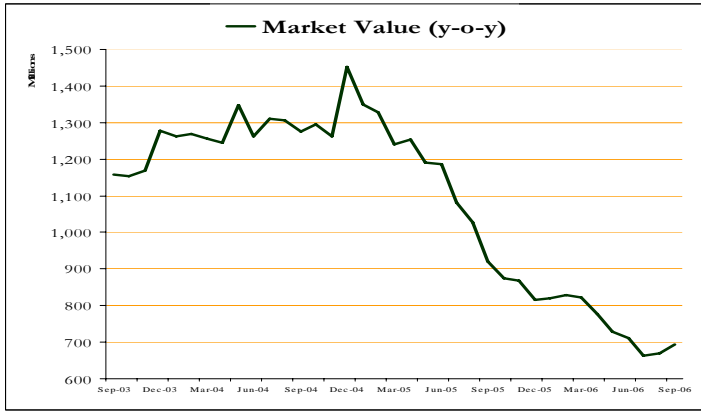


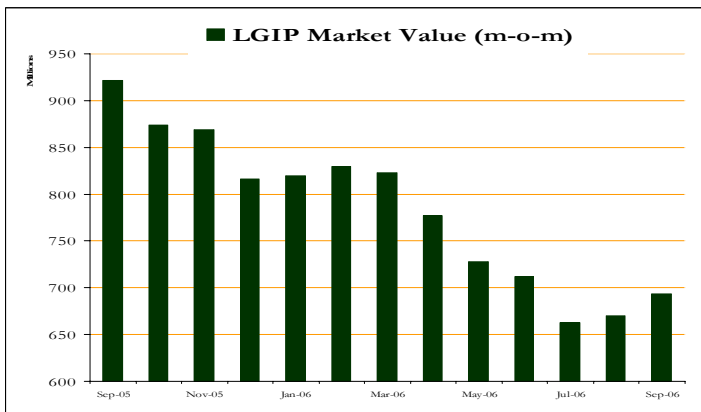
# EXECUTIVE SUMMARY

As of September 30, 2006

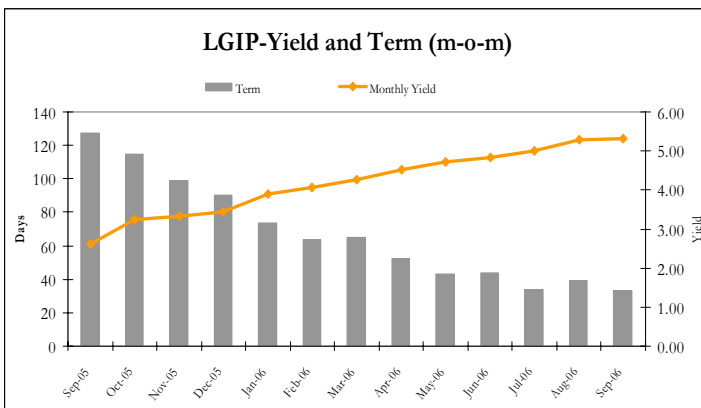
## NEW MEXIGROW LOCAL GOVERNMENT INVESTMENT POOL (LGIP)



- The market value of the LGIP portfolio as of September 30 was \$693.64 million, compared to a market value of \$921.0 million at the same period in the prior fiscal year.



- The market value of the investment portfolio as of September 30, \$693.64 million, increased 3.7% over the \$668.69 million market value at August 31. The increase in pool balance can be attributed to continued participant response to promotion of the AAA rating, competitive yield, and improving confidence in the State Treasurer's Office.



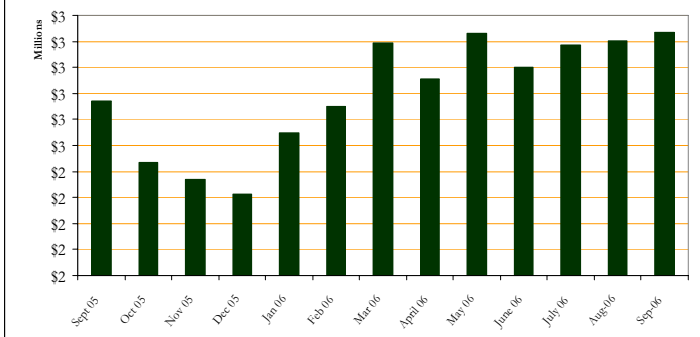
- The gross yield of the LGIP portfolio increased 2 basis points to 5.311% at September 30. The weighted average maturity at September 30 was 33 days, slightly down from the August 31 weighted average maturity of 39 days, and still well within the allowable limit of 50 days.

