

OFFICE OF THE STATE TREASURER

STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES  
Wednesday, November 14, 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, November 14, 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  
Ms. Kirene Bargas, LGIP Portfolio Manager  
Mr. Joaquin Lujan, Portfolio Manager  
Mr. Orlando Romero, State Cash Manager  
Mr. Arsenio Garduño, Collateral Manager  
Ms. Vicki Brown, Special Assistant  
Mr. Eliza Anaya, LGIP Accountant  
Ms. Hannah Chavez, LGIP Accountant

**Guests:**

Ms. Stephanie Schardin, Legislative Finance Committee  
Mr. Gillis Lang, Department of Finance and Administration  
Ms. Amy Chavez, Department of Finance and Administration

**Approval of November 14, 2007, Agenda**

Member Steve Bohlin motioned for approval of the agenda; seconded by Member James Lewis. The motion carried.

**Approval of October 10, 2007 Minutes**

Member Paul Cassidy motioned for approval of the minutes; seconded by Member James Lewis. The motion carried.

## II. INVESTMENT REPORTS- Month Ended October 31, 2007

### General Fund Report

Mr. Mark Canavan summarized the investment for the General Fund Portfolio. The market value of the General Fund Investment Portfolio, net of TRANs, on October 31, 2007 was \$2.52 billion compared to \$2.60 billion at the same point last year and \$2.38 billion at the same point two years ago. During the month the market value of the portfolio increased 6.3% to \$2.52 billion from \$2.37 billion on September 30. The October month-end balance represents an increase of 8.6% over August month-end balance of \$2.32 billion. The yield was 4.93% at month-end, down from 5.00% at September 30. The average term of the portfolio decreased to 265 days from 297 days in September. This decline is due to excess liquidity in the Core and shortened WAM for the Liquidity pool to compensate for the acceleration of withdrawals by various state Agencies. As agencies provide better definition of withdrawal schedules, WAM will be extended for the Liquidity segment. Investments extending Core duration were made during October for November settlement.

The month-end portfolio holdings were 48.29% in U.S. Agency bonds, 13.41% in the overnight repurchase pool, 21.53% in commercial paper, 9.57% in certificates of deposit, 3.77% in corporate bonds, and 3.43% of money market funds held in reserve. \$348.6 million of investments were purchased for the month: \$48.6 million of certificates of deposit were purchased or renewed and \$300 million of direct obligation commercial paper was purchased for the Liquidity segment. \$12 million of AA rated corporate bonds were purchased for General Fund Core. These Core investments settle in November's reporting period, therefore they are not reflected in the 348.6 million monthly total above. Earnings for October were \$11.29 million, an increase of 5.1% from September's earnings of \$10.74 million and a decrease of 3.2% from October 2006 earnings of \$11.66 million. Fiscal year-to-date earnings totaled \$45.3 million compared to \$47.78 million through the same period last fiscal year.

Mr. Canavan reported General Fund remains above its yield-based benchmark with an earned yield of 4.9% and a purchase yield of 4.93%. On a total return basis, the Core outperformed the custom index for the month with a 5.6% annualized return versus the benchmark's 5.3%. For the trailing twelve month period, the Core portfolio has returned 5.38%, versus the custom benchmark's 5.64% return.

Member Oliva Padilla-Jackson commented on how the revised graph formats are very helpful. She requested a General Fund Portfolio allocation by type on a monthly basis instead of quarterly. Member Mevi suggested creating a graph from Table I of the Executive Summary: Investment Purchases by Broker, Market and Security Type for all STO portfolios. The committee agreed that they are interested in the by-type graph only for the General Fund core segment.

