



James B. Lewis
State Treasurer

STATE OF NEW MEXICO
OFFICE OF THE TREASURER

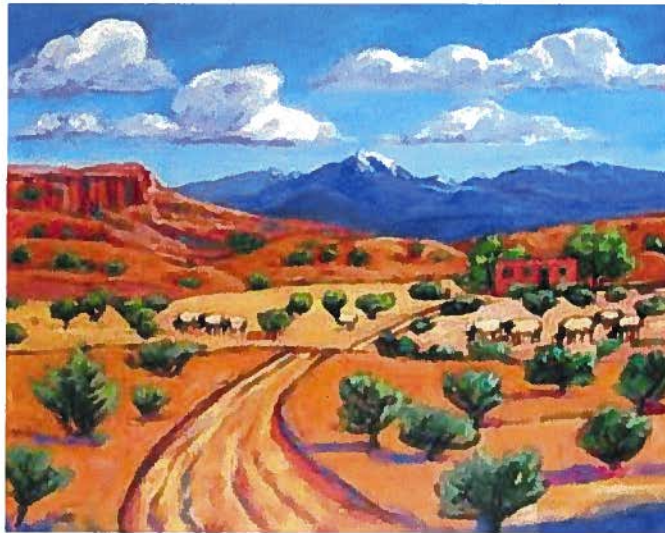
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Marilyn L. Hill
Deputy State Treasurer

STATE TREASURER'S INVESTMENT COMMITTEE

TREASURER'S CONFERENCE ROOM



WEDNESDAY, FEBRUARY 13, 2013
9:00AM



State of New Mexico
Office of the State Treasurer
James B. Lewis, Treasurer

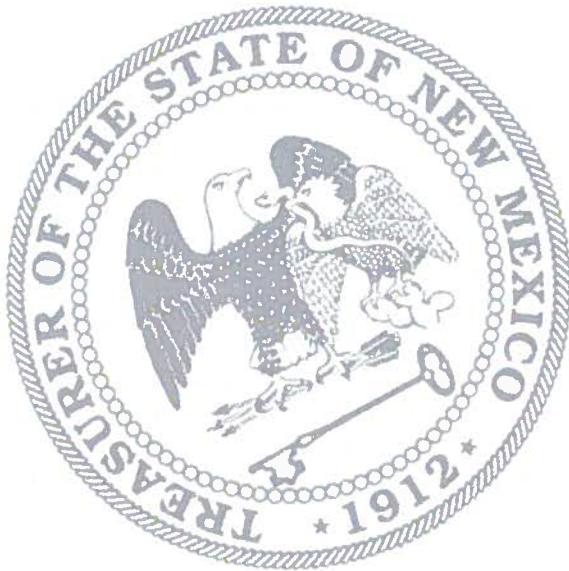
February 13th, 2013

State Treasurer's Investment Council
Monthly Investment Report

December 2012

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1. February 13 , 2013 Agenda



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STATE TREASURER'S INVESTMENT COMMITTEE
Treasurer's Conference Room
Wednesday, February 13, 2013, 9:00 a.m.

MEETING AGENDA (5 Min)

Roll Call

Introduction of Guests and Presenters

1. Approval of February 13, 2013 Agenda
2. Approval of January 9, 2013 Minutes

Action

Action

INVESTMENT REPORTS (30 min)

Month Ended

December 31, 2012

3. Executive Summary
4. Investment Policy Compliance Report
5. Davidson's- December 2012 Quarterly Investment Report
6. Portfolio Summary – General Fund and Cash Projection
7. Portfolio Summary -- Local Government Investment Pool (LGIP)
8. Portfolio Summary -- Tax-Exempt Bond Proceeds Investment Pool
9. Portfolio Summary -- Taxable Bond Proceeds Investment Pool
10. Portfolio Summary -- Severance Tax Bonding Fund
11. Broker Dealer Activities

Informational

Informational

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**CASH MANAGEMENT
& COLLATERAL REPORTS (10 Min)**

Month Ended

December 31, 2012

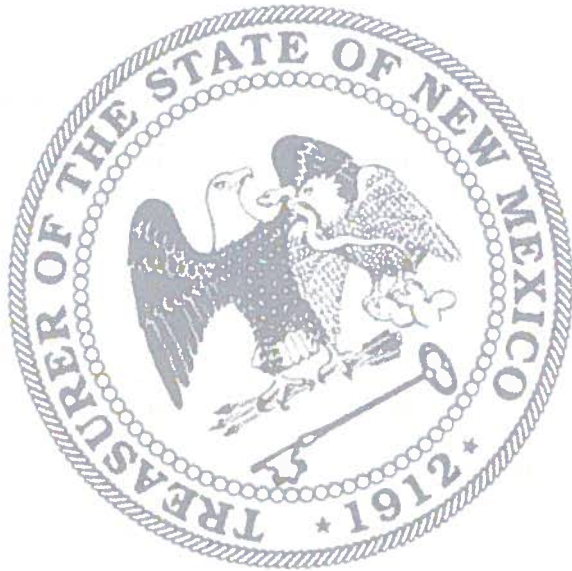
12. State Agency Deposit Balances
13. Collateral Report on Agency Deposits & CDs

Informational

Informational

COMMITTEE REPORTS (10 min)

14. 1/9/13 STIC discussion updates
15. Delinquent Interest Payment
16. Annual Report & Audit update
17. Legislative update
18. Question Period
19. Next Meeting –Wednesday, March 13, 2013, 9:00 am
20. Adjournment



2. January 9, 2013 Minutes

New Mexico State Treasurer's Office

STIC Committee Meeting

Meeting Minutes

Wednesday, January 9, 2013

ROLL CALL – QUORUM PRESENT:

A regular meeting of the New Mexico State Treasurer's Investment Committee (STIC) was called to order this date at 9:02 a.m. in the conference room of the State Treasurer's Office, 2055 South Pacheco Street, Santa Fe, New Mexico 87505.

Members present:

Honorable James B. Lewis, State Treasurer
Ms. Linda Roseborough, Chair
Ms. Stephanie Schardin Clarke, Board of Finance Director
Mr. Paul Boushelle, Public Member
Mr. Paul Cassidy, Public Member (via Phone)

Staff Present:

Mr. Spencer Wright, Portfolio Manager (PM)
Ms. Vikki Hanges, Portfolio Manager (PM)
Mr. Sam Collins, State Cash Manager
Mr. Arsenio Garduño, Collateral Manager
Ms. Cindy Cordova, General Counsel
Ms. Hannah Chavez, STIC Secretary
Mr. Henrich Edimo, Compliance Officer

Guests Present:

Ms. Deanne Woodring, Davidson Fixed Income Management (via Phone)
Peter van Moorsel, Legislation Finance Committee
Steven Ezzes, Mariner Group Capital Markets

1. Approval of Agenda:

Mr. Boushelle moved approval January 9, 2013 agenda. Ms. Clarke seconded the motion, which passed unanimously by voice vote.

2. Approval of Minutes: December 12, 2012 Minutes

Mr. Cassidy moved approval of the December 12, 2012 minutes. Mr. Boushelle seconded the motion, which passed unanimously by voice vote.

3. Executive Summary, Mr. Wright:

The STIC executive summary report content was presented in its entirety.

Mr. Wright commented that President Obama was currently in the process of choosing the next US Treasury Secretary, and his current chief of staff is under considerations. The current Secretary, Timothy Geithner, will step down from his post. Mr. Wright said the current plan for the foreseeable future with these choppy markets is to continue with status quo, let duration come in naturally and invest available money on a shorter basis instead of a longer basis with the expectation that rates will

rise probably in 2014. The right place for us to be would be to position ourselves to invest into a rising rate market.

Mr. Boushelle asked Mr. Wright about his comment on the implications of the low rates. In 2014 will the rates be lower with what has been discussed and will they get worse? Mr. Wright answered it's hard to say that the rates are going to be lower than they are now. Mr. Wright continued to explain that at the beginning of December the Fed announced they will continue to extend some type of easing by purchasing additional treasury securities and continue to purchase mortgage securities. What is different this time is that the Fed did not give a time frame for how long this process will be extended. However, the Fed mentioned they will continue the extension until unemployment rates come down to 6.5% or until GDP growth improves; but not without the Fed's minutes showing some dissension among its members. Rates have dropped dramatically and we have seen short-term rates at the lowest level now since the last few years. Currently, we are purchasing overnight repo at 10 basis points or less. With the expiration of the TAG program and the assets coming in, a good topic of discussion would be at what point of time STO considers not investing in repo. Now STO is purchasing daily repo and securities while not earning anything. An alternative could be to increase the deposit at Wells Fargo. As for the rates dropping lower, they cannot decrease much further. By letting the duration come in and by reinvesting in the shorter end, we can try to acknowledge that our strategy in investing long has paid off. Unfortunately, the earnings will continue to be low for the foreseeable future until rates tick up.

Mr. Cassidy stated the municipal interest rates in the long-term part of the curve have increased about 35 basis points since bottoming in late November. Rates had declined about the same amount from the November 2012 elections until late November and continued to fall through mid-December. Mr. Cassidy stated that he continues to monitor rates and the 10 year treasury has increased about 20 basis points since the low point. By Mr. Wright commenting that people are not committing to long-term money, they are actually purchasing short-term money or stocks, noting that long-term rates have not affected us. Mr. Wright confirmed.

Ms. Hanges added additional clarification regarding the TAG program along with the rates on the yield curve at one, two, five, and thirty years. Ms. Hanges reminded the committee about the proposed temporary investment policy change for LGIP repo collateral; recommending to extend from under one year to a longer allowable term of over one year that was recommended during the last STIC meeting. Ms. Hanges said that the one year interest rates are not looking good but out longer is where there is an effect that makes a difference. According the FOMC minutes, 2013 would be the end of the QE program instead of the indeterminate length of time. The effect is on the thirty year rates where they were doing most of the buying and targeting to get rates down. The curve is steepening.

4. Investment Policy Compliance Report, Mr. Wright:

Highlights of the STIC investment policy compliance report content were presented.

5. General Fund and Cash Position, Mr. Wright:

Highlights of the STIC general fund and cash projection report content were presented.

- 120% of Benchmark duration; intentionally long.
- Focus on Agency and Treasury paper where it makes sense.

6. LGIP, Ms. Hanges:

Highlights of the STIC LGIP report content were presented.

- Portfolio highly vulnerable to lower rates.
- Mentioned the staff recommendation regarding repo collateral.
- Maxed out at WAM(R), currently limited investment opportunities.

Ms. Roseborough addressed the committee regarding a memo that was presented for consideration to this committee to allow the LGIP portfolio manager to use longer collateral on the portfolio. It was her understanding that STO could come to this committee for approval and then obtain approval from the State Board of Finance on a monthly basis until the full investment policy re-write could be presented to the State Board of Finance for review and consent. Ms. Roseborough mentioned that upon review by STO's general counsel, this committee has an advisory role, but does not have approval authority. Ms. Roseborough mentioned that staff was addressing member Cassidy's questions regarding the internal infrastructure as to how the longer collateral would be managed. Ms. Roseborough mentioned that the collateral manager is in the process of adding additional comments to the memo and that when finalized, the memo would be given to the committee for review prior to submitting for review and consent to the Board of Finance.

Ms. Clarke suggested asking general counsel what the investment policy allows. Ms. Cordova replied that the investment policy is based upon the statutes. Statutes require that the investments are under advice and consent by the Board of Finance. Her understanding is that this particular committee is advisory only. Ms. Cordova does not believe it requires a full re-write of the investment policy but rather would only require an amendment to the policy, such as a letter to the Board of Finance; such as if you had a contract, you could do an amendment to that contract until you can do a full rewrite of the policy. Ms. Clarke then questioned if the investment policy in Ms. Cordova's opinion allow this type of longer-term collateral. Ms. Cordova answered she believes it does not.

Ms. Hanges reminded the committee of the exceptions in the investment policy that do state that the LGIP can only take collateral that has less than 397 days to maturity. Ms. Hanges also mentioned that S&P's write-up for an AAAM fund does not have any restrictions on longer maturity collateral in the LGIP nor do the other STO portfolios and the overnight CD investments. She also stated there would be no changes in the current process since investments in the portfolio like bank deposits that are for overnight have mortgage collateral backing if they are longer than a year.

Ms. Clarke stated it sounds that the investment policy restricts collateral to 397 days, so allowing more than that would require State Board of Finance approval, even for a simple change in the investment policy. It would be up to the Treasurer's Office to decide whether to bring that simple change on its own to the board or if they wait until a larger change is ready. Ms. Clarke said she does not think that the committee necessarily has the authority to okay the use of longer-term collateral without it being allowed in the investment policy. And she does not think that bringing a memo with this information to the board would be sufficient.

Ms. Hanges asked the committee if there were any objections or additional questions.

Ms. Roseborough asked Ms. Hanges to remind the board of the difference in yield pickup which is possible. Ms. Hanges replied that the current day repo was nine basis points and 14 basis points for

mortgage in which they both have come down quite a bit. However, it gives an outlet to at least put the cash somewhere we have diversification restrictions. Last year the difference varied as widely as 10 to 15 basis points.

Ms. Roseborough reminded the committee that as an advisory committee our objectives with the investment policy are to preserve principal, maintain liquidity and thirdly, go for the return yield. So as advisors is that enough yield pickup to warrant a change, is that something that would be considered chasing yield? We want to be in compliance and consistent but would like to be opportunistic if allowable.

Discussion was held between Ms. Clarke and Ms. Hanges referencing the increase percentage of collateral from 100% to 102%. Ms. Hanges confirmed that we are currently taking 102% on treasuries and mentioned that the way it is written in the investment policy right now for the other STO funds is that with a duration below 10 years would require 102%, duration above 10 years would require 103%; but duration is not really the right word; it should say maturity. Ms. Clarke asked the staff if they felt that the additional 1% collateral in 10 years is sufficient to offset the potential illiquidity if there was an event and the office would have to receive the collateral. Ms. Hanges affirmed that if an event happens the collateral would have to be sold immediately. She included that what generally happens when a default takes place in the market, treasuries and agencies tighten up, and yields generally decline because there is a flight to quality, so the collateral is potentially worth more.

Mr. Cassidy questioned if the collateral is marked-to-market daily and if term repos are being purchased. Ms. Hanges replied yes, and that generally speaking STO only purchases overnight repo, but she did do a one month repo purchase in the LGIP at the end of the year, confirming that the investment policy allows for a maximum of 30 days. With regard to term repos, Mr. Cassidy asked if the collateral would be valued daily. Ms. Hanges mentioned that the collateral would be marked to market on the day the trade is put on and then next day when the trade matures the collateral is sent back and you get your cash back. Mr. Cassidy inquired if the longer term repo collateral would be valued daily, and Ms. Hanges affirmed.

Ms. Clarke commented that a redlined version of the investment policy would be appropriate to bring to the State Board of Finance for approval.

Mr. Wright reminded the committee that within the past couple of years that there is a precedent (though he was not sure if the precedent is correct) where STO did temporarily increase the amount of callable securities the portfolio could own with a vote which was brought back to the STIC on a monthly basis to authorize the exception; and she believed that the exception was reported up to the Board of Finance.

Ms. Clarke commented that Mr. Wright was correct as there was an action item for several months at the STIC committee; but her understanding was that STO's counsel had looked at it at the time and found that the STIC committee was allowed in the investment policy the authority to approve that kind of exception; and that is why she asked the question of STO's counsel because if not, then it was probably was not the correct precedent to set.

Mr. Cassidy stated that a compliance exception will need to be pointed out on a monthly basis as it would not be authorized by statute or the investment policy if the collateral practice changes before a revised Investment Policy can be approved by the State Board of Finance.

Mr. Cassidy stated that these continue to be extra-ordinary times in terms of trying to manage funds especially like the LGIP; a short-duration fund; and if legally possible to approve longer collateral to improve investment yield we should proceed. Ms. Clarke commented that she is comfortable moving

in this direction as well with the understanding that STO submits the red-lined version of the investment policy to the Board of Finance for their approval prior to proceeding.

Mr. Lewis asked the committee if they are recommending that this is a recommendation to the Board of Finance from the STIC committee; the committee agreed.

Discussion was held with the committee concerning the low rate environment and the challenges of managing the LGIP. Mr. Cassidy stated that it seems the Treasurer's office needs to be concerned with the continued low yield environment and communities with continuing to pull out their invested funds and asked if the Treasurer's office is going to be looking into a longer duration fund with the intent of the treasurer to have an alternative. Discussion was held around the topic about whether the Treasurer's office is prepared for a zero percent return environment and whether subsidization of the LGIP might be necessary or possible.

Mr. Lewis replied that the in-house staff will be looking at doing an assessment on the LGIP as its original intent was to be an overnight liquidity pool; but has since become an investment option. We need to look at where are we today and where do we want to go in the future; and come up with a contingency plan. Ms. Roseborough reminded the committee by statute the state treasurer does have the option to create a longer duration fund. Mr. Lewis responded that in-house staff will review and we will accept any suggestions or comments from the committee.

Mr. Boushelle recommended that STO follow through with this suggestion.

Mr. Cassidy confirmed that despite what happens to the liquidity pool, there is still a need for a longer duration fund.

Ms. Woodring agreed. The LGIP has been used as a liquidity fund during the past few years. As for the longer term pool, by doing an analysis it will take more funding to support the pool and will accrue additional reporting, the key factor would be to balance the cost for the treasurer's office.

Mr. Lewis replied with the comments from the committee we would need to see if a longer-term fund would be functional and focus what the pool should be doing.

7. Tax-Exempt BPIP, Ms. Hanges:

Highlights of the STIC tax-exempt BPIP report content were presented.

Mr. Boushelle questioned if the overnight is for capital projects, why wouldn't investments go out further. Mr. Boushelle commented capital projects do not happen overnight. Is there a time frame that allows investing for at least 30 days out?

Ms. Hanges replied that up until today, rates on the repo were unbeatable. However there has not been a way to predict cash flows on a monthly basis.

Ms. Clarke stated that the Board of Finance processes draws twice a month from the BPIP's. In the past, the Treasurer's staff has worked on relationships with people at the agencies that make the largest draws. More recently, Financial Control has been stern with the agencies to require them to make draws timelier.

Ms. Hanges inquired as to the estimated property tax contributions and debt service and Ms. Clarke indicated that she would share the data to project the monthly property tax contributions, as they are very cyclical.

Mr. Cassidy asked the Treasurer if staff could look at what it would take to allow the communities to opt into the Tax-Exempt and Taxable bond proceeds investment pools with the thought that it would be well received by the local governments.

Mr. Wright stated that this would be a perfect place for communities if STO was able to open up a longer duration LGIP; this would be a perfect place for capital funds where they are invested on a slightly longer basis. We have the ability to provide the accounting that each of the communities would need for arbitrage purposes and for tracking bond proceeds.

Treasurer Lewis indicated that staff would review and analyze the pros and cons and will get back with recommendations to the STIC committee. Treasurer Lewis said he welcomes recommendations from this committee.

Mr. Wright indicated that statutorily it may be problematic to co-mingle local government bond proceeds with the state's capital funds; although we may be able to handle from a record keeping standpoint keeping those balances separate.

Treasurer Lewis recommended that we vet these ideas both operationally and legally and come back to this committee with recommendations.

Ms. Woodring confirmed that this would be a good approach with STOs current infrastructure; this could be a viable recommendation. Reporting is what she most worries about with the NAV fund.

Mr. Wright provided another idea in having the LGIP2 as a participant in the BPIPs where it is segregated out and reported on its own.

8. Taxable BPIP, Ms. Hanges:

Highlights of the STIC taxable BPIP report content were presented.

9. Severance Tax Bonding Fund, Mr. Wright:

Highlights of the STIC severance tax bonding fund report content were presented.

10. Broker Dealer Activities, Mr. Wright:

The STIC broker dealer activities report content was presented in its entirety.

Ms. Roseborough informed the committee that STO will be creating a calendar of events for 2013. A proposed timeline for the broker dealer selection process and other investment-related goals to this committee will be presented shortly.

11. State Agency Deposit Balances, Mr. Collins:

The STIC state agency deposit balance report content was presented in its entirety.

Treasurer Lewis asked if there has been any progress on the non-state funds accounts with the judiciary. Mr. Collins replied there has not been much progress there but that there have been quite a few courts opening accounts with the fiscal agent bank which has helped. The remediation project has put this project on hold since the business processes will change. They are all in a state of flux.

12. Collateral Report on Agency Deposits & CD, Mr. Garduño:

The STIC collateral report content was presented in its entirety.