## Local Government Investment Portfolio

Agencies	5.26%	\$	330,536,326	47.65%	45.13
Commercial Paper	5.44%	\$	221,904,367	31.99%	31.50
Money Market Funds	5.30%	\$	127,150,000	18.33%	1.22
Certificates of Deposit	4.39%	\$	11,500,000	1.66%	53.65
LGIP Bank Account	5.02%	\$	2,552,787	0.37%	1.00
<b>Total:</b>	<b>5.31%</b>	<b>\$</b>	<b>693,643,480</b>	<b>100.0%</b>	<b>33</b>

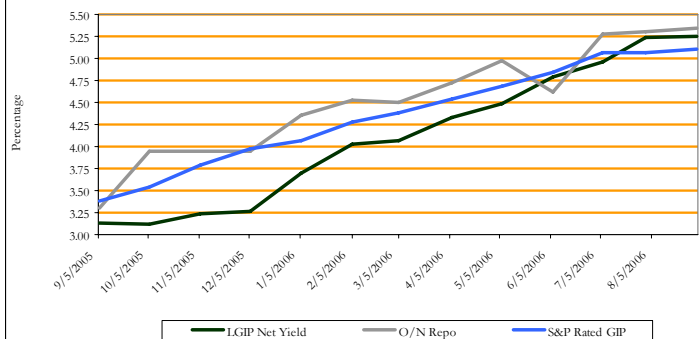
- At September 30, the portfolio was comprised of 47.6% in U.S. government agency securities, 31.9% in A-1+ commercial paper, 18.3% in AAA money market funds, 1.6% in CDs and .37% in the bank account balance.
- September investment activity in the LGIP portfolio included the purchase of \$29.9 million in A-1+ commercial paper with an average yield of 5.35% and average term of 25 days. In addition, \$248.5 million in agency discount notes was purchased with an average yield of 5.25% and average term of 61 days.

**LGIP - Total Earnings (m-o-m)**



- Total LGIP earnings for September were \$2.94 million, a slight increase over August earnings of \$2.90 million. Fiscal year-to-date earnings for the LGIP totaled \$8.72 million compared to \$8.11 million at the same time last fiscal year.

**Yield vs Benchmark LGIP  
September 30, 2006**



- The 30-day net yield of the LGIP as of September 30 was 5.255%, outperforming the 30-day net S&P Rated Government Investment Pool index (5.09%) by 16 basis points. The gross 30-day yield of the *New MexiGROW* LGIP at September 30, 5.311%, paralleled the 30 gross S&P Rated GIP index of 5.31%. The administrative fee assessed to participants for September was 5.66 basis points.

# QUARTERLY REPORT

For the quarter ended  
**SEPTEMBER 30, 2006**

## Investment Strategy employed during the past quarter

- **New MexiGROWLGIP**: During the past quarter the LGIP received Standard & Poor's AAAM rating. The rating compliance requirements mandate the investment strategy to be employed. The asset mix and types being purchased for the portfolio are at least 50% A-1+ (or AAA) rated with the remaining 50% being A-1 (or AA) rated. The weighted average maturity was targeted to be 60 days or less during the quarter with the rating compliance further reducing that to 50 days or less. Maturities were laddered by week to provide constant cash inflows and are used in combination with the money market funds for liquidity needs.

## Investment Strategy planned for the next quarter

- **New MexiGROWLGIP**: Compliance with rating criteria will continue to mandate investing strategy for the LGIP. Investment in high-quality commercial paper will be utilized initially until the allowable limit maximums (percentage of total portfolio and per-issuer) are reached. Investment in agency discount notes will then be utilized for term investment within the 50-day weighted average maturity (WAM) maximum. AAA rated money market funds will be used for improved yield (and liquidity) to take advantage of favorable short-term rates.

## Asset Mix and Maturity Targets

- **New MexiGROWLGIP**: The WAM for the LGIP will be maintained at 50 days or less. Asset allocation will fluctuate between commercial paper, agency discount notes, and money market funds depending on the most favorable yield and portfolio investment compliance limits. Commercial paper will be utilized for shorter-term maturities, agency discount notes for longer-term maturities, and money markets for liquidity and investment when advantageous.