### **New MexiGROW Local Government Investment Pool (LGIP) Report**

Ms. Kirene Bargas informed the committee of the LGIP status. The year-over-year market value of the LGIP portfolio as of October 31 was \$1.063 billion, compared to a market value of \$689 million at the same period last year and \$874 million at the same period two years ago. During the month the market value of the portfolio increased 4.9%, from \$1.013 billion in September to \$1.063 billion. Participant contributions for October were \$103 million. Withdrawals during October totaled \$55 million. The gross yield was 5.02% at October 31, a 6.2% decrease from September month-end of 5.35%. The weighted average maturity at October 31 was 37 days, up from the September 30 weighted average maturity of 24 days and within the S&P rating compliance limit of 60 days.

The month-end portfolio holdings were 26.7% in U.S. government agency securities, 11.1% in A-1+ commercial paper, 62.1% in AAA money market funds, and .10% in the bank account balance. October investment activity in the LGIP portfolio was comprised of the purchase of \$109 million in A1+ commercial paper with an annualized yield of 5.01% and average term of 71 days, and the purchase of \$195 million of U.S. agency securities with an annualized yield of 4.59% and an average term of 86 days.

LGIP earnings for October totaled \$4.53 million, a 1.1% increase from September earnings of \$4.48 million. Fiscal year-to-date earnings totaled \$17.8 million compared to \$11.8 million through the same period last fiscal year. The 30-day net yield of the LGIP as of October 19 was 5.23%, outperforming the 30-day net S&P Rated Government Investment Pool (GIP) index (4.92%) by 31 basis points. The 30-day gross yield of the LGIP at October 19, 5.28%, surpassed the 30-day gross S&P Rated GIP index of 5.14%. The administrative fee assessed to participants for October was 3.7 basis points; fees collected through October 31 totaled \$128,002.

Ms. Bargas reported the portfolio classification summary as: commercial paper at 11.14%, Money Market Funds at 62.05%, LGIP bank account at .04% and U.S. Agencies at 26.76%. LGIP has maturities through August 2008. For the month of October LGIP investment purchases by type/broker were \$109,300,000 in CP and \$195,176,000 in agency securities for a total of \$304,476,000.

Member Joelle Mevi commented that the LGIP balance at October month end is the highest level experienced in two years.

### **Tax Exempt Bonds Proceed Investment Pool (BPIP)**

Mr. Joaquin Lujan report that the market value of the Tax-exempt BPIP as of October 31, 2007, was \$540.2 million. During October the market value of the fund increased less than .1%, from \$539.2 million at September 30. The approximate \$48 million increase was the net result of property tax revenues, interest earning, and project expenditure draws. The tax-exempt BPIP month-end yield and term were 5.01% and 246 days. Interest earnings for the month totaled \$2.34 million, down from September earnings of \$2.36 million. Fiscal year to date earnings totaled \$9.84 million. The month-end yield was 65 basis points above the selected benchmark, 4.36%, which is the highest arbitrage yield limit of any bond issue in the fund.

Month-end portfolio holdings included U.S. Agency Bonds (43.9%); shares in AAA rated institutional money market funds (24%); U.S. Treasury Bills and Notes (21.3%); US

Corporate Bonds (5.5%) and units in the overnight repurchase pool (5.2%). Investment activity during October included the purchase of \$30 million in U.S. corporate bonds and \$20 million in U.S. agency securities.

Member James B. Lewis commented that the Finance Authority wanted to talk to the governments they loan to about the proceeds they're holding to find out if there was any way to get their projects built faster and the loan/bond money spent faster to be within the grace period allowed before that money would have to be rebated to the IRS. Treasurer Lewis informed the committee NMFA will come and talk to the Investments Division and LGIP Bureau.

The committee discussed large withdrawals from the bond proceeds pools. Member Joelle Mevi reported that Mr. Lujan has incorporated the use of money market funds into both portfolios for back-up liquidity. Ms. Padilla-Jackson commented that in taxable bond proceeds pool the supplement severance tax bonds make up a large percentage of that fund which is comprised of public school projects and over the next two years they expect large project completions so the portfolio will shrink over the next few years.