Ms. Clarke asked Mr. Garduño if there was a concern with Los Alamos National bank's pledging at only 75%, as according to recent news articles they are being monitored. Mr. Garduño replied the current balance held at Los Alamos National Bank is \$15,000 which is covered by FDIC. As far as exposure nothing will be seen until the next quarterly report.

Ms. Woodring informed the committee with notification of disclosure as investment advisor that her sister, Joyce Woodring works at US Bank. US Bank changed the coverage in the State of New Mexico for public entities, which was previously covered from Denver, to her sister's office in Portland. A disclosure was sent to Ms. Roseborough indicating her services are completely separate from those services.

Mr. Lewis asked Mr. Garduño if he was still visiting banks or having an opportunity to do so. Mr. Garduño replied he has not had the opportunity lately and will continue to do so in the near future.

13. Question Period:

Mr. Lewis updated the committee that Marilyn Hill, the new deputy treasurer, started on Monday, January 7, 2013.

Mr. Lewis introduced Mr. Henrich Edimo as the new Compliance Officer for the STO. Mr. Edimo has work experience with Taxation and Revenue and was currently working at the Treasurer's office with CMIA audits in the Cash Management division.

The Treasurer's Annual Report should be coming out on Friday and we will provide a copy to the members of this committee once available. The audit is still pending with the state auditor. But as soon as possible, STO will let the Board of Finance know and the Board's audit committee will schedule a review of the audit. STO will make sure to provide an update to the STIC members as STO has no control as to when the state auditor will release our audit. Then there is a waiting period before it becomes public.

Mr. Roseborough announced Peter van Moorsel as the new LFC analyst for STO. The agency's budget hearing will be February 1, 2013 at 1:30 p. m.

The Legislative Session will begin Tuesday, January 15, 2013 with the Governor presenting the State of the State address. Dominic Chavez will be coordinating the FIRs that come into the office. IPOC endorsed STO's bill, SB24, and Senator Munoz will be the sponsor. Ms. Roseborough and Mr. Wright will be working with Senator Munoz on talking points.

14. Next Meeting: Wednesday, February 13, 2013 at 9:00 a.m. at the State Treasurer's Office.

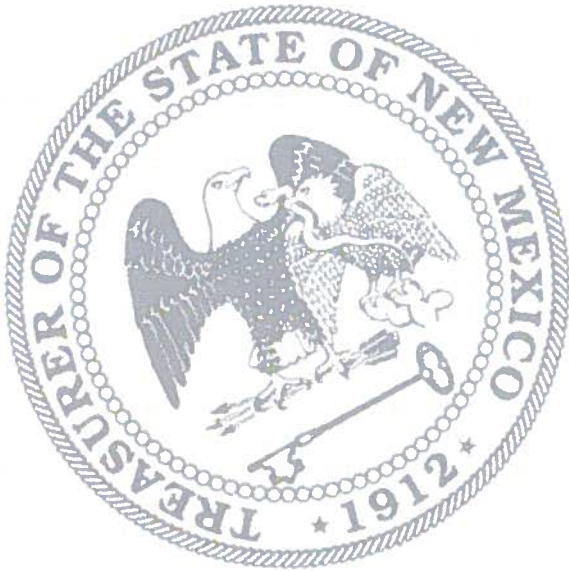
Ms. Roseborough noted the date and time of next meeting.

15. Adjournment

Ms. Roseborough adjourned the meeting at 10:11 a.m.

Minutes were taken by Ms. Hannah Chavez on January 9, 2013.

Minutes approved by Ms. Roseborough on January 27, 2013.



3. Executive Summary

Executive Summary

- Rate pressures continued during the months of December and January.
- The Federal Reserve continued its monthly purchases of securities of \$85 billion.
- Minutes of the December FOMC meeting showed some concern regarding the effectiveness of the bond purchase program and some members expressed concern that the program should be discontinued earlier than earlier forecasted.
- These comments were met with some concern and the market backed up substantially then corrected over time.
- The focus of the market was on the extension of tax rates and the impending debt ceiling issue. In addition, sequestration agreed to in the last round of debt ceiling negotiations were delayed until March 1st.
- The economy continued to be buffeted by the legislative activities.
- The market was encouraged by movement toward resolution, but the inflationary effects push bond yields higher.

US Treasury Yields

<u>Maturity</u>	<u>Nov 30th</u>	<u>Dec 31st</u>
3-Month	0.08%	0.05%
6-Month	0.12%	0.12%
2-Year	0.25%	0.25%
5-Year	0.62%	0.72%
10-Year	1.61%	1.76%
30-Year	2.81%	2.95%

Source: Bloomberg LP

Portfolio Mark-to-Market

With the overall decline in yields, the STO-managed portfolios¹ all reported positive results on a mark-to-market basis at the end of December.

December's markets placed continued pressure on the longer end of the curve.

For each of the STO portfolios:

<u>Fund</u>	<u>Unrealized Gains²</u>
General Funds	\$10.0 million.
Bond Proceeds Funds	\$3.9 million.
Local Government Investment Pool	Not Material
Severance Tax Bonding Fund	Not Material

¹ This report does not include balances in or earnings on the Reserve Contingency Fund ("RCF"). The RCF was created in 2009 by the State Treasurer's Office as a vehicle to hold Reserve Primary Fund ("Primary Fund") assets of various LGIP participants after the Reserve Primary Fund encountered difficulties in the latter part of 2008 and entered into a process of liquidation.

² Calculated Unrealized Gains represent the market "value" of the portfolios as compared to their accounting book value. As such, they approximate the values if they were to be liquidated on the day that the calculation was performed. Market conditions change on a daily basis and the resulting calculations will also change with market movements.

Change in Mark-to Market

The unrealized market values of the portfolios decreased over the month of December. This was due to two main factors -- interest rate changes and portfolio trades during the month.

On a Portfolio by Portfolio basis, these changes in unrealized value were:

<u>Fund</u>	<u>Monthly Change in Unrealized Gains/Losses³</u>
General Funds	(\$2.4 million)
Bond Proceeds Funds	(\$0.4 million)
Local Government Investment Pool	Not Material
Severance Tax Bonding Fund	Not Material

Portfolio Yields

As of the end of December, the portfolios had the following weighted average purchase yields:

<u>Fund</u>	<u>Portfolio Yield⁴</u>
General Fund Liquidity	0.63%
General Fund CORE	0.79%
Bond Proceeds - Tax Exempt	0.65%
Bond Proceeds - Taxable	0.70%
Local Government Investment Pool	0.20%
Severance Tax Bonding Fund	0.55%

Investment Earnings

Investment earnings for December are summarized in the table below. Declines in interest rates have adversely affected annual earnings amounts.

For each of the portfolios:

<u>Fund</u>	<u>Investment Earnings⁵</u>	
	<u>MTD</u>	<u>YTD</u>
General Funds	\$1,252,822	\$7,428,483
Bond Proceeds Funds	518,249	3,884,116
LGIP	101,095	715,553
Severance Tax Bonding	43,792	147,605

³Unaudited. Mark-to-market values are calculated using the QED system and weekly securities pricing from IDC. Market values are compared to carrying values which are adjusted for amortization/accretion of premium/discount. Securities, such as Certificates of Deposits, for which there is no quoted market price are carried at cost basis (amortized).

⁴ Portfolio yields are calculated at a moment in time, specifically at month end. Each of these funds has considerable inflows and outflows during the month. As such, purchase yields during the month will vary with money flows and short-term investment rates.

⁵ Each fund is managed using different objectives, as more fully detailed in this report. As such, returns and earnings on the funds will vary on a month to month basis.

Compensating Balances at Fiscal Agent Bank

During December, STO maintained Average Daily Collected Balances at the Fiscal Agent Bank of approximately \$130 million. This balance earned a "soft-dollar" credit against processing fees assessed by the bank.

In December, the CIO, in conjunction with the State Cash Manager targeted an overnight balance target of \$125MM at the fiscal agent bank. Maintenance of higher cash balances at the fiscal agent will decrease general fund returns.

Fiscal Agent Bank Summary:

Average Collected Balance	\$130,367,293
Earnings Credit Rate	0.50%
Estimated Monthly Earnings	\$54,319
Estimated Fiscal Year Earnings	\$183,147

Monthly Investment Outlook

December and January were marked by continued paralysis in the markets as market participants attempted to understand and project the impact of legislative maneuvering on the future direction of the economy. Unfortunately, the impact of sequestration (agreed to during the last round of debt-ceiling negotiations) was delayed for two months.

Tax rates on the wealthiest Americans were increased while the tax rates were mitigated for most taxpayers.

Quarterly Investment Review

On a net basis, interest rates over our area of the yield curve changed little. In the short end of the market, less than a year in maturity, rates were lower by several basis points. In the five year area, rates were cheaper by 10 basis points, reflecting continued concern regarding fiscal matters.

General Funds

The overall size of the general fund remained fairly static, at approximately \$1.8 billion. We have maintained approximately 70% of the fund in the CORE sector and 30% in liquid balances. Liquidity remains invested in short-term securities and we have increased balances held at the Fiscal Agent Bank. Repo rates have continued to remain low and we expect that they will continue to remain under pressure, especially with the expiration of the TAG program.

With regard to CORE Funds, we continue to be somewhat long (120%) duration relative to our benchmark. The curve remains steep and we believe that rates will remain low through the next several quarters. On a relative basis, we have outperformed the benchmarks through the use of agency securities, duration and realization of profits within the portfolios.

Over time, the risk that overall rates will rise has increased. Therefore, we will let the durations come in naturally and not position the portfolio for additional declines.

Bond Proceeds Funds

Bond Proceeds funds were spent on capital projects as well as debt service to be paid on January 1, 2013. Approximately \$68MM was deposited into the Taxable BPIP with the issuance of Taxable Notes at the end of the quarter.

Bond Proceeds have been invested to match the duration of the benchmark. The yield curve in the short end is so flat, that aggressive extension does not yield much additional income for the portfolios.

Local Government Investment Pool

The Local Government Investment Pool saw net redemptions during the quarter. The LGIP has been an excellent relative performer, however the overall yield has been significantly low due to the Fed easing.

We expect that the fund will continue to remain under pressure while yields are less than 25 basis points. With the continued pressure on bank balance sheets, we would assume that local banks may force participants to look elsewhere with deposits. In addition, we have seen increased interest in brokered CDs from local treasurers as they search for higher yielding alternatives.

Severance Tax Bonding Fund

The Severance Tax Bonding Fund has been invested in the LGIP as well as overnight repurchase agreements. With the liquidity needs of the fund, we expect that will continue to be the outlook, however we may be able to add commercial paper and other short-term investments should conditions warrant.

Implications for the Foreseeable Future

Unfortunately, current economic conditions portend low rates for the near term future – at least through the end of 2013.

Unclear outlooks on fiscal and tax policy does little to reassure the markets and as such, they have continued to grind lower.

We continue to try and add value where/when it becomes available, through selective credit additions as well as active duration management.

*Spencer Wright, Portfolio Manager –
General Funds and STBF*

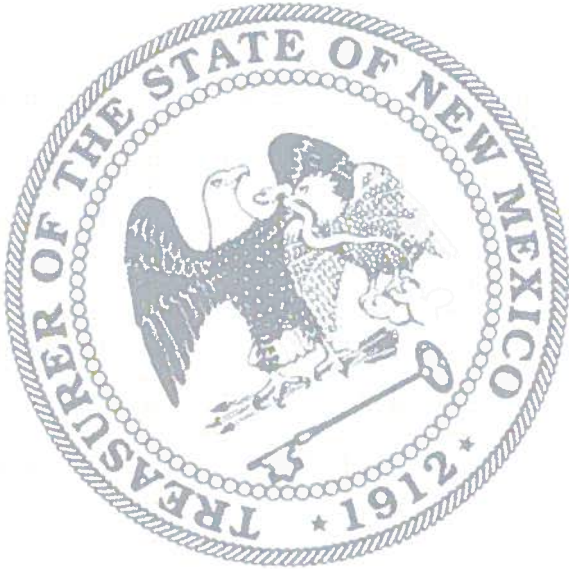
New Mexico State Treasurer
Monthly Fund Summary Report
(Unaudited)

As of December 31, 2012

General Fund	Holdings			Performance				Earnings	
	Cost Basis	Market Value	Unrealized Gain/Loss	12-Month Total Return	Benchmark	Index Return	Relative Performance	Monthly Earnings	YTD Earnings
Liquidity	\$ 549,759,472	\$ 549,738,672	\$ (20,800)	0.27%	S&P LGIP	0.06%	0.21%	\$ 75,187	\$ 532,159
CORE	1,312,250,052	1,322,319,041	10,068,989	1.38%	ML Treasury 0-5	0.75%	0.63%	1,177,636	\$ 6,896,323
TRAN	-	-	-	0.00%	All-In Tran TIC	0.00%	0.00%	-	-
Totals	\$ 1,862,009,524	\$ 1,872,057,713	\$ 10,048,189	1.05%	Blended	0.55%	0.51%	\$ 1,252,822	\$ 7,428,483
Bond Proceeds Investment Pool (BPIP)									
	Cost Basis	Market Value	Unrealized Gain/Loss	12-Month Total Return	Benchmark	Index Return	Relative Performance	Monthly Earnings	YTD Earnings
Tax-Exempt	\$ 331,257,187	\$ 332,491,255	\$ 1,234,068	0.72%	ML Treasury 0-3	0.35%	0.37%	\$ 179,982	\$ 1,287,331
Taxable	597,006,663	599,758,444	2,751,781	0.86%	ML Treasury 0-3	0.35%	0.51%	338,267	2,596,785
Totals	\$ 928,263,850	\$ 932,249,699	\$ 3,985,849	0.81%	Blended	0.35%	0.46%	\$ 518,249	\$ 3,884,116
Local Government Investment Pool (New MexiGrow LGIP)									
	Cost Basis	Market Value	Unrealized Gain/Loss	12-Month Total Return	Benchmark	Index Return	Relative Performance	Monthly Earnings	YTD Earnings
LGIP	\$ 562,912,286	\$ 562,986,399	\$ 74,113	0.23%	S&P LGIP	0.06%	0.17%	\$ 101,095	\$ 715,553
Severance Tax Bonding Fund									
	Cost Basis	Market Value	Unrealized Gain/Loss	12-Month Total Return	Benchmark	Index Return	Relative Performance	Monthly Earnings	YTD Earnings
STBF	\$ 125,145,608	\$ 125,145,608	\$ -	0.23%	S&P LGIP	0.06%	0.17%	\$ 43,792	\$ 147,605

Notes:

- (1) These figures are generated using a combination of accrued earnings and unrealized gains. They are unaudited and may be subject to revision.
- (2) Account balances fluctuate during the month. Holdings are calculated on combined balances at month-end and performance also includes fund flows during the month.
- (3) Source: STO Records, QED Financial Systems, JPMorgan Custody Reporting



4. Investment Policy Compliance Report

Investment Policy Compliance Review

Primary and Secondary Bond Purchases/ Sales

During the month of December, the following were the ratio of primary and secondary bond transactions in the portfolios:

Primary Bond Volume	\$ 104,765,000	35%
Secondary Bond Volume	<u>194,500,000</u>	<u>65%</u>
Total	\$299,265,000	100%

Commissions Paid

As counterparty, the state transacts in purchase or sale sizes sufficient to achieve competitive results in the bidding or offering process. Implied in the market-clearing prices that we are offered is some form of dealer markup.

With regard to specific transactions, we process the bulk of our trades using an electronic trading platform. As such, we understand, and document, the market at the time of transaction. These trade terms are held as a part of our trade documentation as approved by STIC.

Variable Rate and Structured Note Holdings

At the end of December, total holdings of Variable Rate Notes were \$98,950,000.

General Fund Liquidity	\$ 20,000,000
LGIP	<u>100,500,000</u>
Total Holdings	\$120,500,000

The Variable Rate positions are primarily in US Government Agency securities.

We did not hold any structured notes during the month of December.

Transaction Variances and Inter-Portfolio Transactions

During December, there were no transaction variances which posed compliance issues. All trade information was entered correctly in our internal systems and in the systems used by our custody bank. All transactions for the month settled successfully. There were no price discrepancies.

There were no inter-portfolio trades during the month.

There were several instances of inter-fund borrowing of cash balances between portfolios. STO personnel are working to develop procedures regarding inter-fund borrowing and ensure that such borrowing between accounts is minimized and well documented.

Investment Policy Compliance

Cash Balances at the Custody Bank

During December, we had several incidences where we left balances at the Custody Bank or overdraw custody accounts. The daily amounts of overdrafts and deposits are generally unintentional and related to arithmetic errors or rounding. Balances are generally less than \$10/account/day.

However, on one instance in December, securities purchases were in excess of cash balances by \$290MM. This overdraft was due to a calculation error. Once the discrepancy was identified, the overdraft was addressed on the next business day.

We continue to refine our overnight investment process to address balances inadvertently left with the Custody Bank.

Employee Code of Conduct

STO employees are required to adhere to a code of conduct and are annually required to make certain disclosures to the Treasurer's Office. In the case of employees charged with the management of state funds, additional disclosure is required. The required disclosures are to be made in January of each year.

All employees have been made aware of the policy and those employees who are required to make any additional disclosure have done so.

Statutory Compliance

Investments Made by STO in the LGIP

During the statutory review and proposal for proposed legislation, STO staff became aware that certain monies invested by STO in the LGIP were not expressly allowed under a strict reading and interpretation of the provisions of §§ 6-10-1.F⁷ and 6-10-10.1.L⁸ (NMSA, 1978).

Due to inconsistencies within the statutes, monies invested under §6-10-10.N.3⁹ may be considered to have limitations placed upon them by these alternative statutory references. Legislation introduced by STO seeks to address these inconsistencies.

In order to follow the narrowest interpretations of the statute, STO personnel have liquidated holdings in the LGIP which are held by the Severance Tax Bonding Fund.

Municipal Bond Holdings in the General Fund

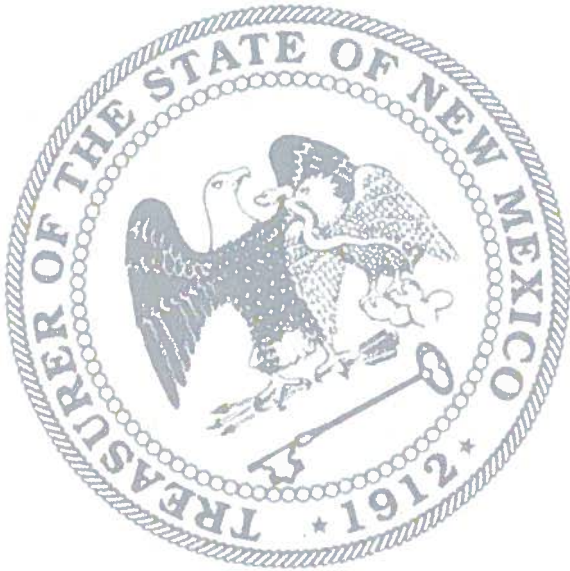
At the end of December, municipal holdings of \$22.8 million were held in the general fund.

All general fund municipal holdings are consistent with current state statutes. Legislation has been introduced by STO to address the statutory inconsistency between investments made by the Bond Proceeds Pools and the General Fund.

