OFFICE OF THE STATE TREASURER

STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES
Wednesday, September 12, 2007

The State Treasurer's Investment Committee (STIC) meeting convened 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, September 12, 2007

I. CALL TO ORDER

Roll Call

Members Present:
Mr. James B. Lewis, State Treasurer
Ms. Joelle Mevi, Chairperson Designee, Chief Investment Officer
Ms. Olivia Padilla-Jackson, State Board of Finance Director
Mr. Paul Cassidy, Public Member
Mr. Steven Bohlin, Public Member

Staff Present:
Mr. Mark Canavan, Senior Portfolio Manager
Mr. Arsenio Garduno, Collateral Manager
Mr. A. Steve Gonzales, Deputy Bureau Chief State Accounts
Ms. Randilynn Lord, State Treasurer's Attorney
Ms. Kirene Bargas, LGIP Portfolio Manager
Ms. Hannah Chavez, LGIP Accountant

Guests:
Ms. Stephanie Schardin, Legislative Finance Committee
Mr. Laird Grassaer, Department of Finance and Administration
Ms. Alexis Lotero, Department of Finance and Administration
Mr. Gillis Lang, Department of Finance and Administration

Approval of September 12, 2007, Agenda
Member James Lewis motioned for approval of the agenda; seconded by Member Steve Bohlin. The motion carried.

Approval of July 11, 2007 Minutes
Member James Lewis motioned for approval of the minutes; seconded by Member Paul Cassidy. The motion carried.

II. INVESTMENT REPORTS- Months Ended July 31 and August 31, 2007

General Fund Report

Mr. Mark Canavan summarized the investment activity for the General Fund Portfolio. The market value of the General Fund Investment Portfolio, net of TRANs, on August 31, 2007, was $2.32 billion compared to $2.59 billion at the same point last year and $2.25 billion at the same point two years ago. During the month the market value of the portfolio decreased 9.4% to $2.32 billion from $2.56 billion at July 31. The August month-end balance represents a 11.8% decrease from June's month-end $2.63 billion. The yield was 5.10% at month-end, down from 5.13% at July 31. This drop was due to reinvestment of $400 million of TRAN proceeds. In July, these assets were held in overnight repo at rates averaging above 5.25%. Given the potential for short term rates to drop below the State's cost of funds, TRAN proceeds were invested to cash match TRAN liabilities in June 2008. This reduced the yield on the TRAN portion of General Fund assets to a 4.98% average. The average term of the portfolio increased to 268 days from 220 days at July month-end.

The month-end portfolio holdings were 54.3% in U.S. Agency bonds, 21% in the overnight repurchase pool, 9.2% in certificates of deposit, 3.7% in money market mutual funds, 11.4% in commercial paper, and 0.4% in corporate bonds. $545 million of investments were purchased for the month: $13 million of certificates of deposit were purchased or renewed for the CD portfolio; $412 million of U.S. Agency securities for the TRAN redemption fund; $120 million of direct obligation commercial paper for the Liquidity portfolio (to replace ABCP investments as they matured). $33.55 million in Certificates of Deposit were purchased during July. No other purchases for the General Fund were made in July. Earnings for August were $11.3 million, a decrease of 6.2% from July earnings of $12 million and a decrease of 7.6% over August 2006 earnings of $12.2 million. Fiscal year-to-date earnings totaled $23.3 million compared to $24.7 million through the same period last fiscal year.

Mr. Canavan explained the reason for the difference in general fund balances in July-August compared to 2006; it consisted of disbursements being delayed in SHARE (People Soft) at the same period last year, which left higher cash balances. Also, agencies were unable to adapt to the accounting system in a timely manner. The committee requested research into TRD receipts that were possibly not accounted for in SHARE during the end of August. Where were the monies and were they invested? Chairperson Mevi informed the committee all funds deposited into the bank accounts are invested.

New *Mexi*GROW Local Government Investment Pool (LGIP) Report

Chairperson Joelle Mevi informed the committee of the LGIP status. The year-over-year market value of the LGIP portfolio as of August 31 was $1.025 billion, compared to a market value of $670 million at the same period last year and $1.028 billion at the same period two years ago. During the month the market value of the portfolio increased

6.4%, from $963 million in July to $1.025 billion. Participant contributions for August were $133.5 million and $166.1 million for July. Withdrawals during August totaled $74.3 million and $175.8 million during July. The gross yield was 5.37% at August 31, a 1% increase from July month-end of 5.32%. The weighted average maturity at August 31 was 31 days, up from the July 31 weighted average maturity of 28 days and within the S&P-set limit of 50 days.