## INVESTMENT OUTLOOK

### SEPTEMBER 30, 2006

- The economy is showing signs of slowing with contracting housing and automotive sectors weighing on the economy. Strength remains, however, as other areas in the economy are growing at healthy rates. Corporate profits are at 40-year highs, as are cash balances on corporate balance sheets. These high levels of domestic liquidity in conjunction with high levels of international liquidity provide underlying support to the economy and should stave off the possibility of a dramatic downturn.
- While the economy is still growing, it is prudent to extend portfolio duration to protect against possible downturns in the interest rate environment. STO has begun to ladder both the General Portfolio and the Tax-exempt Bond Proceeds Pool with plans to continue doing so going forward. It is anticipated that over the course of the next two quarters the General Fund will be fully laddered from 1 to 3 years with an approximate 1.5 year average maturity.
- The current yield curve environment still favors investment in the 30-day to 6-month range over longer-term (1 year +) investing. Even though it is anticipated that rates will continue to decline throughout the remainder of 2006, a flattening of the yield curve may not occur until 2007. This situation benefits the *New MexiGROW* LGIP portfolio which is a short-term money market fund as well as the liquidity management segments of the General Fund and BPIP portfolios.

## MOVING FORWARD

SEPTEMBER 30, 2006

- **Portfolio Segments:** Both the General Fund and the Bond Proceeds Investment Pool portfolios will be separated into segments for the purposes of performance measurement and investing strategy. Each portfolio will have liquidity management segments and laddered core segments. STO is working with QED, the investment accounting software provider, to modify current processes in order to classify individual assets to appropriate segments. This system enhancement will greatly improve STO's reporting capability in order to comply with the performance measurements and benchmarking requirements of the Investment Policy.
- **Benchmarks:** Benchmarks for the General Fund and the Bond Proceeds Investment Pools are being analyzed by STO for recommendation at the November State Treasurer's Investment Committee meeting. PFM will also recommend three indices.
- **Investment Advisor:** PFM, the STO investment advisor, will present the quarterly performance report at the November STIC meeting. The report will incorporate the selected benchmarks and review recommended investments, portfolio strategies, and performance against the benchmarks.
- **Annual Report:** The New Mexico State Treasurer's Annual Report has been completed, is available for distribution, and will be posted to the STO website. The report summarizes investment and cash management activity and significant accomplishments of the Agency for the 2005 -2006 fiscal year.
- **Annual Audit:** Field work for the 2005-2006 annual audit has begun by Meyner's & Company, the new firm selected by STO to perform the audit. In addition to the financial audit, the firm will also conduct the quarterly investment compliance audits beginning with the September 30 quarter-end.
- **Personnel:** STO is finalizing the hiring of the LGIP Portfolio Manger and anticipates that the new hire will be on board by November 1. Workflow process changes resulting from the SHARE system implementation may require the relocation of personnel within several STO bureaus. With the exception of the Deputy State Treasurer and Public Information Officer positions, no staff turnover has occurred throughout the nine months of the new administration.

**New Mexico State Treasurer  
Broker Participation - All Funds**

Fiscal Year 2006-2007

**Volume**

(\$ in thousands)

**FY07**

<u>Broker/Dealer</u>	<u>Jul-06</u>	<u>Aug-06</u>	<u>Sep-06</u>	<u>YTD Total</u>	<u>Percent</u>	
Bank of America	117,394	39,665	87,280	\$ 244,339	12.8%	Bank of America
Citigroup	320,564	81,747	-	\$ 402,311	21.1%	Citigroup
Merrill Lynch	205,051	66,127	186,111	\$ 457,289	23.9%	Merrill Lynch
Morgan Stanley	149,455	24,672	133,077	\$ 307,204	16.1%	Morgan Stanley
UBS	-	-	-	\$ -	0.0%	UBS
Lehman	154,349	-	20,327	\$ 174,676	9.1%	Lehman
Bear Stearns	-	-	-	\$ -	0.0%	Bear Stearns
Goldman Sachs	106,093	-	-	\$ 106,093	5.6%	Goldman Sachs
CS First Boston	159,504	-	39,898	\$ 199,402	10.4%	CS First Boston
Direct Purchase	<u>19,884</u>	<u>-</u>	<u>-</u>	<u>\$ 19,884</u>	1.0%	Direct Purchase
Total	\$ 1,232,294	\$ 212,211	\$ 466,693	\$ 1,911,198	100.0%	

**Purchases:**

Primary Market	540,577	108,729	0	\$ 649,306	34.0%
Secondary Market	<u>691,717</u>	<u>103,482</u>	<u>466,693</u>	<u>\$ 1,261,892</u>	<u>66.0%</u>
Total	\$ 1,232,294	\$ 212,211	466,693	\$ 1,911,198	100.0%