⁷ §6-10-1.F ""participating government" means an eligible governing body or the state treasurer *on behalf of the general fund* that has invested money in the participating government investment fund." (Emphasis Added)(NMSA 1978)

⁸ §6-10-10.1.L "Deposits made by the state treasurer *on behalf of the general fund and bond proceeds investment pools* shall not exceed, thirty five percent of the total amount in the participating government investment fund at any time." (Emphasis Added)(NMSA 1978)

⁹ §6-10-10.N(3) "[The state treasurer, with the advice and consent of the state board of finance, may also invest in...] the participating government investment pool managed by the office of the state treasurer. Investments made pursuant to this paragraph *shall be less than five percent of the total assets* of the participating government investment fund." (Emphasis Added)(NMSA 1978)



5. Davidson's- December 2012 Quarterly Investment Report



**STATE OF NEW MEXICO
QUARTERLY STIC REPORT
DECEMBER 2012**

Davidson Fixed Income Management, Inc.
Deanne Woodring, CFA, Managing Director
(866) 999-2374 dwoodring@dadco.com

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- **Executive Summary**
- **Portfolio Summaries**
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 - **Allocation**
- **Market Overview**
- **Consideration of Purchasing Commercial Paper Direct From Issuers**
- **Update on FSOC considerations**
- **Economic Report**

Executive Summary

- ❖ Overall STO Fund balances have increased
- ❖ LGIP earnings rate will be impacted by pressure on overnight funding rates
- ❖ Durations in all funds are neutral to long the targeted benchmarks
- ❖ Performance in all funds outperformed targeted benchmarks, primarily due to duration
- ❖ Managers are pursuing investment alternatives to add earnings
- ❖ Reconciliation process for daily trade settlement and cash balances is under review

Performance for Quarter

PERFORMANCE REPORT

Portfolio Name	Market Value	Beginning 12/31/2012	Total Return 9/30/12-12/31/12	1 Year 12/31/11-12/31/12
		Duration - End	Quarter Return	1 Year Return
LGIP * Gross Yield	\$ 562,988,910.00	0.15	0.040%	0.23%
Fund Benchmark Gross Yield		0.12	0.040%	0.16%
LGIP Net Yield		0.15	0.035%	0.19%
Fund Benchamrk Net Yield		0.12	0.020%	0.06%

STO FUNDS

Portfolio Name	Market Value	12/31/2012	Total Return 9/30/12-12/31/12	1 Year 12/31/11-12/31/12	Percent
		Duration - End	Quarter Return	1 Year Return	
General Fund Liquidity	\$ 549,813,143.00	0.04	0.07%	0.27%	19.55%
Fund Benchmark		0.01	0.03%	0.06%	
General Fund Core	\$ 1,327,596,053.00	2.73	0.13%	1.04%	47.20%
Fund Benchmark		2.26	0.05%	0.75%	
BPIP Tax Exempt	\$ 333,634,860.00	1.42	0.12%	0.72%	11.86%
Fund Benchmark		1.44	0.06%	0.35%	
BPIP Taxable	\$ 601,718,465.00	1.40	0.08%	0.86%	21.39%
Fund Benchmark		1.44	0.06%	0.35%	
Total STO Investment Funds	\$ 2,812,762,521.00	1.764	0.106%	0.813%	100.00%

* Data Source: JP Morgan Custodial Reports

Davidson Fixed Income Management, Inc.

Investment Allocation

ALLOCATION REPORT

Portfolio Name	Market Value+int	% Fund	Repo	Bank	Treasury	Agency	Corp/CP	Other
Total LGIP	\$ 562,988,910.00	100%	40.85%	19.54%	10.66%	24.98%	3.96%	
Liquidity	\$ 340,015,544.55	60%						
Investments	\$ 222,973,365.45	40%						

Portfolio Name	Market Value+Int	% Fund	Repo	CD/Other	Treasury	Agency	Corp/CP	LGIP	Muni
Total General Fund	\$ 1,877,409,196.00	100%							
Liquidity	\$ 549,813,143.00	29%	91.31%	5.06%		3.63%		0.00%	
Investment Core	\$ 1,327,596,053.00	71%	0.23%	1.33%	34.14%	63.12%	0.00%	0.000%	1.18%

Portfolio Name	Market Value	% Fund	Repo	CD/Other	Treasury	Agency	Corp/CP	LGIP	Muni
Total Tax Exempt	\$ 333,634,860.09	100%	22.75%	0.88%	20.13%	42.27%	4.50%	0.90%	8.57%
Liquidity	\$ 81,920,620.00	25%							
Investments	\$ 251,714,240.09	75%							

Portfolio Name	Market Value	% Fund	Repo	CD/Other	Treasury	Agency	Corp/CP	LGIP	Muni
Total Taxable	\$ 601,718,464.97	100%	14.55%	0.46%	33.00%	47.05%	2.50%	0.22%	2.22%
Liquidity	\$ 107,118,934.61	18%							
Investments	\$ 494,599,530.36	82%							
TOTAL STO FUNDS	\$ 2,812,762,521.06								

* Data Source: JP Morgan Reports

Davidson Fixed Income Management, Inc.

Historically, pre-2008, we had been able to implement a somewhat predictable risk/return trade off in the bond market. When economic numbers or inflationary numbers came out, we would shorten or extend the duration of portfolios. In addition, the earnings rates were consistently above 2.5% to 3%, with little variance in investment strategy in 5 year and under investments. It wasn't necessarily easy, but your strategy was not as transparent.

Today, how investments are allocated by maturity and asset allocation has a large effect on the performance of your investment portfolio. Keeping too much liquidity can end up being costly and adding higher risk securities creates a higher risk profile portfolio for a small amount of additional earnings. Holding the course and reinvesting into low yielding securities has paid off and has added earnings over overnight money for the last few years. Credit spreads are tight and we don't see a lot of value of increasing credit risk exposure, so DFIM remains focused on managing the duration of your portfolios and using the yield curve to maintain earnings as much as possible. Look to move durations to a more neutral position over the first half of 2013.

FED Speak for the Quarter:

FOMC announced QE4

“Outright Treasury purchases at \$45 billion per month were confirmed to replace expiring Operation Twist on Dec-31. FOMC surprised in announcing threshold policy targets of 6.5% for the unemployment rate and 2.5% on inflation forecasts one to two years out, and as long term inflation expectations remain anchored (will also consider other indicators).”

Fed On Labor

“For the quarterly outlook, our Q4 GDP growth forecast will remain at 1.5%, following the 3.1% pace in Q3. We saw a 1.5% growth clip for the hours-worked index in Q4 that follows a 1.0% Q3 clip.”

On the Economy

“The Fed made some clarifications, acknowledging the decline in the jobless rate, hurricane disruptions, demoting household spending back to ‘continued to advance’ from ‘advanced a bit more quickly,’ while switching emphasis on inflation to ‘running somewhat below’ target from ‘picked up somewhat’ previously.”

Fed Policy

“The January 2 FOMC minutes threw a wrench in market perceptions about the duration of the QE program after a white hot debate between hawks and doves on whether to do so ‘well before’ the end of 2013 or ‘closer to’ the end of the year. That sent rising long yields back toward the highs of 2012 to kick off the New Year.”

Source: Action Economics

Market Overview

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Economic Data

<u>Indicator</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 est</u>
Real GDP	0.40	-2.40	2.80	1.70	2.30	2.00
CPI (YOY)	3.85	-0.30	1.60	3.17	2.08	1.90
Unemployment	5.80	9.30	9.70	9.00	8.10	7.70

Interest Rate Data

<u>Maturity</u>	<u>2010</u> <u>Ending</u>	<u>2011</u> <u>Ending</u>	<u>2012</u> <u>Ending</u>	<u>Q1</u> <u>2013 est</u>	<u>Q2</u> <u>2013 est</u>	<u>Q3</u> <u>2013 est</u>	<u>Q4</u> <u>2013 est</u>
Fed Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2 Year	0.60	0.24	0.31	0.30	0.33	0.33	0.37
10 Year	3.33	1.92	1.76	1.84	1.96	2.10	2.27

STRATEGY :

- STO Portfolio Managers are investing the portfolios neutral to 120% long the benchmarks in anticipation of rates remaining low for the next six months to one year.
- Suggest continuing to balance investments across the yield curve.
- Continue to maintain low liquidity balances.

Changes in the Treasury Market:

	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>
3-month bill	0.13	0.01	0.04
2-year note	0.59	0.25	0.25
5-year note	2.00	0.87	0.72
10-year note	3.30	1.95	1.76

Source: Bloomberg

Consideration of Purchase from Direct Issuers

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Review of Direct Issuer Commercial Paper from Banks – Proprietary Product from Banks and Corporations

Overview: The dynamic of bank funding and corporate funding is changing as BASEL rules impact the collateral and cost of funding for banks. Bank Deposits and Repurchase Agreements are becoming more expensive and these institutions are looking to other types of investment vehicles to issue to provide for funding.

“Commercial paper is an unsecured promissory note issued by banks and corporations to raise capital and repay loans in a short time frame. Companies and banks issue commercial paper to investors because it is cheaper than borrowing money at a prime interest rate through a bank. Commercial paper is not governed by the Securities and Exchange Commission (SEC) so long as the notes mature, or are repaid, within 270 days of issuance.”

STO’s Situation: There is an opportunity to add yield through the purchase of Commercial paper, and potentially Bankers Acceptances, directly from issuers. These securities are allowable investments under Policy and NMSA. However, the approval of buying this product directly from the issuer is not addressed in the current policy. The direct issuers are not broker/dealers, but the corporations and banks themselves.

Specific Names in Question:

Wells Fargo, Rabobank and US Bank

Update on FSOC recommendations

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- ❖ The Financial Stability Oversight Council (FSOC), has extended the comment period on its MMF reform recommendations to 2/15/13.
- ❖ The SEC is in the wings waiting for the direction from FSOC to implement new regulations.
- ❖ The impact on public fund LGIPs is still not clear. LGIPs are not registered with the SEC and are exempt from SEC regulatory requirements because they fall under a governmental inclusion clause. “GFOA”
- ❖ Given the NM LGIP is rated by S&P, it is still uncertain the ramifications to the fund if the NAV requirement is implemented.
- ❖ STO should consider removing the 2a7-like wording from the investment policy.

Projects



- ❖ **Credit Review Process**
- ❖ **Direct Issuer Purchases**
- ❖ **Repurchase Dependent – Develop Strategies**
- ❖ **Investment Policy Update**
- ❖ **Reconciliation Procedures**

Disclosure Statement



**This report is provided for the purpose of assisting in the monitoring the performance and asset allocation of STO portfolios
The data is provided by JP Morgan and STO internal reports from QED.
The information contained herein has been obtained from, or is based upon, sources believed by us to be reliable but no representation
or warranty is made as to its accuracy or completeness.
Opinions expressed are solely those of DFIM and its employees.**

U.S. Economic and Fixed Income Market Review for Q4 2012

Prepared January 4, 2012

Dwelling on Fiscal Cliff...

With Europe on a steadier path at least in terms of its liquidity crisis, attention swung back to the U.S. and its date with destiny on the fiscal cliff. A temporary quick fix was the only likely outcome and such a deal wasn't struck until Jan-1, 2013, leaving many hard decisions on spending cuts until the debt ceiling deadline some time in Q1. Accordingly, no one was really the winner of this debt war, though those with incomes of over \$400k lost the immediate battle. In the long run everyone will ultimately have to pay in the form of reduced services and benefits as our nation's fiscal path is clearly not a sustainable one.

Increased revenues will require faster growth and the global growth deficit in most mature industrial economies has been one blight that just won't go into remission. Reduced government spending appears likely ahead and this will continue to provide ongoing resistance against GDP and employment gains. Fiscal restraint is a long-term project that ensures long-run headwinds. For this reason the Fed and other central banks erred on the side of accommodation, with the Fed especially leery of the fiscal cliff undoing its monetary handiwork.

Stocks and bonds started off the quarter pricing in some sanity returning to the fiscal process after strong corporate earnings and rejuvenated housing data helped prop up equities and boost yields to Q4 highs in mid-Oct. Weak data, Hurricane Sandy after-effects and conflict between Gaza-Israel, however, conspired to undermine investor sentiment by mid-Nov. That saw the S&P 500 post is low for the quarter of 1,343 even as the T-note yield eased to the 1.57% area. Another false dawn in D.C. on optimism over fiscal negotiations also helped propel risk assets higher from those Nov lows. That also marked the peak of the dollar index for the quarter at 81.45.

ECB Rides Sentiment Wave

The euro benefitted from the continued narrowing of peripheral country spreads within the group after the ECB's OMT (Outright Monetary Transactions) threat maintained some semblance of order over the turn to the New Year. In the face of further economic declines and recession across most of the region, many ECB members actually considered a rate cut in early Dec. But the ECB left the refi rate steady at 0.75%. Growth and inflation forecasts were cut with the December update. ECB president Draghi highlighted improvement in November confidence indicators and saw significant improvement in financial market sentiment, also in stock markets.

Europe - Market Quotes

12/28/2012	current		Chg Over			
	level	1 wk	4 wks	13 wks	1 year	
FTSE Euro 300	1130.6	-0.8%	0.8%	2.5%	13.9%	
FTSE UK-100	5925.4	-0.2%	0.9%	2.5%	6.4%	
Euro 1yr yld	0.44	0.00	-0.04	-0.22	-1.48	
U.K. 1yr yld	1.01	0.00	-0.02	-0.29	-0.86	
Swiss 1yr yld	0.28	0.00	-0.05	-0.10	-0.07	
Euro 10yr yld	1.31	-0.07	-0.06	-0.16	-0.63	
U.K. 10yr yld	2.16	0.28	0.41	0.43	0.20	
Swiss 10yr yld	2.05	0.00	1.59	1.48	3.05	
EUR-USD	1.322	0.2%	1.8%	2.4%	2.0%	
GBP-USD	1.617	-0.0%	0.8%	-0.4%	4.9%	
USD-CHF	0.914	-0.2%	-1.6%	-2.5%	-2.8%	

He confirmed the OMT program is to be targeted at the short end of the yield curve and will be sterilized, though its mere existence has so far preempted any shot yet to be fired. Seniority of ECB bond holdings was waved to limit negative impact. After the ECB announced the OMT program it seems it is pinning hopes on the non-standard measures, with concerns over a negative deposit rate adding to arguments against a further

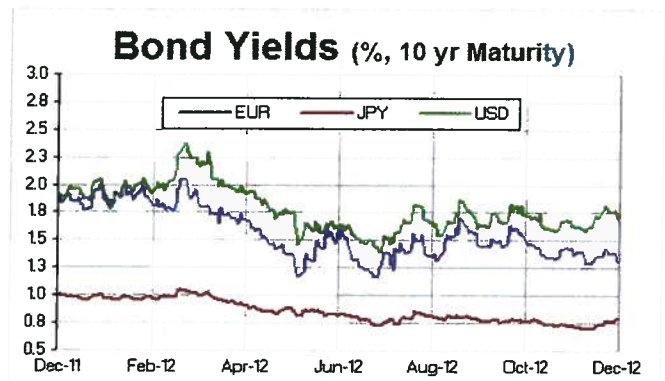
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cut in interest rates for the majority for now, especially as the ECB saw signs of improvement in financial markets and latest sentiment surveys came in better than expected.

BoJ Ducks for Cover

The BoJ expanded its asset purchase program by Y10 tln in December after going against expectations and *not* expanding its Asset Purchase Program in November. The increase will see Y5tln of JGB purchases and Y5 tln in bills, slightly disappointing for those looking for an even bigger balance sheet expansion. The Y10 tln boosts leaves the size of the program at Y101 tln. The overnight call rate was held steady at 0.0% to 0.1%. The Bank signaled that it would review its current 1% inflation target at the next policy meeting in January when the new government cabinet is formed. Overall, Japan's economy remains stuck in a rut of anemic underlying growth and persistent deflationary pressures. Notably, back in February the Bank announced a goal of lifting inflation to 1%. Core CPI (ex-fresh food) is stuck at around 0%.

continued to advance. Committee remains concerned growth might not be strong enough without QE to generate a sustained improvement in jobs. Fed will continue asset purchases until substantial improvement in jobs is achieved, in context of price stability. Lacker again dissented against the consensus for the QE and the characterizations of conditions for low rates. Voters Lockhart, Williams, Pianalto, Lacker will be replaced by Evans, Rosengren, George, and Bullard in 2013.



Asia - Market Quotes					
12/23/2012	current	Chg Over			
	level	1 wk	4 wks	13 wks	1 year
Nikkei 225	10395.2	4.6%	10.6%	16.1%	23.8%
Hang Seng	22666.6	0.7%	3.4%	9.2%	23.2%
All Ordinaries	4685.3	1.1%	4.3%	6.4%	13.6%
Japan 1yr yld	0.49	0.00	-0.02	-0.05	-0.07
Aussie 1yr yld	3.69	0.00	-0.22	-0.70	-1.20
Japan 10yr yld	0.79	0.03	0.08	0.01	-0.21
Aussie 10yr yld	3.32	-0.00	0.11	0.30	-0.38
USD-JPY	86.0	2.0%	4.7%	10.8%	10.7%
AUD-USD	1.037	-0.2%	-0.6%	-0.7%	2.3%
USD-KRW	1070.5	-0.4%	-1.3%	-7.3%	-7.1%

The bond market essentially remained range bound in Q4, coming full-circle from lows in October to highs in November on fiscal cliff skirmishing to lows again as the quarter came to a close. Conversely, the 10-year yield probed over 1.84% on Oct-25 where it stalled out, and then sank to 1.56% lows on Dec-12 before rebounding again to highs of 1.82% on Dec-19. The Dec-11 FOMC meeting brought us an early Xmas present with the launch of QEternity, replacing Op-Twist, and adding in economic thresholds. That contributed to a rise in equities, which had already based in mid-November, though the Fed seems to getting a little less bang for its buck on each iteration of that policy. For most of the quarter the T-note tended to pivot around the 1.75% psych level, which roughly coincided with its 200-day moving average, depending on which way the winds prevailed on the cliff, Fed, Europe and, of course, the Mayans on Dec-21.

FOMC announced QE4

Outright Treasury purchases at \$45 bln per month were confirmed to replace expiring Operation Twist on Dec-31. FOMC surprised in announcing threshold policy targets of 6.5% for the unemployment rate and 2.5% on inflation forecasts one to two years out, and as long term inflation expectations remain anchored (will also consider other indicators). Fed said economy continued to expand at moderate pace. Unemployment has declined somewhat, it remains elevated. Business investment has slowed, while household spending

At the height of hawkishness from the Fed minority and relief trade on Europe the 2-year yield topped 0.32% in late Oct, but then mostly trailed lower toward 0.25% for the balance of the period. That set up a bull flattener to start on the 2s-10s spread near

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+151 basis points before diving to +133 bp narrows late in the quarter, and then back to +149 bp again to round things out on a bear steepener. The cash bond yield migrated from the 3.0% area in mid-Oct to 2.72% lows and back out to 3.0% again by quarter-end.

U.S. equities arrested their mid-quarter declines thanks to a better run of corporate earnings, despite the interruption of Hurricane Sandy. The storm put a smudge on the fundamentals in the quarter that rendered the data in November almost useless. Any wild swing in the month could be ascribed with a Sandy asterisk. Indeed, jobless claims shot up nearly 100k to a peak of 451k in the second week of November before normalizing back near 355k. The S&P 500 began the quarter near highs of 1,471, fumbled to lows of 1,343 and then recovered to 1,425 by year-end. The Dow dove from 13,661 to 12,471 before snapping back to 13,108 on New Years Eve on an apparent cliff deal. NASDAQ Comp rolled over from 3,171 to 2,810 and then sprang back over 3,000 to close out the year.

Global bourses had an even better run. In Japan, the N-225 began near 8,796 and vaulted to 10,400 thanks to a return of the LDP to power and their heavy jawboning against yen strength and deflation risks. That helped propel the dollar from Y78 to in Oct to probe Y87 by 2013 – undermining unhedged foreign investors. Likewise, in Europe the Euro Stoxx 50 rallied from 2,498 to finish the year near 2,636. The euro in contrast started the quarter at \$1.28 and shot as high as \$1.33 during the quarter, making for an impressive 13% compounded gain against the yen from 100 to 115.

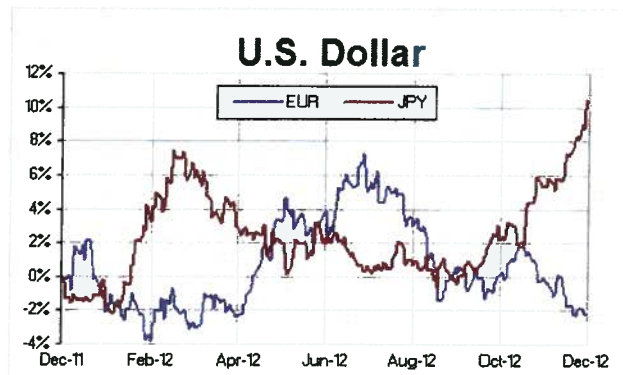
Equity Markets



The VIX equity volatility index percolated mostly above the 15.0 level for the quarter, starting at 15.4 in early-Oct and making a couple feints at the 19.0 area

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amid Gaza conflict and Hurricane Sandy's impact. Tension built on the fiscal cliff, with the budget sequester technically tripped on New Years Eve before Congress agreed to a temporary patch the very next day. That saw the otherwise relatively calm measure of volatility on the S&P 500 vault toward 22.0 at quarter-end before plunging to 14.5.



The dollar index snapped back from lows just under 79.0 in mid-Oct to clear 81.45 by mid-Nov on the rise in risk aversion relating to the economic impact of the Super Storm and Mideast strains. From there it was another downhill slide as stocks recovered from these frights, sending the index down to 79.0 again before the cliff risks manifested late in the quarter and lifted the index back above 80.0. The dollar was supported as well by the slump longer-dated Treasuries late in the quarter, which provided some yield support.