#### **Taxable Bond Proceed Investment Pool (BPIP)**

Mr. Lujan included in his report that the market value of the Taxable BPIP as of October 31, 2007, was \$ 759.6 million. During the month the market value of the fund decreased 2.0%, from \$775.7 at September 30 to \$759.6 million at October 31. The approximate \$16 million decrease was the result of monthly project expenditure draws. Interest earnings for the month totaled \$3.13 million, down from September earnings of \$3.22 million. Fiscal year to date earnings totaled \$13.54 million. The Taxable BPIP month-end yield and term were 5.07% and 301 days. The month-end yield was 10 basis points above the 2-year CMA index (4.97%); and 71 basis points above the Merrill Lynch 10% 0-3 year Treasury/90% 1-3 year Agency custom index (4.35%).

Month-end portfolio holdings included U.S. Agency Notes and Bonds (62.6%); AAA rated institutional money market fund shares (22.3%); overnight repurchase pool (6.5%); corporate bonds (5.2%); U.S. Treasury bills and notes (2%); and U/S. Agency Bonds (1.3%). Investment activity during October included the purchase of \$20 million in U.S. corporate bonds and \$10 million in U.S. agency bonds.

Member Cassidy expressed concerns regarding the purchase of financial securities such as Merrill Lynch. Mr. Canvan reassured that each position was researched thoroughly. Mr. Lujan added that the Treasurers office has begun to document fundamental credit research for most corporate and commercial paper assets.

#### **Economic and Investment Outlook**

Mr. Joaquin Lujan reported the flight to quality trade continued during October as macroeconomic fundamentals deteriorated and risk aversion re-emerged in corporate credit markets. Third quarter losses in finance, banking, and insurance exceeded investor expectations and company guidance, roiling equity markets and leading credit spreads wider. While financials shore up their balance sheets, risks to the real economy include tightening credit conditions and waning demand for credit. More ominous,

however, the largest blow to the market might come not in the form of unexpected losses or even outright recession but as an abrupt loss of investor confidence. Putting it all together, STO is quickly positioning portfolios for a lower, steeper yield curve; the benefit of locking in yield today outweighs the risk that spreads will be wider in the future.

### **III. CASH MANAGEMENT REPORT: Month Ended September 30, 2007**

Mr. Orlando Romero 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. He presented a summary of state agency accounts in each institution through the month ending September, 2007.

Additionally, 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 September, 2007.

State funds were held in a total of 288 accounts with a combined balance of \$70,287,565. 194 non-state fund accounts totaled a balance of \$28,380,245. There were six accounts closed and eight accounts opened for the month ending September 30, 2007.

Member Paul Cassidy commented that the non-interest bearing accounts, compared to the interest bearing accounts, are at the lowest level in a very long time.

#### **Collateral Report**

Mr. Arsenio Garduño reported that the collateral review of all depository institutions holding public funds for the month ending September 2007 reflected that the minimum collateral requirements were met. The ratio of collateral required by each institution is a result of a quarterly risk assessment.

### **IV. STAFF REPORTS**

#### **Investments Policy**

Ms. Joelle Mevi reported that when the State Treasurers Investment Policy was presented for approval to the Board of Finance in September and received some comments specifically regarding securities lending and broker/dealer disclosure requirements. A working group was formed that included legal representation from the Board of Finance as well as STO. The attorneys worked out language for disclosure that should satisfy the concerns and goals for both the Board and the Treasurer. The recommended changes include expanding the Ethics section of the policy and rewording the disclosure section and will be ready to submit for approval by the next meeting in December. Included with the Investment Policy are the three appendices that were approved last year: the Employee Code of Conduct, the Campaign Contribution policy and the Whistleblower policy.

Member Olivia Padilla-Jackson motioned to approve the Investment Policy, as revised, and member James B. Lewis seconded the motion. The motion carried.

**V. NEXT MEETING**

Wednesday, December 12, 2007, 9:00 a.m.

**VI. ADJOURNMENT**

Member Paul Cassidy; motioned to adjourn the meeting, seconded by Member Olivia Padilla-Jackson. The meeting adjourned at 10:04 a.m.