sustainable pace. While pass-through inflation has thus far been contained, it is evident some producers are becoming more confident in their ability to pass on rising costs to the consumer. Furthermore, the personal consumption expenditures price index rose to a level above the upper threshold the Federal Reserve had previously tried to maintain. Minus food and energy, this index rose 3 percent and 2.3 percent for the past three-month and six-month periods, respectively.
- Given the current economic and technical indicators, the STO continues its ongoing restructuring of investment operations, segregating funds as to goals and investment strategy, and continues to develop the process of extended investment maturities to enhance portfolio return.



* Note: yield curve has been enhanced for visual purposes.

MOVING FORWARD

FY05 STO AUDIT – The exit conference with the Accounting and Consulting Group (IPA) was held on May 26, 2006. Nine audit findings were reported, with an unqualified opinion expected. The IPA is finalizing the GASB 40 disclosure and the management representation letter and will submit the draft audit report to the State Auditor (SAO) the week of June 12th. The SAO will review and return comments on financial statements, compliance issues, and formatting/text editing. Once required changes are completed, the final audit report will be printed.

FY06 STO AUDIT – A request for proposals was issued on May 19, 2006, to perform the annual audit for FY06 and quarterly audit services beginning the first quarter of FY07 (as mandated by the State Treasurer's Investment policy). Pricing was requested for three years of annual audits and two years of quarterly audits, through FY08. The RFP was sent out to all 76 IPAs qualified by the State Auditor to perform audits of state agencies. Restrictive language in the RFP requires the IPA partner or manager assigned to the audit to have a minimum of five years of experience, auditing fiduciary, pension or endowment funds, with assets greater than \$1 billion. The submission deadline for proposals is June 14, 2006. The State Treasurer will evaluate proposals and select an IPA for recommendation to the State Auditor. This recommendation will be forwarded to the SBOF Subcommittee on Reviewing the STO Audit Process. The subcommittee will also be provided a copy of the audit proposals to review. The audit selection process and recommended IPA will then be reported to the SBOF. The State Treasurer will submit the IPA recommendation to the State Auditor for final approval.

LGIP – A presentation of cyclical trends in participant activity is an aspect of the credit quality rating process the LGIP is pursuing. A review of the trends revealed that, although seasonal activity is apparent, the low interest rate environment of the past several years could explain unprecedented high balances in the pool; governments took advantage of historic low rates with bond issuance, investing bond proceeds in the pool during this time until needed for capital project completion.

STANDARD & POOR'S – The STO completed the management meeting with Standard & Poor's on June 8, 2006, and awaits the results of the rating process.

LGIP NAME THE POOL CONTEST – The recommended winner of the Name the Pool Contest is New MexiGrow. A logo has been developed and will be presented to the LGIP Participant Council for confirmation/approval.

SHARE TRAINING – Scheduling of staff to participate in SHARE training has commenced and the STO has offered its training room for other agencies to utilize.

FINANCIAL LITERACY EFFORTS – The STO Public Information Officer attended the first introductory and information meeting about beginning a New Mexico JUMP\$TART Coalition, which is a group of people interested in joining together to help promote financial literacy among young people. The Public Information Office is also working with the Focus on the Future Foundation, a non-profit organization promoting financial literacy.

TRADING PLATFORM – The STO will implement TradeWeb, the industry leader for the art of fixed income trading. The TradeWeb system will complement and work in tandem with the Bloomberg, the STO current electronic trading platform.

BROKER PARTICIPATION - ALL FUNDS

TABLE 3

BROKER PARTICIPATION - ALL FUNDS

Broker/Dealer	Volume (\$ in thousands)												Total	Percent			
	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06			Dec-06		
Bank of America	127,029	106,592	128,246	197,427	190,000	45,913										\$ 795,207	11.3%
Citigroup	177,234	240,703	154,220	239,518	149,245	241,722										\$ 1,202,642	17.1%
Merrill Lynch	216,195	211,927	237,181	421,915	209,489	353,299										\$ 1,650,006	23.5%
Morgan Stanley	10,000	49,776	257,824	182,876	124,670	160,831										\$ 785,977	11.2%
UBS	113,000	-	-	-	-	-										\$ 113,000	1.6%
Lehman	-	-	-	29,944	153,522	170,562										\$ 354,028	5.0%
Bear Stearns	-	-	-	59,872	30,000	-										\$ 89,872	1.3%
Goldman Sachs	-	-	62,196	330,996	194,938	196,532										\$ 784,662	11.2%
CS First Boston	-	-	-	-	110,603	144,093										\$ 254,696	3.6%
Direct Purchase	-	-	-	538,861	184,822	269,671										\$ 993,354	14.1%
Total	\$ 643,458	\$ 608,998	\$ 839,665	\$ 2,001,409	\$ 1,347,289	\$ 1,582,623										\$ 7,023,442	100.0%