The month-end portfolio holdings were 10.5% in U.S. government agency securities, 20.5% in A-1+ commercial paper, 68.6% in AAA money market funds, and 0.4% in the bank account balance. August investment activity in the LGIP portfolio was comprised of the purchase of $170 million in A-1+ commercial paper with an annualized yield of 5.47% and average term of 43 days, and the purchase of $41.3 million of U.S. agency securities with an annualized yield of 5.15% and an average term of 186 days. There were no purchases during July. LGIP earnings for August totaled $4.45 million, a 2% increase from July earnings of $4.34 million. Fiscal year-to-date earnings totaled $8.79 million compared to $5.78 million through the same period last fiscal year. The 30-day net yield of the LGIP as of August 17 was 5.26%, outperforming the 30-day net S&P Rated Government Investment Pool (GIP) index (5.1%) by 16 basis points. The 30-day gross yield of the LGIP at month-end, 5.31%, trailed the 30-day gross S&P Rated GIP index of 5.38%. The administrative fee assessed to participants for August was 3.8 basis points; fees collected through August 31 totaled $64,000.

Bonds Proceed Investment Pool (BPIP) Report
Mr. Mark Canavan reported that the market value of the Tax-exempt BPIP as of August 31, 2007, was $579.1 million. During August the market value of the fund decreased 1.7% from $589.5 million at July 31 to $579.1 million. The approximate $10.4 million decrease was the net result of property tax revenues, interest earnings, and project expenditure draws. Earnings for the month were $2.5 million down slightly from July earnings of $2.6 million. Fiscal year to date earnings totaled $5.14 million. The month-end yield was 5.15% and the term was 273 days. The Tax-exempt BPIP yield at August 31, 5.15%, was 79 basis points above the highest arbitrage yield limit of any bond issue in the fund, 4.36%, which is also the selected benchmark.

The breakdown of month-end portfolio holdings was 11.8% in the overnight repurchase pool, 25.2% in U.S. Treasury notes and bills, 35.4% in U.S. Agency bonds, and 27.6% in AAA rated institutional money market funds. Investment activity for the month of August included the purchase of $80 million in U.S. agency securities and $160 million in an institutional money market fund. There were no purchases during July.

Taxable Bond Proceed Investment Pool (BPIP)
Mr. Mark Canavan reported that the market value of the Taxable BPIP as of August 31 was $841 million. During August the market value of the fund decreased .5%, from $846.3 at July 31 to $841 million. The approximate $5.2 million decrease was a result of project expenditure draws. Interest earnings for the month totaled $3.5 million down 4% from July earnings of $3.7 million. Fiscal year to date earnings totaled $7.25 million.

The month-end yield was 5.13% and the term was 278 days. August 31 benchmark yields were: 5.07%: 2-year Constant Maturity Agency 12-month moving average; and, 4.69%: Merrill Lynch custom index: 10% of the 0-3 year Treasury and 90% of the 1-3 year Agency. The breakdown of month-end portfolio holdings was 14.8% in the overnight repurchase pool, .6% in flex repurchase agreements, 60.4% in U.S. Agency notes and bonds, 1.8% in U.S. Treasury notes, 2.2% in corporate bonds, and 20.2% in AAA rated institutional money market fund shares. Investment activity during the month of August totaled $182 million: $19 million in corporate bonds and $163 million in U.S. agency securities. There were no purchases during July.

Economic and Investment Outlook
Mr. Mark Canavan presented the Economic and Investment Outlook written by Mr. Joaquin Lujan. Mr. Canavan stated that the growing apprehension about the credit quality of certain structured products-MBS, CDO, CLO, ABCP- has snowballed into an all out liquidity crisis, causing broad-based dislocation in credit markets. As investors flock to safer assets and flee riskier assets, yields decrease for the former and increase for the latter. Eight weeks and running, however, this repricing has been so abrupt and wide spread that credit markets are seizing and, in turn, affecting the real economy. Risks to the real economy are palpable and increasing; conservative growth forecasts for 4Q07 and 1Q08 should shave .5% off previous estimates of 2-2.5%