In FX terms the main feature of the quarter was the astonishing plunge in the value of the yen, which surrendered approximately 10% of its value vs the dollar. The LDP began its heavy lobbying to weaken the yen and reflate the economy in their campaign to return to power and break the deflationary cycle. That dollar accordingly rallied from Y78 to in Oct to hit a high of Y86.8 by New Years Eve. Though this was blatant example of beggar-thy-neighbor policy, there seems to be more sympathy for struggling Japan than resurgent China in this regard. Japan's shift to verbal FX management to compliment its ultra-easy monetary policy earned nary a rebuke. The euro took the opposite route, rewarded for some semblance of calm descending over the Continent, rallying from \$1.28 as high as \$1.33 during the quarter. That gain was compounded against the yen from 100 to 115.

Americas - Market Quotes

12/28/2012	current level	Chg Over			
		1 wk	4 wks	13 wks	1 year
S&P 500	1402.4	-1.8%	-1.0%	-3.1%	11.0%
Dow Indust	12938.1	-1.9%	-0.6%	-4.1%	5.3%
Nasdaq Comp	2960.3	-2.0%	-1.7%	-5.6%	13.3%
S&P/TSE Comp	12316.1	-0.6%	0.9%	-0.2%	4.0%
Mex Bolsa	43721.9	0.2%	3.9%	7.3%	17.6%
US 1yr yld	0.84	0.00	-0.02	-0.13	-0.28
Canada 1yr yld	1.95	0.00	-0.00	-0.07	0.14
US 10yr yld	1.70	-0.08	0.09	0.05	-0.20
Canada 10yr yld	1.77	-0.04	0.06	0.01	-0.17
USD-MXP	13.03	0.8%	0.8%	1.5%	-6.9%
USD-CAD	0.997	0.4%	0.4%	1.7%	-2.3%

Commodities Deflated by Global Slowdown

Commodity prices mostly drifted lower over the quarter with the grain of the slowdown in global growth. The RJ/CRB index ended Q3 at a peak near 321 when we last left the plot thanks to the standoff between Iran-Israel and the violent protest against the film that defamed Mohammad. From there it was all downhill, as the CRB began the Oct at the 311 area and slid back below 300 by quarter-end. This bought the Fed a little breathing room on the inflation front.

Commodities - Market Quotes

12/28/2012	current level	Chg Over			
		1 wk	4 wks	13 wks	1 year
CRB	294.8	0.2%	-1.5%	-4.1%	-3.2%
GSCI	644.4	0.8%	-0.6%	-2.4%	-0.2%
Oil	90.71	2.3%	3.0%	-1.2%	-9.0%
Gold	1655.85	-0.1%	-4.0%	-6.8%	7.1%
Copper	363.48	1.3%	0.1%	-3.6%	6.9%

Gold tracked the overall downtrend in commodities, amid the deteriorating fundamentals around the globe, Hurricane impact concerns and repeat talk of hedge fund position unwinding into year-end. Gold began the quarter near \$1775, dove to Nov lows of \$1672, repaired some losses to \$1752 in late-Nov, and then renewed its slide to lows of \$1635 in late-Dec. Likewise, WTI crude started the quarter at \$92.40 bbl, eased to lows of \$85.45 bbl by Dec-7 before recovering over \$90 bbl again by late-Dec.

Yields Held Hostage by Cliff

The bond market for most of the quarter remained at home on the range. Yields probed higher in Oct, reversed lower in Nov before ramping back up in Dec once again. The economic doldrums and fiscal cliff anxiety kept a tight lid on yields in Q4, while the rebound in equities from Nov lows helped put a floor under them as well on the downside. The re-election of Obama and divided houses of Congress did little to calm the acrimonious politicization of the budget crisis. Signs of compromise mid-quarter helped encourage some risk-seeking activity on stocks, but for the most part the bond market didn't drink the equity Cool Aid.

2-yr Note: Constant Maturity Yield



Relief over the ECB's OMT bazooka continued to calm the markets in Europe, spilling over to bond spread narrowing in the region and stock market gains. The 2-year yield topped 0.32% in late Oct, but then mostly trailed lower toward 0.25% for the balance of the period. This ran against the grain of persistent Fed sales of shorter-dated notes as part of Op-Twist, which expired at the end of the year and was replaced with unsterilized purchases of intermediate and longer-term securities.

10-yr Note: Constant Maturity Yield



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Treasury Yield Curve (Constant Maturities)

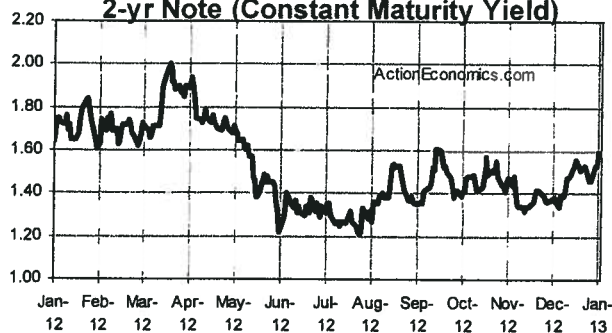
	current level	Chg Over			
		1 wk	4 wks	13 wks	1 year
3-mth	0.08	0.07	-0.01	-0.03	0.06
6-mth	0.12	0.02	-0.02	-0.03	0.07
1-yr	0.15	0.00	-0.03	-0.03	0.03
2-yr	0.27	0.00	0.02	0.00	0.02
5-yr	0.81	0.09	0.18	0.14	-0.05
10-yr	1.92	0.19	0.28	0.17	-0.06
30-yr	3.12	0.24	0.31	0.16	0.10

The T-note yield initially clambered over 1.84% on Oct-25 before stalling and sinking to 1.56% lows on Dec-12. It subsequently rebounded again to highs of 1.82% on Dec-19. The FOMC meeting on Dec-11 embarked on QE4, ending Op-Twist and adding the 6.5% jobless and 2.5%+ inflation thresholds. The T-note found the 1.75% psych level pivotal for much of the period, before making a late-Dec breakout higher.



The cash bond yield migrated from the 3.0% area in mid-Oct to 2.72% lows and back out to 3.0% again by quarter-end.

Spread of 10-yr Yield vs. 2-yr Note (Constant Maturity Yield)



The 2s-10s spread enjoyed curve flattening to start the quarter near +151 basis points before diving to +133 bp narrows late in Dec, and then back to +149 bp again to finish out on a bear steepening profile.

Spread of 30-yr Bond Yield vs. 2-yr Note (Constant Maturity Yield)



ECB Waiting for Spain Aid Request, BoE on Hold

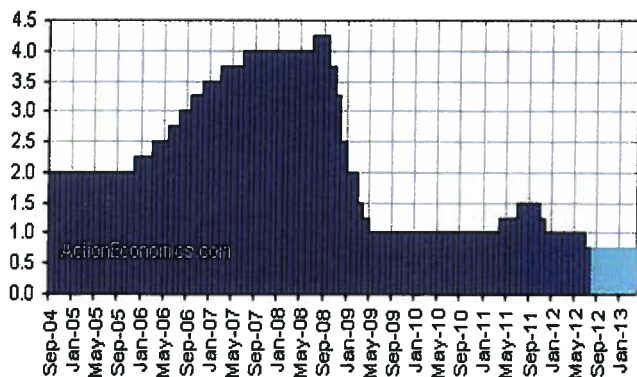
The ECB left rates unchanged and rate cuts were not even discussed in Dec, as the focus remains on non-standard measures, with the central bank indirectly pushing Spain to ask for aid by assuring officials that conditions don't have to be punitive. Draghi also made it clear that Portugal doesn't qualify for the OMT program as long as it doesn't have full market access and that the ECB cannot accept restructuring of its Greek debt holdings. The BoE meanwhile left rates and its QE program unchanged, as expected.

The ECB statement was marginally more upbeat with the central bank optimistic that the OMT will have the desired effect, although it also sent a clear warning to all policy makers that the final resolution

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will depend on them. Not an outright call for a Spanish bailout, but definitely an indirect one especially as Bank of Spain governor Linde said conditions will be manageable.

ECB Refi Rate: Actual and Forecast



The ECB's updated set of staff projections brought downward revisions to growth and inflation forecasts and Draghi left the door to further policy moves ajar. Still the ECB does see a stabilization in economic developments in the second half of next year and Draghi highlighted that the OMT announcement has helped to bring yields down to a greater extent than a cut in short term rates would have achieved. Officials also haven't fully explored the implications of a negative rate cut yet, according to Draghi and for now the ECB was content to extend the 100% allocations in the tender operations, which will ensure that market rates remain closer to the deposit rate, which already stands at zero, than the refi rate at 0.75%.

The ECB did the expected and left rates unchanged. The tone of the statement was interesting as the important first paragraph was if anything marginally more upbeat, as Draghi sees a gradual recovery in growth in the second half of next year, "as global demand strengthens" and the ECB's "accommodative monetary policy stance and significantly improved financial market confidence work their way through the economy". Still, the updated set of staff projections brought downward revisions to both growth and inflation forecasts and Draghi hinted that a rate cut was one of the options discussed at the meeting. So something for both hawks and doves, although markets concentrated on the dovish parts of the statement and

Bund futures extended gains throughout the press conference.

With growth and inflation forecasts cut, it is not a surprise that Draghi was quizzed in the press conference on the possibility of further cuts and whether a move was already discussed at today's meeting. Draghi did say that there was a "wide discussion" today, which suggests a rate cut has been discussed, although a wide discussion may also suggest that in the light of the most recent improvement in confidence indicators and the stabilization on financial markets some may also have brought up the possibility of the phasing out of the ECB's measures.

Markets seem to have taking this as a sign of further easing ahead and Bund futures extended gains during the press conference although the Draghi repeatedly stressing during the press conference that monetary policy is already very accommodative and that the ECB has already done much, although he refused to say that the central bank has already done enough. This still leaves the door open for further measures, but Draghi also highlighted that the OMT announcement has helped to bring long term yields down to a much greater extent than a cut in short term rates would have done.

Draghi also indicated that the issue of negative rates, which will come up if the ECB cuts rates again, was not discussed in detail, which means the conditions for a further move are not quite in place, as possible negative side effects of a negative deposit rate have not been fully explored. Also, the ECB announced that it will continue to run its refinancing operations as fixed rate tenders will full allotment into H1 next year, which will ensure that market rates will remain considerably below the 0.75% refi rate and closer to the deposit rate, which already stands at zero. Still, this helps mainly banks that still have access to market financing.

Again, the door is still open for another move, but Draghi did not indicate in any way at another rate cut in the near future and much will depend on confidence and financial market developments over the next months. Confidence data was encouraging in November, pointing to stabilization at low levels.

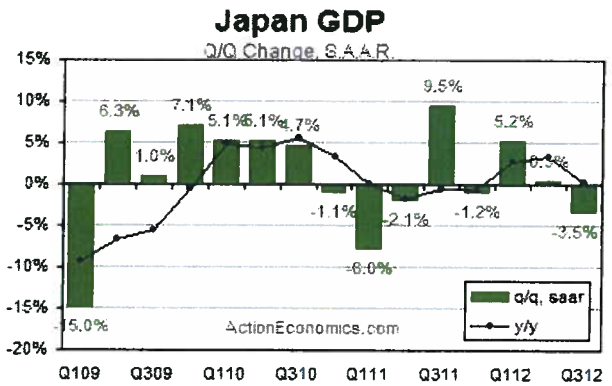
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Given the time lag with which monetary policy impacts developments and the ongoing problems in the monetary transmission channel another rate cut will have less of an impact than the OMT program had. And so far the OMT has not even been tested yet. Asked once again on Spain's apparent desire to have fixed yield targets, Draghi stressed once again that they are not foreseen in the program. He also indicated that not all of the yield differential between the German benchmark and peripherals are due to breakup fears, and argued that a certain spread, reflecting risk differentials is appropriate even in a monetary union.

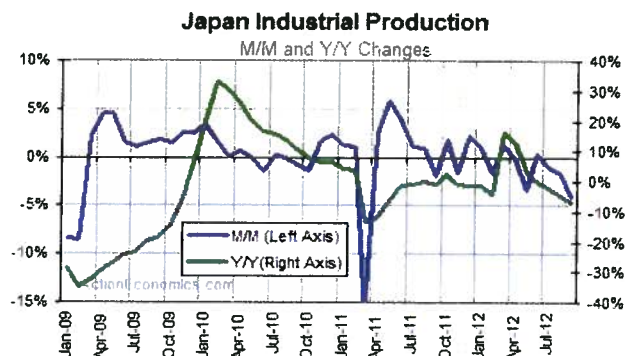
BoJ Bites Bullet

The BoJ expanded the asset purchase program by Y10 tln in Dec. The call rate was held steady at 0.0% to 0.1%. The Bank maintained that it is committed to "aggressive easing," supportive of expectations that further expansion in the current asset purchase program is likely. The Bank signaled that it would review its current 1% inflation target at the next policy meeting in January when the new government cabinet is formed. PM Abe has advocated for a higher inflation target. Political considerations will feature heavily in the policy outlook, as the widely expected election of the opposition Liberal Democratic Party in mid-December will lead to a more dovish and activist Bank leadership in 2013.

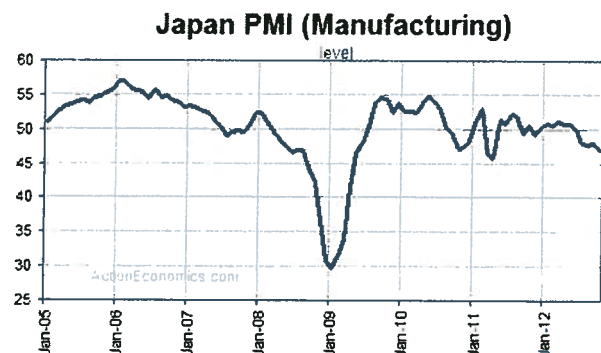
Japan's GDP fell 3.5% in Q3 (q/q, saar) following a tepid final 0.3% rise in Q2. The Q3 decline highlighted the faster than projected unwinding of the boost to the economy from earthquake reconstruction. Economic data thus far point to a further 2.5% contraction in Japan's economy during Q4, leaving Japan in recession during the second half of 2012. However, activity is expected to recover starting in Q1, leaving modest quarterly growth rates of 1% to 2% in 2013 amid a pick-up in the global economy.



Industrial output has been trending lower since June, when the short-lived run of annual gains seen from March to May gave way to declines in June. The rate of decline accelerated to a 6.8% y/y pace in September. The report is one of many consistent with ongoing contraction in Japan's economy amid past yen strength and weak global growth.



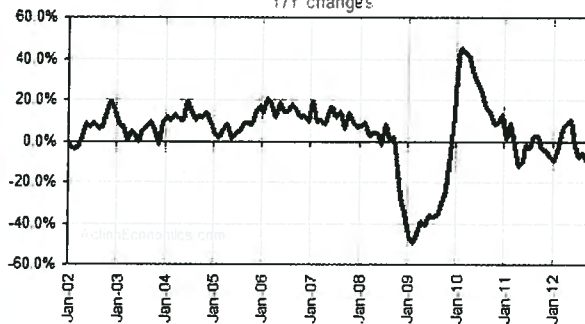
The manufacturing PMI (Markit/JMMA) declined to 46.9 in October from 48.0 in September. The reading was the lowest in 18 months, and marked the fifth reading below the key 50.0 expansion/contraction threshold since November. Export weakness and continually decreasing domestic demand continue to weigh on output at Japan's factories.



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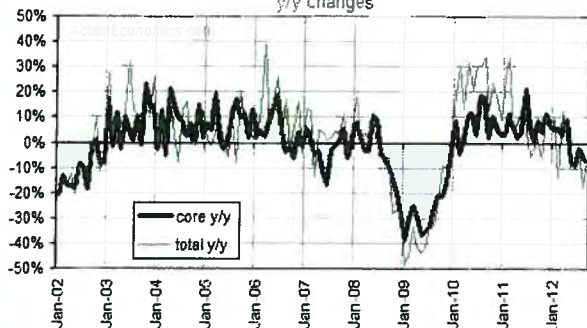
The trade environment remains dismal, as exports plunged 10.3% y/y in September after the 5.8% y/y drop in August. Exports have been falling on an annual basis since June. Slower growth in China, the recession in Europe, a weak recovery in the U.S. and a strong currency have taken a toll Japan's export-oriented industries.

Japan Exports
Y/Y changes



Japan core machinery orders are consistent with an economy heading toward recession. Core machinery orders (excludes electricity and shipbuilding) fell 4.3% in September from the previous month, a larger than expected decline after the 3.3% m/m drop in August. The pull-back in September marked the second consecutive decline and followed back to back gains in July (4.6%) and June (5.6%). On an annual basis, as seen in the chart below, core orders have contracted since May, contrasting with the gains seen going back to early 2010.

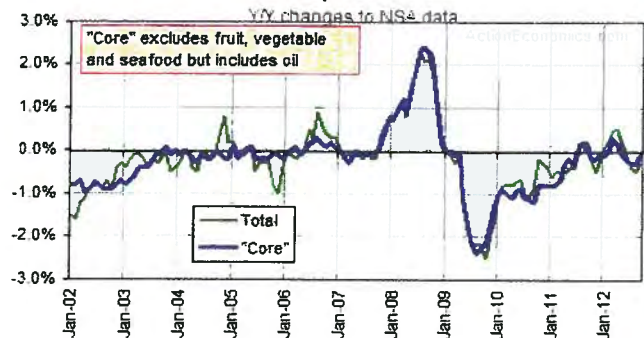
Japan Machinery Orders
y/y changes



Meanwhile, CPI in June and July revealed that deflationary pressures remain firmly in place. Core CPI fell 0.1% y/y in September following the 0.3% y/y decline in August. The "core-core" CPI (excludes food and energy) declined 0.6% y/y in September after an 0.5% drop in August. Total CPI fell 0.3% y/y in

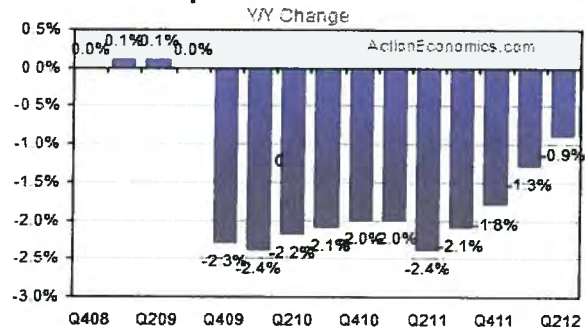
September after a 0.3% slip in August. Further declines are expected in October, with core CPI expected to fall another 0.1% y/y while total CPI drops 0.3% y/y.

Japan CPI



The GDP deflator has been contracting since Q4 of 2009, also consistent with deflationary pressures. Granted, the rate of contraction has moderated this year, with the deflator falling at a 0.7% rate in Q3 (q/q, sa) following the 0.9% drop in Q2.

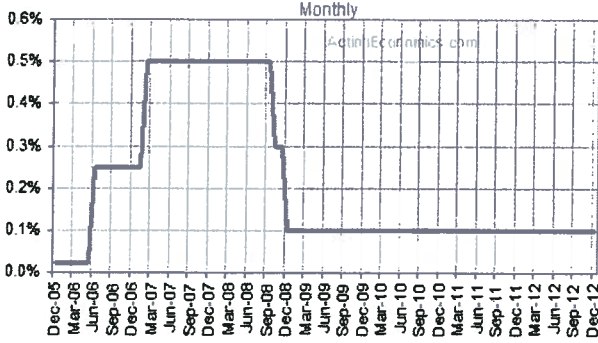
Japan GDP Deflator



With Europe in recession, slower Chinese growth, an anemic U.S. recovery and a contraction in Japan's Q4 GDP likely, the pressure remains for the BoJ to add additional accommodation. Granted, our 2013 base case scenarios of better U.S. growth (with the implied avoidance of the fiscal cliff), containment in Europe and a firming recovery in China all point to a less pronounced drag on Japan's economy from abroad next year, which could eventually lessen the need for additional action by the BoJ.

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Bank of Japan Policy Rate



Meanwhile, political considerations loom large for the BoJ outlook, with the opposition LDP capturing the lower house in the December 16th election. Opposition leader Abe has said the best option for the Bank is to have an inflation target -- Abe is on record saying he would choose someone to head the Bank that favors inflation targets. Governor Shirakawa's five year term ends on April 8th, 2013 while deputies Yamaguchi and Nishimura are done in March -- a victorious Abe enables him to choose the successors.

Interestingly, in addition to advocating for an inflation target, the LDP's platform promises a mechanism for government Bank of Japan cooperation and possible revisions to the laws governing the BoJ. The LDP also looks to establish a public-private fund for the Ministry of Finance, the Bank of Japan and private industry to buy foreign bonds. These measures might provide a boost in the short run, notably via a weaker yen, but there are certain to be credibility and sustainability concerns if some or all of these measures are implemented.

We expect additional easing to be accomplished via the Asset Purchase Program in the near term, while the call rate remains at the practical minimum of the 0 to 0.1% target. The Bank opted to not expand the Asset Purchase Program in November, contrasting with the 11 tln yen expansion to a total 91 tln yen in October. While political considerations complicate the expected timing of such action, we continue to lean toward the resumption of easing ahead.

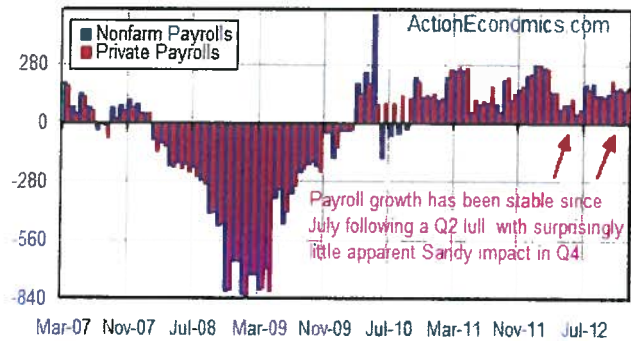
U.S. Jobs Data Show Q4 Hours-Worked Climb

The U.S. jobs report beat expectations with a firm private payrolls rise and an encouraging workweek and

hours-worked path through Q4, alongside surprisingly firm hourly earnings gains. The annual revisions to the household data were modest, but left a small boost in recent jobless rate figures to 7.8% from November's prior 7.7%. Strength in the overall income data and the goods components in particular boosted our remaining forecasts for December data.

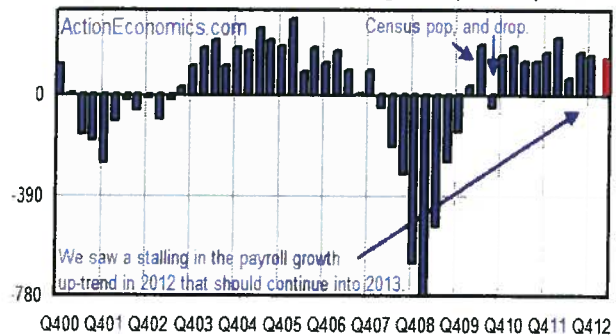
For nonfarm payrolls, we saw a 155k headline gain that included a 168k private payroll rise but a 13k government payroll drop, following 14k in upward payroll revisions in the prior two months that reflected a comfortable 38k private employment boost but a big 24k downward revision in government payrolls.

Total and Private Payroll Changes (1000s)



Goods employment rose by a hefty 59k in December due to a 30K bounce in construction employment and a 25k surge in factory employment, alongside a 4k rise in mining jobs. Hours-worked for the goods sector rose by a solid 0.7% with 1.6% gains for both construction and mining, and a 0.5% rise for factories.

Average Monthly Payroll Change/Qtr (thsnd's)



The workweek rose to 34.5 from 34.4 in November and a downwardly-revised 34.3 (was 34.4) October

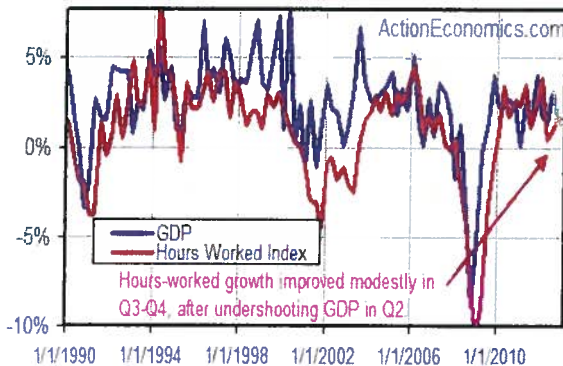
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figure, to leave the same Q4 average as expected but with an upward slope into Q1. Similarly, hours-worked rose by a solid 0.4% in December following a 0.4% (was 0.2%) November gain but a 0.3% (was 0.1%) October drop, hence also leaving the expected Q4 hours-worked growth of 1.5% as previously estimated but with a climb into Q1.

Jobs Data and Q4

For the quarterly outlook, our Q4 [GDP](#) growth forecast will remain at 1.5%, following the 3.1% pace in Q3. We saw a 1.5% growth clip for the hours-worked index in Q4 that follows a 1.0% Q3 clip. We expect a 2.0% Q4/Q4 real GDP growth rate for 2012 that only slightly exceeds the 1.7% Q4/Q4 gain for hours-worked.

Real GDP vs Hours Worked Growth



Our Q4 GDP forecast implies a 1.0% Q4 [productivity](#) gain that follows a 2.9% rate in Q3. The BLS output figures that underlie productivity do not include the farm sector, so these figures have proven stronger than overall GDP in this drought year. Our current estimates imply Q4/Q4 2012 productivity growth of 1.7% despite the narrow gap between real GDP growth and hours-worked.

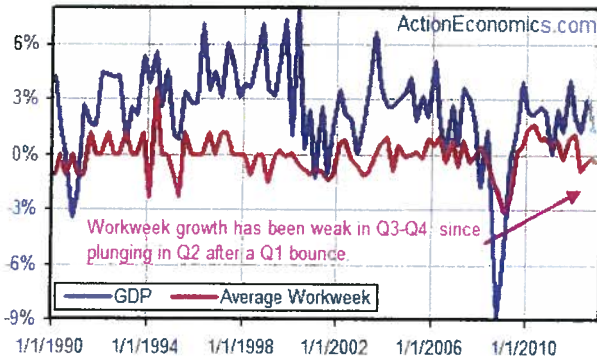
Payroll growth stabilized in Q3-Q4 relative to GDP growth, following a Q2 undershoot but Q1 over-performance that appeared to reflect little more than a delayed bounce from a strong 4.0% Q4 GDP gain, as shown below.

Real GDP vs Nonfarm Payroll Growth



The workweek has climbed substantially from the 33.8 cycle-low in October of 2009 and 34.1 in December of 2008 when the last recession began, though the current 34.5 remains below the February blip to a cycle-high 34.6.

Real GDP vs Workweek Growth

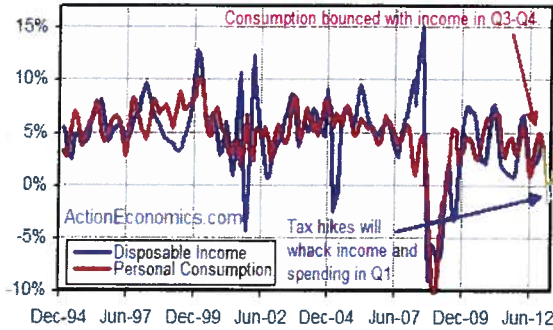


Jobs Data and the December Forecasts

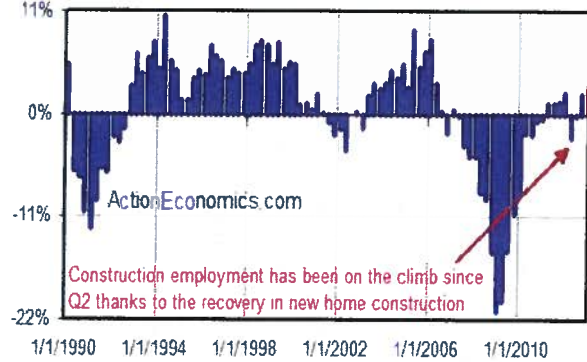
For the other December reports, we assume a hefty 1.2% [personal income](#) gain thanks mostly to a substantial pull-ahead of bonuses from January to December and special dividends that we assume will add \$100 bln (or 0.7%) to December personal income. The gain is consistent with Q4 growth of 4.8% for total income and 4.7% for disposable income, versus respective Q3 rates of 2.2% and 2.1%. We expect respective Q1 figures of zero and -2.4% with the 2013 hike in payroll and personal income taxes alongside a bonus and dividend reversal that should leave a January income drop of 1.3%.

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Consumption vs. Disposable Income Growth



Quarterly Construction Employment Growth

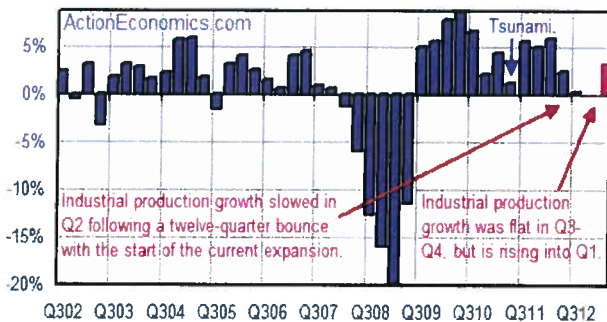


Industrial production should post a 0.5% December rise following the prior Sandy zigzag that left a 1.1% November bounce after a 0.7% October drop. We saw December hours-worked gains of 0.5% for factories and 1.6% for mining. The vehicle assembly rate likely rose by 4% to the 10.9 mln cycle-high rate last seen in July. We expect flat utility reading in December. We expect a flat Q4 industrial production figure that follows the lean 0.3% Q3 gain and 1%-6% growth rates over the prior twelve quarters that date back to the start of the expansion.

Guidance for the January Annual Revisions

Guidance was released in September for the annual payroll revisions to be revealed with next month's jobs report for January. The BLS expects a 386k upward revision to the March 2012 level. This implies a 32k upward revision on average to each of the twelve months prior. As the chart below shows, this is an unusually positive guidance figure, as it is only exceeded by the 810k positive guidance given in March of 2006.

Industrial Production Growth



For construction, hours-worked rose 1.6% in December with a big 30k construction payroll bounce. We assume a 0.5% December construction spending gain that reverses the 0.3% November drop, as ongoing strength in new home construction continues to be mostly offset by ongoing weakness in nonresidential and public construction.

Benchmark Revision to Payroll Level

(change in thousands of workers)

	Whisper #	Sep (NSA) Prelim.	Final (NSA)	Final (SA)
Mar-97	-	-	+431	+435
Mar-98	-	-	+44	+47
Mar-99	-	-	+258	+241
Mar-00	-	-	+468	+432
Mar-01	-	-	-123	-193
Mar-02	-	-284	-313	-220
Mar-03	+600	-145	-122	-163
Mar-04	+300	+236	+203	+156
Mar-05	-	-191	-158	-119
Mar-06	-	+810	+752	+754
Mar-07	-250	-297	-293	-284
Mar-08	-	-21	-89	-17
Mar-09	-	-824	-902	-930
Mar-10	-	-366	-378	-411
Mar-11	-	+192	+165	+162
Mar-12	-	+386	-	-

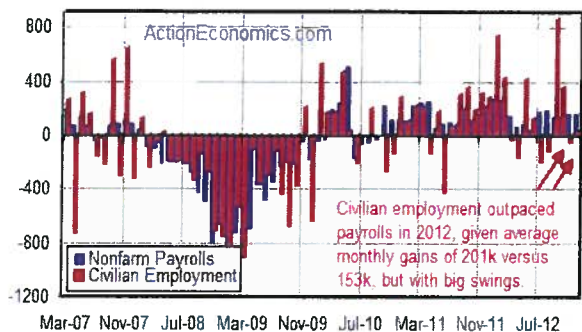
The December Household Data

For today's household data, we saw December household survey gains of 28k for civilian employment and 192k for the labor force that partly reversed prior larger respective declines of 51k (was 122k) and 257k (was 350k) in November, following modest tweaks to prior figures with the annual revisions. This cycle will likely continue to display

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the disturbing quality of moves into and out of negative growth territory for both the civilian and labor force series.

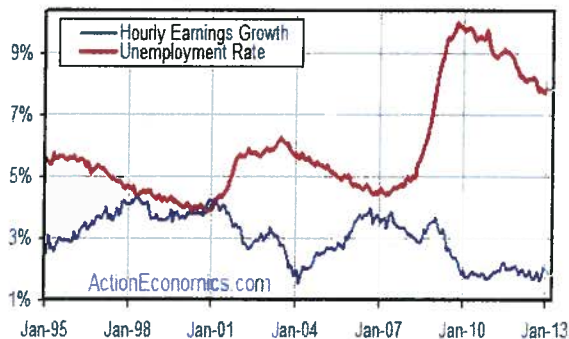
Payroll & Civilian Employment Changes (1000s)



The jobless rate fell to a cycle-low 7.8% (was 7.7%) in November and December from 7.9% in October. The rate remains well below the much higher 9.0% rate seen as recently as September of 2011. The labor force participation rate fell to 63.6% in November and December from 63.8 in October, but the same 63.6% in September, versus a 63.5% August figure that marked the lowest rate since 1981.

The 0.3% December average hourly earnings gain followed a 0.3% (was 0.2%) November increase and flat October figure, while the y/y wage gain rose to 2.1% from 1.9% (was 1.7%) in November and a cycle-low 1.6% in October, versus a prior cycle-low 1.7% in July and August, and also in September, November, and December of 2010, as shown below.

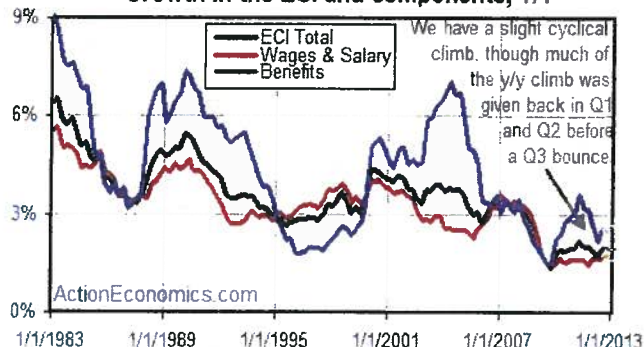
Unemployment Rate and Hourly Wage Growth



The y/y figures should fluctuate around 2% into 2013 as wage gains likely take years to reclaim the 3.8% peak in June of 2007. We have a slight cyclical climb in total labor costs as gauged by the quarterly **ECI** figures thanks to firmness in benefit costs early in this

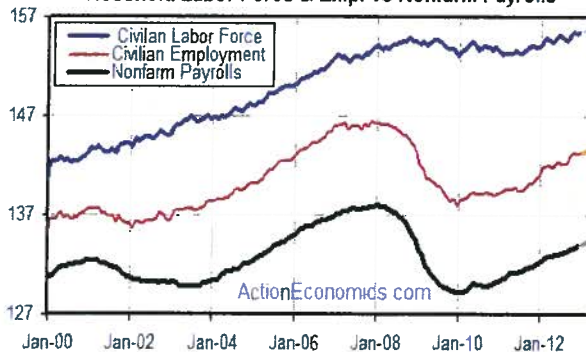
expansion, though benefit cost gains slowed in early-2012. ECI y/y growth as of Q3 sat at 2.0% alongside a 2.6% benefit cost rise, versus respective cycle-lows in Q4 of 2009 of 1.4% and 1.5%.

Growth in the ECI and components, Y/Y



For the cycle as a whole we've seen a downward ratcheting in labor force participation that has allowed a just a small rise of 711k since the cyclical peak back in May of 2009, which reflects a tiny 0.5% three-and-a-half year labor force increase. This has occurred despite ongoing 1%-1.5% annual growth in the working age population that leaves a "hole" of about 4%. Presumably these workers will reappear as job growth gains steam in this cycle, and any labor force re-acceleration will provide a headwind for jobless rate declines.

Household Labor Force & Emp. vs Nonfarm Payrolls

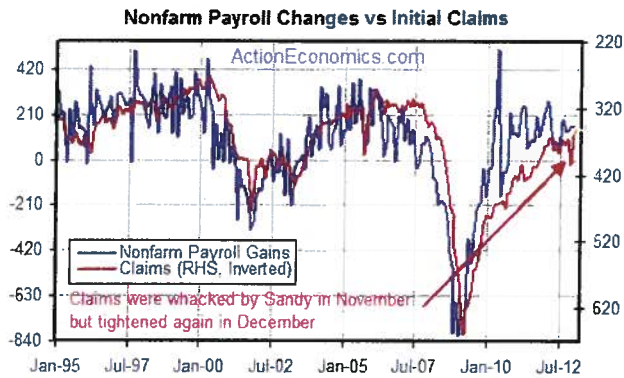


Payrolls vs Other December Labor Market Indicators

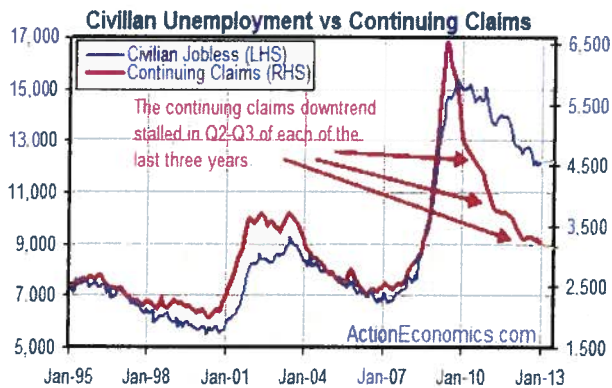
December payrolls largely tracked the tightening in initial claims, a firming in the AutoNews data for vehicle assemblies, firmness in the December ADP data, and a lift in some producer sentiment measures in December. Payrolls largely defied the downside risk implied by December consumer confidence declines.

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Initial claims are averaging a lean 360k thus far in December following the November hurricane-spike to 405k from 366k in October, 370k in Q3, 382k in Q2, and 369k in Q1. The 362k BLS survey week figure undershot the hurricane-boosted 416k November figure as well as prior readings of 392k in October and 385k in September.

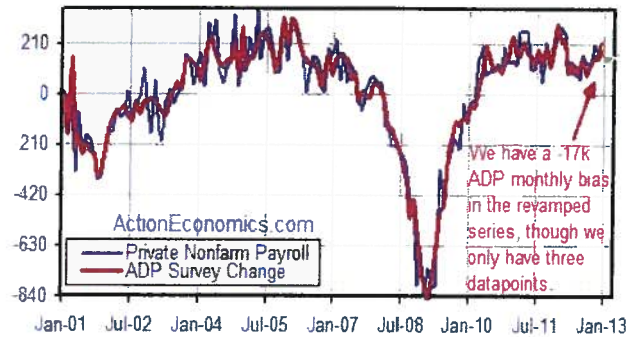


Continuing claims declined through December after a November bounce as the figures have resumed their cyclical down-trend, following the Q2-Q3 stalling in the pace of improvement that paralleled the pattern seen in 2011 and 2010, as shown below.

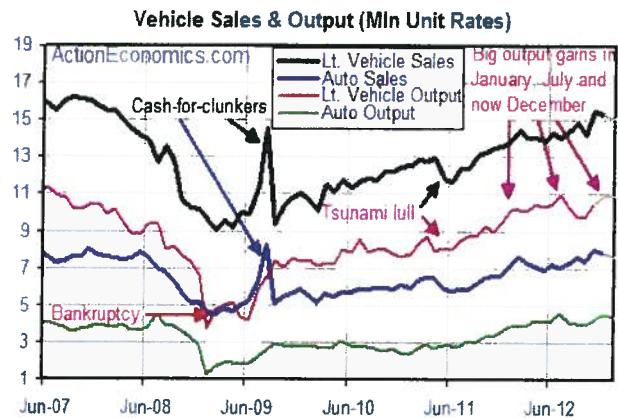


It will take time to learn what the relationship is between the newly-revamped ADP figures and the monthly jobs data, as future "as reported" ADP behavior may bear little resemblance to past patterns. As it stands however, the "as reported" ADP figures overshot private payrolls by 47k in December, but undershot payrolls by 53k in November and 45k in October, to leave a 17k average under-shoot for the three months since the methodology change.

Private Nonfarm Payroll Changes vs ADP

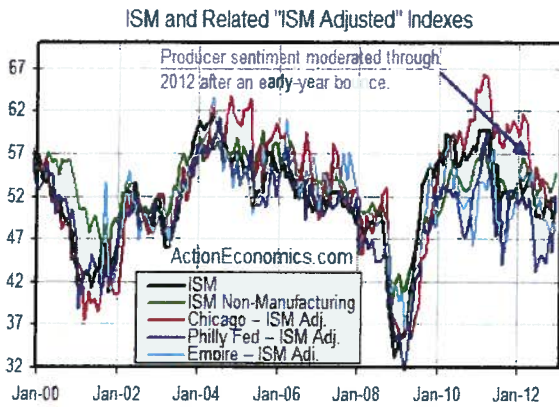


The figures from AutoNews firmed sharply in December following a modest November firming but a summer drop from a July cycle-high. We assume a 10.9 mln vehicle assembly rate in December that matches the July peak, following rates of 10.5 mln in November and 9.8 mln in October, as shown below.