Structured or securitized products were supposed to engender an efficient, global system of risk disbursement. Pools of debt could be sliced and diced into measurable risk and sold as a perfect fit to a wide variety of investors each with varied appetites for risk, from public funds to hedge funds. Meanwhile, borrowers would be able to access credit cheaply and put it to productive use or spend it freely on, say, homes, leveraged buyouts, and share buybacks. The promise of ever deeper credit markets fomenting global growth, increasing wealth, and raising standards of living would be henceforth fulfilled, *absent* the historical restrictions imposed by the Banks' capital ratios and *absent* Banks' bearing all the risk of owning the plethora of outstanding loans

In conclusion, monetary policy makers are apt to use all of their tools *short of a rate cut* to stem the financial crisis; this at the risk of market participants likening the Fed to Nero, who fiddled while Rome burned. Part of the resolve lay in the desire to once and for all dispel the 'Greenspan put' and avoid the moral hazard implicit in bailing out borrowers, lenders, and investors. So, if the fed was stuck between a rock (persistent inflation/strong global growth) and a hard place (slowing domestic growth) before, they are now backed into a pernicious corner--stabilizing the market, avoiding recession, and steering clear of either a real or perceived bail out.

III. CASH MANAGEMENT REPORT- Month Ended June 30 and July 31 2007

State Fund Deposit Activity for the months ending June and July 2007
Mr. Steve Gonzales reported 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. Mr. Gonzales also included 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 June and July, 2007.

Collateral Report
Mr. Arsenio Garduño reported one financial institution was out of compliance for the month ended July, 2007; First National Bank of Santa Fe was under collateralized by $57,156. The situation occurred due to a pledged security maturing on July 31, 2007; the bank pledged additional collateral before the month-end, but do to timing, their pledge was not accepted into safekeeping until August. All other institutions met the minimum collateral requirement of their quarterly risk assessments. As for the month ended June 2007 there were no financial institutions out of compliance and all institutions met the minimum collateral requirement of their quarterly assessments.

Mr. Garduño also outlined for the month ended July 2007 the Quarterly Risk Assessment Report Analysis which consisted of the financial institutions that met ratio requirements to pledge 50% or 100% collateral for the state funds held in their financial institution. The list included Alamogordo Federal Savings Bank, First National Bank/Las Vegas, First State Bank/Socorro, Mesilla Valley Bank/Las Cruces, and Valley National Bank/Espanola.

The Flexible Repurchase Agreement Collateral Report stated Citigroup was in full compliance for the months of July and August. The balances for Citigroup for the month of July 2007 were $9.6 million with $9.8 million collateral pledged. As for the month of August 2007 the balances were $4.7 million with $4.8 million collateral pledged.

IV. STAFF REPORTS

Investment Policy
Chairperson Joelle Mevi presented the committee with the proposed revisions to the investment policy. One of the proposed revisions led to an in depth discussion regarding the State Treasurer's Investment Committee; page 2 (C) number 1, terms of private sector member. Many suggestions were recommended while Ms. Randilynn Lord presented a revised copy which included "The private sector members will serve for a term of two (2) years after appointment and shall be eligible for re-appointment to serve for a consecutive two (2) year term…" The intention was to replace last sentence of (C) number 1. Mr. Mark Canavan proposed to eliminate "a" and to make "term" plural "terms".

Meanwhile, Member Cassidy brought to attention the terminology on page 10 (L) number 6 "shall require a second review and signature by *an alternate designee".*

Chairperson Mevi will look into language for what is appropriate for a timely manner second approval, to clarify the intent of this section.

Chairperson Mevi reviewed the few minor changes with the committee for consensus and said she will incorporate the few minor changes in the investment policy. Member Bohlin motioned for approval of the investment policy and Member Olivia Padilla-Jackson seconded the motion. Motioned carried.

V. ANNOUNCEMENTS

Treasurer James Lewis informed all attendees that any comments or questions will be accepted at the end of the meeting, after reports are presented. By allowing a time frame of between an hour to an hour and a half for the meeting and limiting questions & answers to relevant agenda items, then an orderly and professional meeting will be accomplished. Any suggestions, comments or questions regarding the meeting agenda items will be accepted in advance also so as to improve the time frame of the meetings.

Chairperson Mevi introduced and welcomed the new LGIP Bureau Chief and Portfolio Manager, Kirene Bargas.

VI. NEXT MEETING

Wednesday, October 10, 2007 9:00 a.m.

VII. ADJOURNMENT

Member Bohlin motioned to adjourn the meeting: second by Member Cassidy, the meeting adjourned at 11:10 a.m.