The major factory sentiment surveys turned upward in December as highlighted by today's ISM-NMI climb to 56.1, and we saw an up-tick the ISM-adjusted average for the most-watched surveys to 51 from 50 in the prior six months, though producer sentiment generally remained depressed into year-end. The graph below shows the ISM figures, and the associated ISM-adjusted figures for the Chicago ISM, Empire State Philly Fed and ISM-NMI reports.

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The Q4 payroll path is consistent with ongoing downside risk in the Fed's official GDP growth forecasts at the March 19-20 FOMC meeting, following the downgrades at the [December 11-12 meeting](#). The jobless rate is tracking Fed assumptions, and commodity price restraint implies little near-term need for changes in the Fed's inflation forecasts.

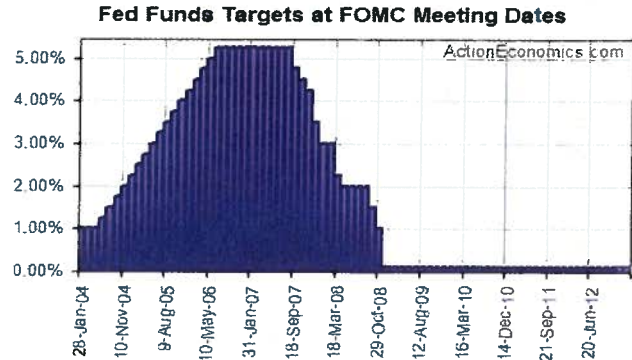
For 2013 we expect GDP growth of 1.8% that sits below the 2.0% rise unfolding for 2012, versus the Fed's 2.3%-3.0% central tendency for 2013 that already seemed high when it was announced in December. The current 7.8% jobless rate sits just above the Fed's 2013 central tendency of 7.4%-7.7%. We expect a 2013 Q4/Q4 PCE chain price gain of 2.0% following the 1.5% climb in 2012, versus a central tendency of 1.3%-2.0%. We peg the 2013 core price gain at 1.8%, alongside the 1.6%-1.9% central tendency.

The 2013 outlook remains highly sensitive to the remaining Congressional showdown over sequestration and the debt ceiling, following the fiscal cliff tax compromises that largely tracked market assumptions. Our current forecast assumption is that we'll see roughly half of the near-term spending cuts associated with sequestration, with longer term planned spending cuts that may or may not eventually occur, and hopefully some type of entitlement reform.

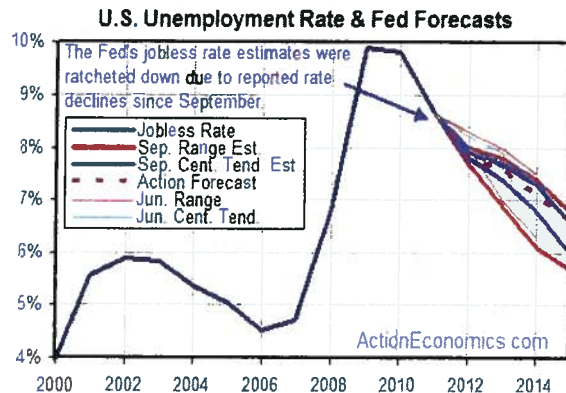
Fed Moves Goal Posts on Jobs and Inflation

The FOMC continued down the policy path of extreme accommodation in Dec to round out a tumultuous 2012. Replacing the expiring Operation Twist, the Committee agreed to maintain monthly purchase levels of MBS and longer-dated Treasury securities at \$85 bln as

specified in September's QE3 decision, but without the sterilization afforded by sales of shorter-dated notes. As expected, the lower jobless rate of late and mildly improved payroll gains failed to meet the Fed's "substantial improvement" criteria for the labor market.



Moreover, the [Fed statement](#) continued to characterize growth as expanding at a "moderate pace," but said inflation has been running "somewhat below" the 2% target. To the surprise of many in terms of timing, the Fed implemented economic thresholds for sustaining low rates, including an over-6.5% jobless rate and 1-2 year inflation projections that are no more than 2.5%, alongside well-anchored inflation expectations. This replaced the mid-2015 prior date-based policy horizon with an open-ended policy stance. Richmond Fed hawk Lacker dissented again for the last time, as he now scrolls off the rolls of voting members.



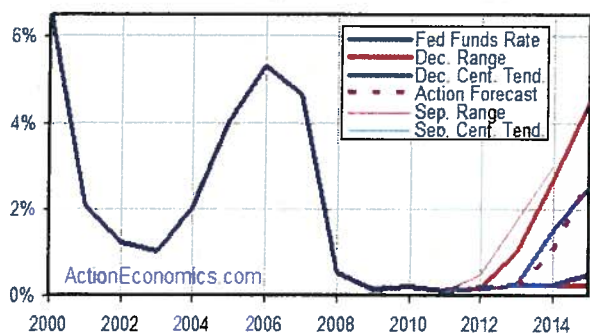
On the economy the Fed made some clarifications, acknowledging the decline in the jobless rate, hurricane disruptions, demoting household spending

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back to "continued to advance" from "advanced a bit more quickly," while switching emphasis on inflation to "running somewhat below" target from "picked up somewhat" previously. To wit: "Information received since the Federal Open Market Committee met in October suggests that economic activity and employment have continued to expand at a moderate pace in recent months, apart from weather-related disruptions. Although the unemployment rate has declined somewhat since the summer, it remains elevated. Household spending has continued to advance, and the housing sector has shown further signs of improvement, but growth in business fixed investment has slowed. Inflation has been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely reflect fluctuations in energy prices. Longer-term inflation expectations have remained stable."

Mandate and global risks were maintained intact: "Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee remains concerned that, without sufficient policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation over the medium term likely will run at or below its 2 percent objective."

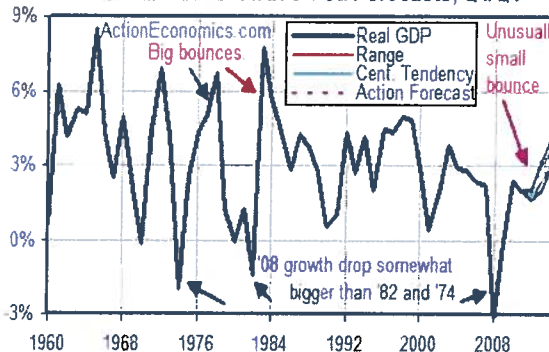
U.S. Fed Funds Rate & Fed Forecasts



QE Ad nauseam: the Fed confirmed market assumptions that it would extend the level of QE in the face of the expiring Twist Operation by maintaining the \$40 bln level of monthly MBS purchases and also purchase an additional \$45 bln in longer-term Treasuries per month outright (unsterilized) to match

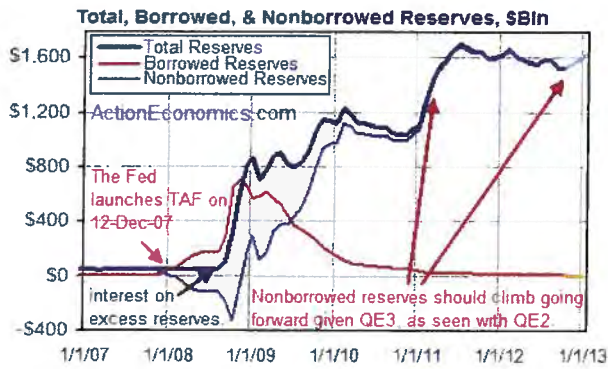
the \$85 bln Twist program. "To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee will continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month. The Committee also will purchase longer-term Treasury securities after its program to extend the average maturity of its holdings of Treasury securities is completed at the end of the year, initially at a pace of \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and, in January, will resume rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative."

U.S. Real GDP Growth & Fed Forecasts, Q4/Q4

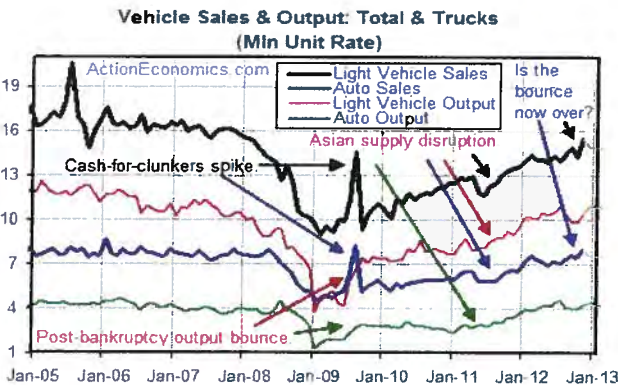


More on QE4 and Fed Treasury Purchases: Fed's asset purchase plan was extended to include the 4-year sector (according to the NY Fed's attachment). The bulk of the purchases will be in the 7- to 10-year sector (29%), followed by the 20- 30-year region (27%). The breakdown also shows Fed's buybacks at the short end will include the 4- to 4.75-year area (11%) and the 4.75- to 5.75 year (12%), with the 5.75 to 7-year region (16%). The Open Market Desk anticipates Treasury purchases will have an average duration of about 9 years. The distribution of purchases could change if market conditions warrant.

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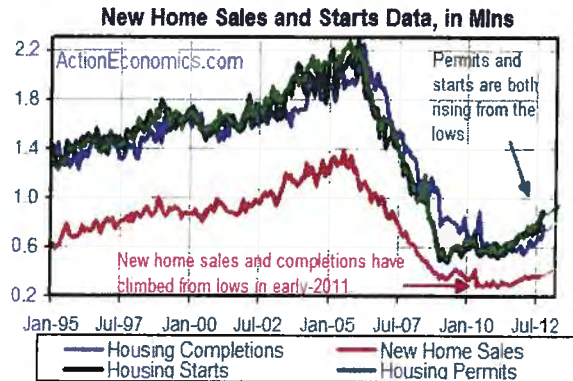
Flexibility maintained: "The Committee will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases."



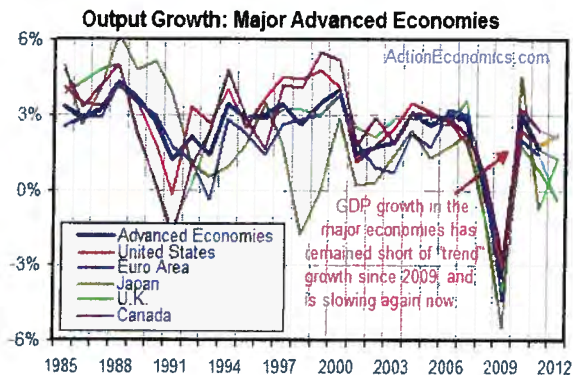
New economic thresholds introduced: the surprise here was in the timing, not the tool, which had been openly discussed in previous FOMC meetings and publicly debated by members: "In particular, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. The Committee views these thresholds as

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consistent with its earlier date-based guidance."



Policy horizon: This is now truly open-ended policy with no pretense of an implied terminal date: "In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent."

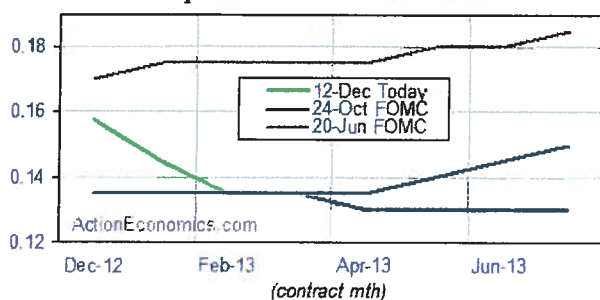


Last Lacker Dissent: not a voter next year, the arch-hawk will have to kick the can of dissent over to incoming hawk Bullard of the St. Louis Fed. No longer able to dissent against the program and its timeline, Lacker voiced displeasure with the "conditions"... "Voting against the action was Jeffrey M. Lacker, who opposed the asset purchase program and the characterization of the conditions under which an exceptionally low range for the

federal funds rate will be appropriate."

Market reaction: yields traded mixed following the Fed decision to extend QE as expected, but with jobless rate and inflation thresholds, which were expected to be debated but not necessarily implemented until next year. The 2-year yield remained stuck near 0.24%. The T-note yield quickly ramped up to 1.70% from 1.65% before stalling out again, resulting in curve steepening with the 2s-10s spread widening out 4-5 basis points to +145 basis points. Stocks initially rebounded from lows and the dollar index slumped back below 80.0. The dollar fell broadly after the FOMC announcement, as the Fed extended its bond buying program well into 2013. EUR-USD lunged toward 1.31 from near 1.3040, while USD-JPY moved briefly under 83.00 before rebounding after option barriers were taken out at that level earlier thanks to a very large UK-based buy order.

Implied Yield: Fed Funds Futures



Fed funds futures inched up on the FOMC decisions to extend out to QE-infinity, given that the "highly accommodative" stance will remain in place as long as the unemployment rate tops 6.5%. Market perceptions are that it could take a long time (2016?) to get the jobless rate down that far. Between the FOMC's stance and expectations that cash will be flowing out of FDIC TAG accounts into year end, Fed funds futures could slip a little lower still.

FOMC Projections at the Dec 11-12 Meeting vs Sep 12-13, 2012
 Revealed at the Dec 12 Press Conference, vs Our Own Forecasts

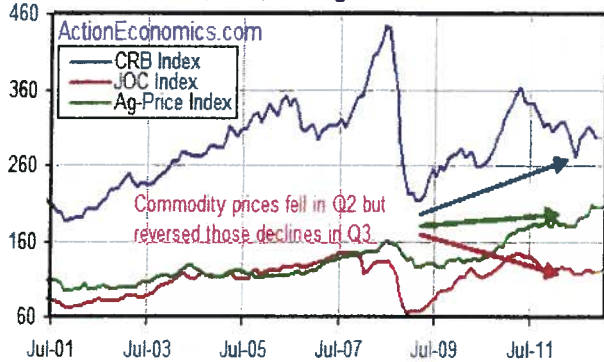
Q4/Q4 Figures	Fed Fore.		Fed Cent.		Sep, 13		Sep, 13		Action
	Range	Tendency	Range	Cent. Tend.	Range	Cent. Tend.	Fore.		
2012									
Real GDP	1.6% 2.0%		1.7% 1.8%		1.6% 2.0%	1.7% 2.0%		1.9%	
Unemp Rate (Q4)	7.7% 8.0%		7.8% 7.9%		8.0% 8.3%	8.0% 8.2%		7.8%	
PCE Prices	1.6% 1.8%		1.6% 1.7%		1.6% 1.9%	1.7% 1.8%		1.5%	
PCE Core Prices	1.6% 1.8%		1.6% 1.7%		1.6% 2.0%	1.7% 1.9%		1.6%	
Fed Funds Rate*	0.2% 0.2%		0.2% 0.2%		0.2% 0.5%	0.2% 0.2%		0.2%	
2013									
Real GDP	2.0% 3.2%		2.3% 3.0%		2.3% 3.5%	2.5% 3.0%		1.9%	
Unemp Rate (Q4)	6.9% 7.9%		7.4% 7.7%		7.0% 8.0%	7.6% 7.9%		7.6%	
PCE Prices	1.3% 2.0%		1.3% 2.0%		1.5% 2.1%	1.6% 2.0%		2.0%	
PCE Core Prices	1.5% 2.0%		1.6% 1.9%		1.6% 2.0%	1.7% 2.0%		1.9%	
Fed Funds Rate*	0.2% 1.0%		0.2% 0.2%		0.2% 1.7%	0.2% 0.2%		0.2%	
2014									
Real GDP	2.8% 4.0%		3.0% 3.6%		2.7% 4.1%	3.0% 3.8%		3.5%	
Unemp Rate (Q4)	6.1% 7.4%		6.8% 7.3%		6.3% 7.5%	6.7% 7.3%		7.1%	
PCE Prices	1.4% 2.2%		1.6% 2.0%		1.6% 2.2%	1.6% 2.0%		2.5%	
PCE Core Prices	1.5% 2.0%		1.6% 2.0%		1.6% 2.2%	1.8% 2.0%		2.0%	
Fed Funds Rate*	0.2% 2.7%		0.2% 1.6%		0.2% 3.0%	0.2% 1.5%		1.5%	
2015									
Real GDP	2.5% 4.2%		3.0% 3.7%		2.5% 4.2%	3.0% 3.8%			
Unemp Rate (Q4)	5.7% 6.8%		6.0% 6.6%		5.7% 6.9%	6.0% 6.8%			
PCE Prices	1.5% 2.2%		1.7% 2.0%		1.8% 2.2%	1.8% 2.0%			
PCE Core Prices	1.7% 2.2%		1.8% 2.0%		1.8% 2.3%	1.9% 2.0%			
Fed Funds Rate*	0.2% 4.5%		0.5% 2.5%		0.2% 4.5%	0.7% 2.5%			
Longer Run									
Real GDP	2.2% 3.0%		2.3% 2.6%		2.2% 3.0%	2.3% 2.5%		2.6%	
Unemp Rate (Avg)	6.0% 6.0%		6.2% 6.0%		5.0% 6.3%	5.2% 6.0%		6.4%	
PCE Prices	2.0%		2.0%		2.0%	2.0%		3.0%	
Fed Funds Rate*	3.0% 4.5%		3.7% 4.2%		3.0% 4.5%	4.0% 4.25%		4.5%	

Action Economics, LLC, Red = Upward Rev., Blue - Downward Rev.
 * Ranges and Central Tendencies that are "backed out" of the graph provided in the Fed report on the official projections

Economic data in the inter-meeting period were hopelessly distorted by the elections and Superstorm Sandy. Business reticence in front of the looming fiscal cliff at year-end also featured, Bernanke repeatedly acknowledged in Q&A. GDP has sputtered mostly lower in 2012, having peaked for the cycle in Q4 of 2011 at 4.1%. So far this year it has fallen to 2.0% in Q1 of 2012 and 1.3% in Q2 before backing up to a downwardly revised 2.7% in Q3. Retail sales have recently shown some elasticity, with healthy gains of over 1% in August and September, before Sandy knocked sales 0.3% lower in October. The jobless rate sank to a cycle-low 7.75% in November, though was still distorted by the dwindling workforce. Headline nonfarm payroll growth rose 146k last month, but September and August were revised a combined 49k lower. Inflation as measured by core PCE prices rose slightly in October to 1.7% y/y, but it sits well below the Fed's 2.0% threshold. Housing starts have been on the rise this fall thanks in part to record low mortgage rates, with big prints of +863k in September and +894k in October.

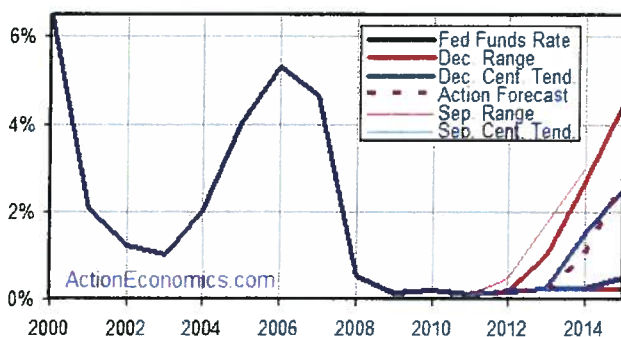
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CRB, JOC, and Ag-Price Indexes



Risk indicators flashed signs of deleveraging into year-end and ahead of the fiscal cliff, with negotiations on that count fraught with peril. The S&P 500 has been pricing these risks in and out, but is still lower than when QE3 was originally announced. From its peak on September 14 near 1,475, the S&P rolled over to November 16 lows of 1,343, before recovering part way to 1,430. Likewise, at the time of the last FOMC meeting on October 24, the VIX equity volatility index was probing 19.0 before sinking to 15.0 in November as Europe rescued Greece a third time, then climbing to highs over 17.0 in December and slipping back to 16.0 presently. Risk proxy gold peaked in October over \$1,795 after ramping up from the \$1,600 area on QE3 expectations, but has since dialed back toward the \$1,700 region as deleveraging has prevailed. Fund fave Apple hit a high over \$705 coinciding with QE3, but since tumbled about 30% to the \$537 area by mid-Dec. The dollar index hit a low near 78.60 in September, rallied over 81.45 in November, then eased back to the 80.0 area currently as a barometer of global and fiscal risks.

U.S. Fed Funds Rate & Fed Forecasts



The FOMC Forecast revisions from the December FOMC meeting showed surprisingly small downward revisions in the Fed's GDP forecasts. We now have an

optimistic 2.3%-3.0% (was 2.5%-3.0%) central tendency for 2013 that lies well above own 1.9% estimate. For 2014, only the low-end of the central tendency was lowered to leave a 2.3%-3.0% spread instead of 2.5%-3.0%, hence leaving little in the way of handicapping how the fiscal cliff negotiations might go following the elections. The [jobless rate](#) forecasts were lowered in 2012 and 2013 as expected, and the range of "long run" forecasts was narrowed to 5.0%-6.0% from 5.0%-6.3% to perhaps help accommodate the new 6.5% policy objective. All the [PCE](#) chain price figures were trimmed modestly across the forecast horizon. The distribution of Fed assumptions for the Federal funds rate showed the push-back in expected tightening actions that was largely expected, with all but five policymakers now capitulating to the Fed's prior early-2015 verbiage. For a table of our assumptions regarding the Fed's revised forecasts versus their last estimates and our own forecasts, see our [policy outlook](#) page.

Fed Policy Outlook

The January 2 FOMC minutes threw a wrench in market perceptions about the duration of the QE program after a white hot debate between hawks and doves on whether to do so "well before" the end of 2013 or "closer to" the end of the year. That sent rising long yields back toward the highs of 2012 to kick off the New Year. That negative fallout continued to weigh on Treasuries, and while the underlying strength in the Dec nonfarm payroll report was a little better than expected, we see no real signs yet of the "substantial" improvement in the labor market that will cause the Fed to start slowing QE. We still forecast a 1-handle on quarterly GDP growth through the first half of this year and a 1.8% overall for 2013, well below the Fed's 2.3-3.0% central tendency forecast, and insufficient to boost employment significantly. Additionally, the 7.8% unemployment rate is above the FOMC's 7.4-7.7% forecast and, ironically, any pick up in labor force participation once the economy improves more significantly will only be a headwind to declines in the jobless rate. Meanwhile, of course, much of the 2013 outlook remains highly dependent on the continuing Congressional showdown over sequestration and the debt ceiling,

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yet another headwind to employment. So, we suspect Fed asset purchases will be maintained well into Q3.

DAVIDSON
COMPANIES

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REGISTERED INVESTMENT ADVISER

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U.S. Economic Calendar January 2013



Davidson Fixed Income Management

REGISTERED INVESTMENT ADVISER

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		1 New Year's Day All Markets Closed	2 7:00 AM MBA Mortgage Applications 12/28 7:45 AM ICSC-Goldman Sachs 12/29 8:55 AM Redbook 12/29 9:00 AM Manuf PMI DEC 10:00 AM ISM (Mfg) DEC 10:00 AM Construction Spending NOV 2:00 PM FOMC Minutes for Dec 11 Meeting Tsy Auctions 4-Wk Bills Bank Holiday JPN Markets Closed	3 7:30 AM Challenger DEC 8:15 AM ADP Employ DEC 8:30 AM Initial Claims 12/29 11:00 AM EIA Crude Oil Stocks 12/28 4:30 PM Weekly M2 12/24 Vehicle Sales DEC Tsy Announces 3&6-Mth Bills & 52-Wk Bills Tsy Announces 3-Yr Notes, 10-Yr Notes Reopen & 30-Yr Bonds Reopen Bank Holiday JPN Markets Closed	4 6:00 AM Monster Employment Index DEC 8:30 AM Employment Report DEC 10:00 AM ISM-NMI DEC 10:00 AM Factory Orders NOV	5
6	7 Tsy Announces 4-Wk Bills Tsy Auctions 3&6-Mth Bills	8 7:45 AM ICSC-Goldman Sachs 01/05 8:55 AM Redbook 01/05 3:00 PM Consumer Credit NOV Tsy Auctions 4-Wk Bills Tsy Auctions 52-Wk Bills Tsy Auctions 3-Yr Notes	9 7:00 AM MBA Mortgage Applications 01/04 10:30 AM EIA Crude Oil Stocks 01/04 Tsy Auctions 10-Yr Notes Reopen	10 8:30 AM Initial Claims 01/05 10:00 AM JOLTS Job Openings NOV 10:00 AM Wholesale Trade NOV 4:30 PM Weekly Money Supply 12/31 Tsy Announces 3&6-Mth Bills Tsy Auctions 30-Yr Bonds Reopen	11 8:30 AM U.S. Trade NOV 8:30 AM Trade Price Indexes DEC 2:00 PM Treasury Budget DEC	12
13	14 Tsy Announces 4-Wk Bills Tsy Auctions 3&6-Mth Bills Coming-of-Age Day JPN Markets Closed	15 7:45 AM ICSC-Goldman Sachs 01/12 8:30 AM Retail Sales DEC 8:30 AM PPI DEC 8:30 AM Empire State Index JAN 8:55 AM Redbook 01/12 10:00 AM Business Inventories NOV Tsy Auctions 4-Wk Bills	16 7:00 AM MBA Mortgage Applications 01/11 8:30 AM CPI DEC 9:00 AM Treasury Intl Capital NOV 9:15 AM Industrial Production DEC 10:00 AM NAHB Housing Market Index JAN 10:30 AM EIA Crude Oil Stocks 01/11 2:00 PM Beige Book for Jan 29-30 FOMC Meeting	17 8:30 AM Housing Starts DEC 8:30 AM Initial Claims 01/12 10:00 AM Philadelphia Fed Index JAN 4:30 PM Weekly Money Supply 01/07 Tsy Announces 10-Yr TIPS Tsy Announces 3&6-Mth Bills	18 9:55 AM Consumer Sentiment Pre JAN	19
20	21 Martin Luther King, Jr. U.S. Markets Closed	22 8:30 AM Chicago Fed National Activity Index DEC 10:00 AM Existing Home Sales DEC Tsy Announces 4-Wk Bills Tsy Auctions 3&6-Mth Bills	23 7:00 AM MBA Mortgage Applications 01/18 7:45 AM ICSC-Goldman Sachs 01/19 8:55 AM Redbook 01/19 9:00 AM FHFA Home Price Index NOV Tsy Auctions 4-Wk Bills	24 8:30 AM Initial Claims 01/19 10:00 AM Leading Indicators DEC 11:00 AM EIA Crude Oil Stocks 01/18 4:30 PM Weekly Money Supply 01/14 Tsy Announces 2-Yr, 5-Yr & 7-Yr Notes Tsy Announces 3&6-Mth Bills Tsy Auctions 10-Yr TIPS	25 10:00 AM New Home Sales DEC	26
27	28 8:30 AM Durable Orders DEC 10:00 AM Pending Home Sales Index DEC Tsy Announces 4-Wk Bills Tsy Auctions 3&6-Mth Bills Tsy Auctions 2-Yr Notes	29 7:45 AM ICSC-Goldman Sachs 01/26 8:55 AM Redbook 01/26 9:00 AM S&P/Case-Shiller Home Price Index NOV 10:00 AM Consumer Confidence JAN FOMC 2-Day Meeting Begins Tsy Auctions 4-Wk Bills Tsy Auctions 5-Yr Notes	30 7:00 AM MBA Mortgage Applications 01/25 8:15 AM ADP Employment Survey JAN 8:30 AM GDP Advance Q4 10:30 AM EIA Crude Oil Stocks 01/25 2:15 PM FOMC Policy Statement Tsy Auctions 7-Yr Notes	31 7:30 AM Challenger JAN 8:30 AM Employment Cost Index Q4 9:30 AM Personal Income & PCE DEC 8:30 AM Initial Claims 01/26 9:45 AM Chicago ISM JAN 3:00 PM Agricultural Prices JAN 4:30 PM Weekly Money Supply 01/21 Tsy Announces 3&6-Mth Bills Tsy Announces 52-Wk Bills		

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

S	M	T	W	T	F	S
						1
						2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28		

Please, visit our website at www.davidsoncompanies.com/fim

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*Estimated date

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FIXED INCOME BENCHMARK RETURNS**December 31, 2012**

	<u>Duration</u>	<u>Month Ending 12/31/2012</u>	<u>Quarter Ending 12/31/2012</u>	<u>Last Year</u>	<u>Last 3 Years</u>	<u>Last 5 Years</u>	<u>Last 10 Years</u>
<u>U.S. TREASURY BENCHMARKS</u>							
US Treasury 90 Day Bill	0.24	0.02	0.04	0.11	0.29	0.52	1.78
US Treasury 0-1 Year	0.51	0.03	0.06	0.18	0.29	0.93	1.99
US Treasury 0-3 Year	1.44	0.03	0.06	0.35	1.12	1.86	2.48
US Treasury 1-3 Year	1.87	0.03	0.07	0.43	1.44	2.32	2.72
US Treasury 0-5 Year	2.26	-0.03	0.05	0.75	2.15	2.77	3.00
US Treasury 1-5 Year	2.72	-0.05	0.04	0.91	2.62	3.32	3.32
US Treasury 1-10 Year	4.05	-0.23	0.01	1.87	4.59	4.66	4.12
<u>TIPS BENCHMARKS</u>							
TIPS 1-3 Year	0.95	0.17	0.43	1.70	2.35	2.86	N/A
TIPS 1-5 Year	1.70	0.02	0.44	2.67	3.80	3.97	N/A
TIPS 3-5 Year	2.27	-0.10	0.44	3.48	4.99	5.67	4.96
TIPS 1-10 Year	3.19	-0.35	0.44	5.07	6.44	5.67	5.71
<u>AGENCY BENCHMARKS</u>							
US Agency 1-3 Year	1.70	0.06	0.12	0.85	-0.54	2.76	3.01
US Agency 1-5 Year	2.36	-0.03	0.16	1.38	2.28	3.37	3.41
US Agency 1-10 Year	2.86	-0.06	0.19	1.92	3.22	4.06	3.94
<u>AGENCY BULLET</u>							
US Agency 1-3 Year Bullet	1.84	0.06	0.13	0.89	1.72	3.00	3.17
US Agency 1-5 Year Bullet	2.62	-0.04	0.16	1.52	2.55	3.73	3.65
US Agency 3-5 Year Bullet	3.84	-0.19	0.22	2.89	4.85	5.64	4.82
US Agency 1-10 Year Bullet	3.17	-0.08	0.21	2.16	3.63	4.51	4.23
<u>AGENCY CALLABLE</u>							
US Agency 1-3 Year Callable	1.13	0.04	0.11	0.69	0.99	1.89	2.46
US Agency 1-5 Year Callable	1.37	0.02	0.14	0.85	1.25	2.13	2.67
US Agency 3-5 Year Callable	1.68	0.00	0.20	1.24	2.00	2.78	3.12
US Agency 1-10 Year Callable	1.80	0.00	0.15	0.92	1.54	2.42	2.96
<u>CORPORATE</u>							
1-3 Year Corp A-AAA	1.94	0.15	0.44	4.02	3.32	3.73	3.65
1-5 Year Corp A-AAA	2.80	0.09	0.55	5.85	4.70	4.59	4.21
1-10 Year Corp A-AAA	4.32	0.00	0.88	8.51	6.92	5.79	4.98

Data source: Merrill Lynch Global Index System on Bloomberg.



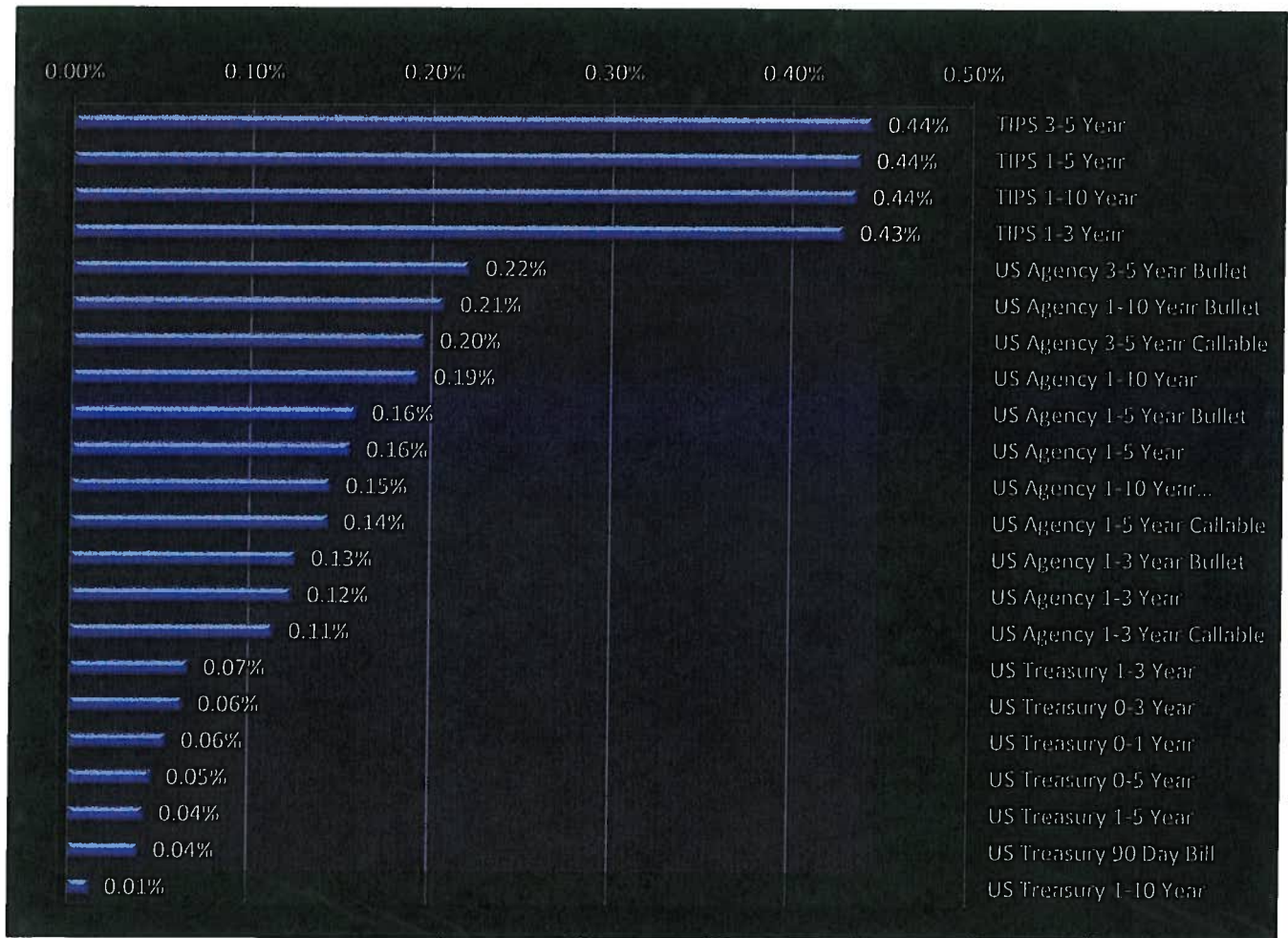
Davidson Fixed Income Management

REGISTERED INVESTMENT ADVISER

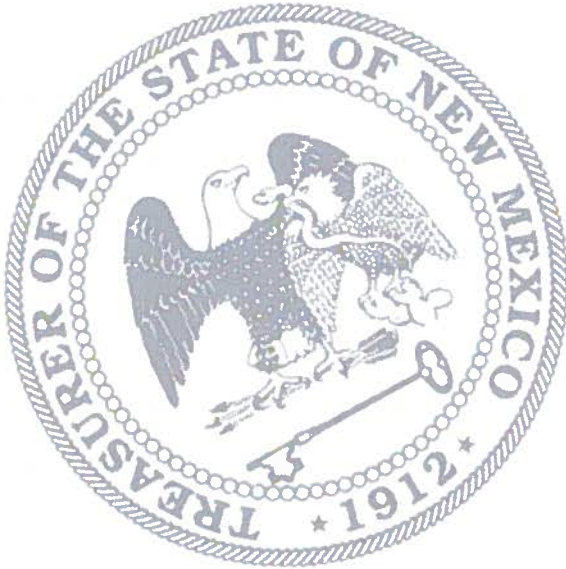
WHAT'S HOT AND WHAT'S NOT

QUARTERLY PERFORMANCE RANKINGS

December 31, 2012



Data source: Merrill Lynch Global Index System on Bloomberg.



6. Portfolio Summary- General Fund and Cash Projection

Portfolio Summary – General Fund

Summary

- The General Fund (Liquidity and Core Portfolios) closed the month of December at \$1.8 Billion, unchanged from November.
- Average Collected Balance at our Fiscal Agent bank was \$130 Million for the month of December.

Portfolio Mix

- At month end, 99% of the General Fund Core portfolio was invested in fixed income securities; 34% in Treasury securities; 64% in Agency and Government-related securities; 1% in Municipal Bonds, and the balance in Cash.
- 8% of the portfolio is invested in securities that mature in one year; 26% in securities that mature from 1-2 years; 46% in 2-4 years and 20% invested in securities that mature within 5 years.
- The General Fund Core portfolio held positions in 73 securities at the end of December.
- The Weighted Average Life of the CORE portion of the general fund is 2.9 years. The Weighted Average duration is 2.7 years.
- The benchmark duration for the CORE portfolio is 2.2 years.
- The maximum security term for the CORE portfolio is 5 years.

Performance

- For December, the general fund underperformed its benchmark by 4 basis points (0.04%).
- For the last quarter, the general fund outperformed its benchmark by 10 basis points (0.10%).
- For the last 12-months, the general fund outperformed its benchmark by 63 basis points (0.63%)

Market Value and Investment Earnings

- Unrealized gains in the Core Portfolio at the end of December were \$10.0 million.
- Over the month, the unrealized gains decreased by \$2.4 Million due to higher rates.
- Monthly Earnings for December on the General Fund Portfolios were \$1.2 million.
- Year-to-date earnings were over \$7.4 million.
- Earnings on the General Fund are used to offset General Fund Spending.

Investment Highlights

- Maturing securities and free cash are invested to the benchmark duration.
- Relative overweight in agency securities relative to the benchmark has resulted in a portion of performance gains.
- Relative overweight in duration has resulted in a portion of performance gains.

Compensating Balances at Fiscal Agent Bank

During December, STO maintained Average Daily Collected Balances at the Fiscal Agent Bank of approximately \$130 million. This balance earned a “soft-dollar” credit against processing fees assessed by the bank.

In December, the CIO, in conjunction with the State Cash Manager targeted an overnight balance target of \$125MM at the fiscal agent bank. Maintenance of higher cash balances at the fiscal agent will decrease general fund returns.

Fiscal Agent Bank Summary:

Average Collected Balance	\$130,367,293
Earnings Credit Rate	0.50%
Estimated Monthly Earnings	\$54,319
Estimated Fiscal Year Earnings	\$183,147

NMFA Holdings in the General Fund

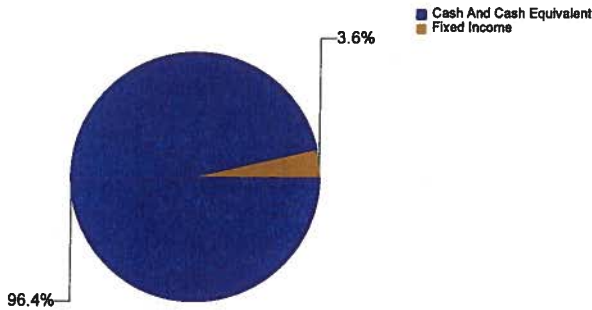
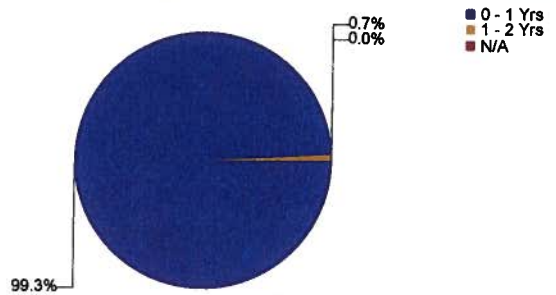
We held the following NMFA bond positions in the general fund portfolios:

June 30, 2012	\$14,310,000
July 31, 2012	\$14,310,000
August 31, 2012	\$14,310,000
September 30, 2012	\$14,310,000
October 31, 2012	\$14,310,000
November 30, 2012	\$14,310,000
December 31, 2012	\$14,310,000

Portfolio Characteristics

Duration Mix

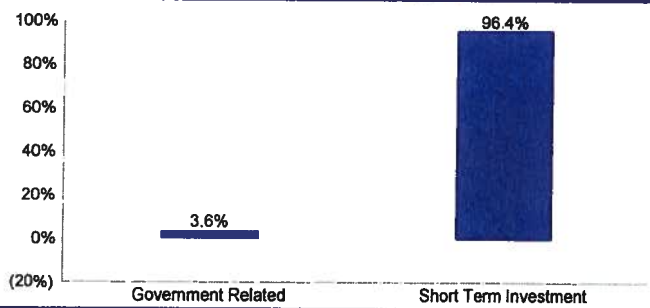
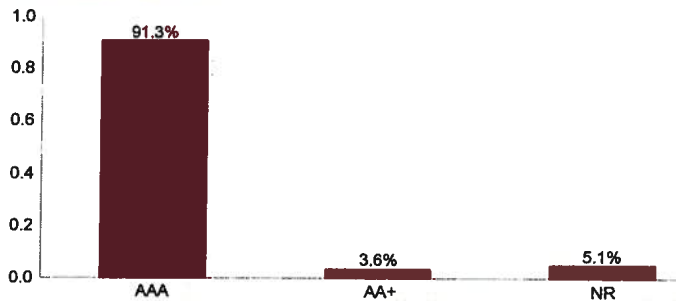
Total Net Assets (Millions) 549.8
Weighted Average Life (Years) 0.08
Weighted Avg. Effective Duration (Years) 0.04
Weighted Average Coupon (%) 0.62
Weighted Average Current Yield (%) 0.62
Weighted Average Yield to Maturity (%) 0.62
Weighted Average Rating AA+
Number of Holdings 22



Security ID	Security Name	% of Assets	Coupon Rate	Maturity Date
99C*60049	REPO MITSUBISHI UFJ SECURITIES (USA),INC.	9.17%	0.65	2/1/2013
99C*60053	REPO MITSUBISHI UFJ SECURITIES (USA),INC.	9.05%	0.65	2/1/2013
99C*60051	REPO MITSUBISHI UFJ SECURITIES (USA),INC.	9.05%	0.65	2/1/2013
99C*60050	REPO MITSUBISHI UFJ SECURITIES (USA),INC.	9.05%	0.65	2/1/2013
99C*60048	REPO MITSUBISHI UFJ SECURITIES (USA),INC.	9.05%	0.65	2/1/2013
99C*60052	REPO MITSUBISHI UFJ SECURITIES (USA),INC.	9.05%	0.65	2/1/2013
99C*60054	REPO MITSUBISHI UFJ SECURITIES (USA),INC.	8.94%	0.65	2/1/2013
99C*60056	REPO BANK OF NEW YORK/SOUTH STREET SECS	7.86%	0.45	2/1/2013
99C*60057	REPO BANK OF NEW YORK/SOUTH STREET SECS	7.84%	0.45	2/1/2013
99C*60056	REPO BANK OF NEW YORK/SOUTH STREET SECS	6.41%	0.45	2/1/2013

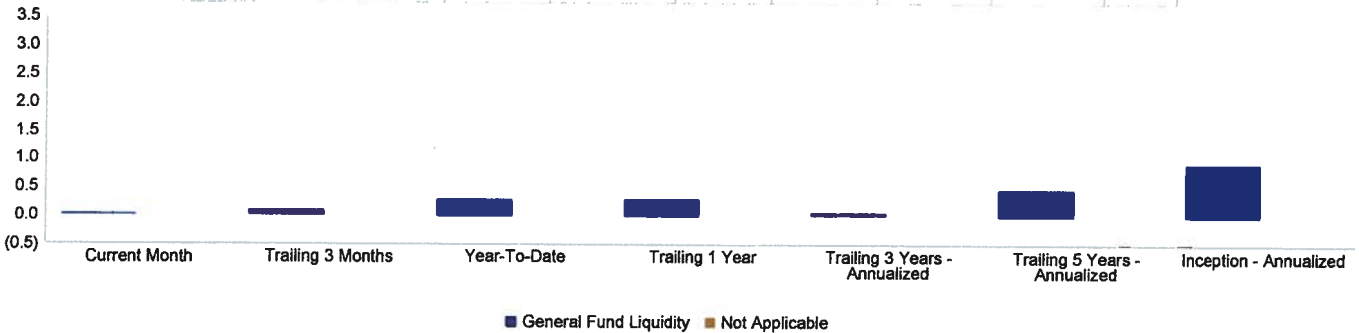
Quality/Rating Weightings

Sector Weightings (as % of Market Value)



Returns Series

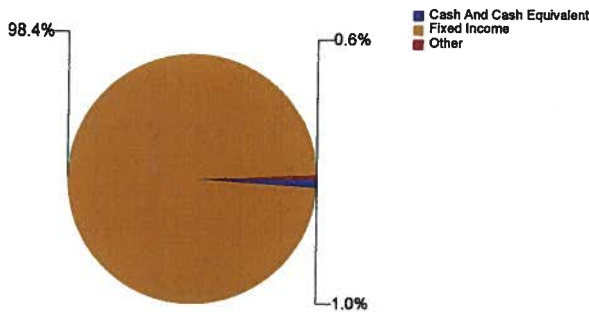
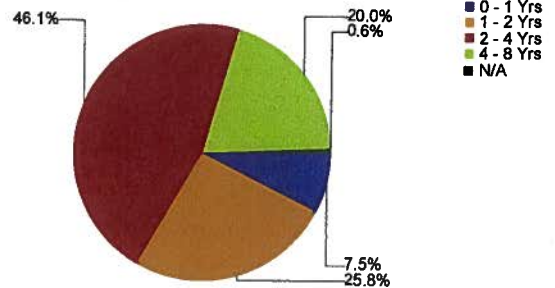
	Current Month	Trailing 3 Months	Year-To-Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Inception
General Fund Liquidity	0.02	0.07	0.27	0.27	0.05	0.48	0.91
Not Applicable							
Excess							



Portfolio Characteristics

Duration Mix

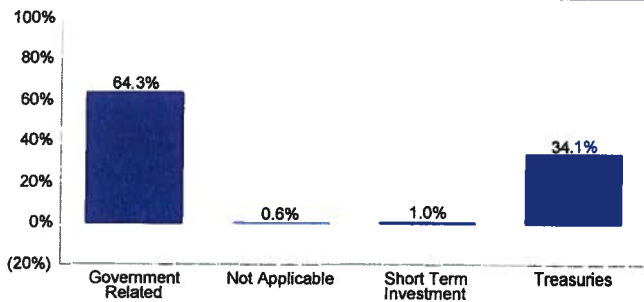
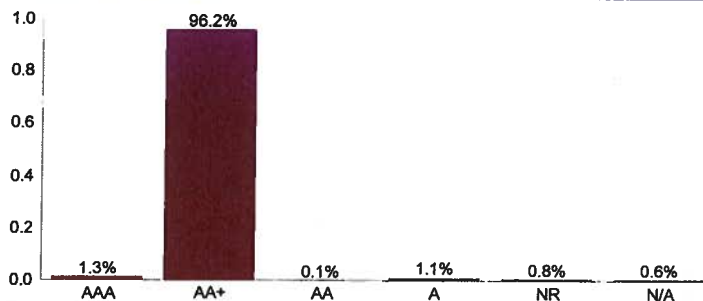
Total Net Assets (Millions) 1,327.6
Weighted Average Life (Years) 2.87
Weighted Avg. Effective Duration (Years) 2.73
Weighted Average Coupon (%) 1.63
Weighted Average Current Yield (%) 0.41
Weighted Average Yield to Maturity (%) 0.43
Weighted Average Rating AA+
Number of Holdings 73



Security ID	Security Name	% of Assets	Coupon Rate	Maturity Date
3135G0LN1	FEDERAL NATIONAL MORTGAGE ASSOC 0.5% NTS	4.57%	0.50	2/7/2015
3137EACW7	FED HOME LOAN MTG 2% BDS 25/AUG/2018 USD1000	3.21%	2.00	25/8/2016
3135G0GY3	FEDERAL NATIONAL MORTGAGE ASSOC 1.25% MTG BDS	3.12%	1.25	30/1/2017
912828KF8	US 1.87500 '14	3.11%	1.88	28/2/2014
912828SJ0	US 0.87500 '17	3.08%	0.88	28/2/2017
3135G0SB0	FEDERAL NATIONAL MORTGAGE ASSOC 0.375% BDS	3.03%	0.38	21/12/2015
3135G0BA0	FEDERAL NATIONAL MORTGAGE ASSOC 2.375% NTS	2.87%	2.38	11/4/2018
3135G0PQ0	FEDERAL NATIONAL MORTGAGE ASSOC 0% BDS 28/OCT/2017	2.87%	0.88	28/10/2017
912828TM2	US 0.62500 '17	2.65%	0.62	31/8/2017
31359M2D4	FEDERAL NATIONAL MORTGAGE ASSOC 4.875% BDS	2.85%	4.88	15/12/2016

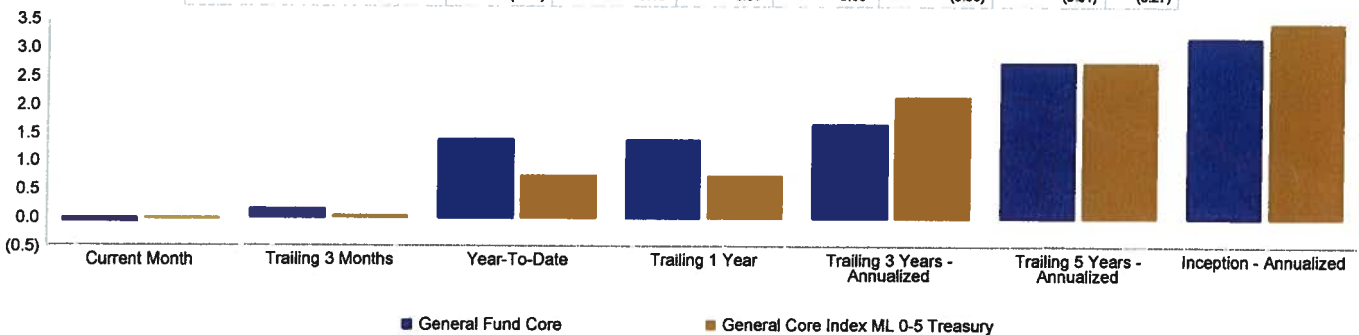
Quality/Rating Weightings

Sector Weightings (as % of Market Value)



Returns Series

	Current Month	Trailing 3 Months	Year-To-Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Inception
General Fund Core	(0.07)	0.15	1.38	1.38	1.65	2.78	3.20
General Core Index ML 0-5 Treasury	(0.03)	0.05	0.75	0.75	2.15	2.77	3.47
Excess	(0.04)	0.10	0.63	0.63	(0.50)	(0.01)	(0.27)



Performance by Asset Class

Composite Performance Results
As of December 2012

Asset Class	End Market Value	Weight	1 Month	3 Months	YTD	FYTD	1 Year
General Fund							
Fixed Income	1,326,912,706.70	70.68%	(0.07)	0.15	1.35	0.62	1.35
Corporates	0.00	0.00%	(0.04)	0.14	0.90	0.33	0.90
Government Related	873,620,011.70	46.53%	(0.08)	0.19	1.67	0.70	1.67
Treasuries	427,035,659.55	22.75%	(0.06)	0.06	0.76	0.44	0.76
Cash And Cash Equivalent	542,957,365.80	28.92%	0.03	0.08	0.27	0.15	0.27
Cash And Pending	0.00	0.00%	0.00	0.00	0.00	0.00	0.00
TOTAL	1,877,409,196.51	100.00%	(0.05)	0.13	1.04	0.50	1.04

Performance shown is gross of manager fees

Performance by Asset Class

Account Performance Results

As of December 2012

Asset Class	End Market Value	Weight	1 Month	3 Months	YTD	FYTD	1 Year
General Fund Liquidity							
Fixed Income	19,981,527.84	3.63%	(0.01)	0.01	0.34	0.07	0.34
Government Related	19,981,527.84	3.63%	(0.01)	0.01	0.34	0.07	0.34
Cash And Cash Equivalent	529,831,615.53	96.37%	0.03	0.08	0.27	0.15	0.27
Cash And Pending	0.00	0.00%	0.00	0.00	0.00	0.00	0.00
TOTAL	549,813,143.37	100.00%	0.02	0.07	0.27	0.14	0.27

Performance shown is gross of manager fees

Performance by Asset Class

Account Performance Results

As of December 2012

Asset Class	End Market Value	Weight	1 Month	3 Months	YTD	FYTD	1 Year
General Fund Core							
Fixed Income	1,306,931,178.86	98.44%	(0.07)	0.15	1.39	0.64	1.39
Corporates	0.00	0.00%	(0.04)	0.14	0.90	0.33	0.90
Government Related	853,638,483.86	64.30%	(0.09)	0.20	1.76	0.74	1.76
Treasuries	427,035,659.55	32.17%	(0.06)	0.06	0.76	0.44	0.76
Cash And Cash Equivalent	13,125,750.27	0.99%	0.04	0.11	0.27	0.17	0.27
Cash And Pending	0.00	0.00%	0.00	0.00	0.00	0.00	0.00
TOTAL	1,327,596,053.14	100.00%	(0.07)	0.15	1.38	0.64	1.38

Performance shown is gross of manager fees

STATE OF NEW MEXICO

GENERAL FUND (1000)

Portfolio Classification Summary

Positions Held as of 12/31/12

TXN BASIS: SETTLEMENT
 MKT-SOURCE: IDC-PREFERED+
 AMTZ ADDED: NO

ASSET CLASSIFICATION	ITEMS	YIELD	AVG-TERM	PRINCIPAL	COST-BASIS	MARKET-VALUE	GAIN/LOSS	%MARKET
REPURCHASE AGREEMENTS (O/N)	2	.5990	.00550	502,012,472	502,012,472	502,012,472		91.318
CERTIFICATES OF DEPOSIT	7	.4131	.64751	25,750,000	25,750,000	25,750,000		4.684
LINKED-CERTIFICATE OF DEPOSIT	1	.4000	.29320	2,000,000	2,000,000	2,000,000		.364
AGENCY US VARIABLE ACT/360 4X	1	.1525	1.06300	20,000,000	19,997,000	19,976,200	-20,800	3.634
	<u>11</u>	<u>.5733</u>	<u>.07509</u>	<u>549,762,472</u>	<u>549,759,472</u>	<u>549,738,672</u>	<u>-20,800</u>	<u>100.000</u>

STATE OF NEW MEXICO

GENERAL FUND CORE (1001)

Portfolio Classification Summary

Positions Held as of 12/31/12

TXN BASIS: SETTLEMENT
MKT-SOURCE: IDC-PREFERED+
AMTZ ADDED: NO

ASSET CLASSIFICATION	ITEMS	YIELD	AVG-TERM	PRINCIPAL	COST-BASIS	MARKET-VALUE	GAIN/LOSS	%MARKET
REPURCHASE AGREEMENTS (O/N)	1	.4563	.00550	3,112,659	3,112,659	3,112,659		.235
CERTIFICATES OF DEPOSIT	1	.5500	1.78900	10,000,000	10,000,000	10,000,000		.756
U.S. TREASURY BONDS	1	.3822	2.87400	15,000,000	19,060,544	19,062,900	2,356	1.442
US TREASURY NOTE ACT/ACT 2X	21	.8223	2.50159	425,600,000	428,915,553	432,438,121	3,522,568	32.703
AGENCY US BOND 30/360 2X	6	.5857	2.60746	123,000,000	124,512,620	125,058,410	545,790	9.458
AGENCY 30/360 2X	1	.9125	3.43840	25,000,000	25,000,000	25,426,000	426,000	1.923
AGENCY US NOTES 30/360 2X	24	.8718	3.15809	494,910,000	513,121,733	517,421,389	4,299,656	39.130
FED NATL MORTGAGE ASSN DEBS	6	.7244	2.63679	165,000,000	165,400,350	166,636,100	1,235,750	12.602
MUNI US 30/360 2X	7	.6106	.81046	20,600,000	20,789,046	20,828,112	39,066	1.575
MUNICIPAL BOND REVENUE	4	.3449	.63351	2,280,000	2,305,554	2,303,357	-2,197	.174
UNITS - INVESTMENT POOL 1	1			1,299	1,299	1,299		
CASH ACCOUNT	1			30,694	30,694	30,694		.002
	<u>74</u>	<u>.7950</u>	<u>2.76259</u>	<u>1,284,534,652</u>	<u>1,312,250,052</u>	<u>1,322,319,041</u>	<u>10,068,989</u>	<u>100.000</u>

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

AS-OF: 12/31/12

AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 8

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
148,712,472	OVERNIGHT REPO	0102RP	.450	1/02/13	.456	100.000000074	148,712,472.11	148,712,472.11
353,300,000	OVERNIGHT REPO	0102RP	.650	1/02/13	.659	100.000000000	353,300,000.00	353,300,000.00
250,000	GUADALUPE CREDIT UNION	735605	.750	3/26/13	.750	100.000000000	250,000.00	250,000.00
8,000,000	CENTURY BANK SANTA FE	17099245	.400	3/28/13	.400	100.000000000	8,000,000.00	8,000,000.00
2,000,000	MY BANK BELEN	63000023	.400	4/17/13	.400	100.000000000	2,000,000.00	2,000,000.00
500,000	WESTERN BANK CLOVIS	15955	.300	6/06/13	.300	100.000000000	500,000.00	500,000.00
8,000,000	CENTURY BAN SANTA FE	17099247	.350	6/28/13	.350	100.000000000	8,000,000.00	8,000,000.00
5,000,000	FIRST NATIONAL BANK SANTA FE	10336906	.400	10/15/13	.400	100.000000000	5,000,000.00	5,000,000.00
525,762,472					.013		525,762,472.11	525,762,472.11

====> 0008 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2013 <====

20,000,000	FEDERAL HOME LOAN BANKS	3133804M	.273	1/23/14	.152	99.985456800	19,997,091.36	19,976,200.00
2,000,000	UNION SAVINGS BANK	00156000	.600	8/27/14	.600	100.000000000	2,000,000.00	2,000,000.00
2,000,000	Bank 34	01010047	.550	8/28/14	.550	100.000000000	2,000,000.00	2,000,000.00
24,000,000					.287		23,997,091.36	23,976,200.00

====> 0003 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2014 <====

549,762,472					.013		549,759,563.47	549,738,672.11
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====> 0011 ITEMS IN SUBTOTAL FOR ====> FUND-NAME..... ====> GENERAL FUND <====

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

AS-OF: 12/31/12

AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 9

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
30,694	CASH KEY	CASHCASH				1.000000000	30,694.44	30,694.00
1,299	UNITS - INVESTMENT POOL 1	UNITS001				1.000161663	1,299.21	1,299.00
31,993					215.53		31,993.65	31,993.00

====> 0002 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> NO-MEANINGFUL-DATE <====

3,112,659	OVERNIGHT REPO	0102RP	.450	1/02/13	.456	99.999985222	3,112,658.54	3,112,658.54
2,000,000	NEW MEXICO FIN AUTH REV	64711NNV	2.000	6/01/13	1.014	100.414246000	2,008,284.92	2,010,320.00
3,605,000	NEW MEXICO FIN AUTH REV	64711NPA	2.000	6/01/13	.356	100.685836616	3,629,724.41	3,630,271.05
1,285,000	UNIVERSITY OF NM-REFUNDING	914692N2	2.000	6/01/13	.305	100.706821012	1,294,082.65	1,292,684.30
500,000	NMFA SERIES B1	64711NLW	2.000	6/01/13	.305	100.706822000	503,534.11	503,710.00
10,000,000	FEDERAL HOME LOAN BANKS	3133XXYX	1.875	6/21/13	.851	100.487086100	10,048,708.61	10,081,900.00
7,525,000	ALBUQUERQUE NM 2012C	ABQ2012C	.290	7/01/13	.294	100.000000000	7,525,000.00	7,525,000.00
20,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3135G0BR	.500	8/09/13	.588	99.951650100	19,990,330.02	20,038,600.00
10,000,000	UNITED STATES TREASURY NOTES	912828NY	.750	9/15/13	.541	100.146049300	10,014,604.93	10,041,800.00
10,000,000	FEDERAL HOME LOAN BANKS	313371UC	.875	12/27/13	1.110	99.784179200	9,978,417.92	10,068,400.00
10,000,000	UNITED STATES TREASURY NOTES	912828RW	.125	12/31/13	.233	99.892485700	9,989,248.57	9,993,800.00
78,027,659					.088		78,094,594.68	78,299,143.89

====> 0011 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2013 <====

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

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AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 10

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
13,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31359MTP	5.125	1/02/14	.828	104.293562077	13,558,163.07	13,634,140.00
30,000,000	FED HOME LOAN BANKS	313376UF	.375	1/29/14	.323	100.060184367	30,018,055.31	30,059,100.00
20,000,000	UNITED STATES TREASURY NOTES	912828JZ	1.750	1/31/14	.666	101.166025200	20,233,205.04	20,333,600.00
20,000,000	UNITED STATES TREASURY NOTES	912828QH	1.250	2/15/14	1.413	99.818737100	19,963,747.42	20,232,000.00
40,000,000	UNITED STATES TREASURY NOTES	912828KF	1.875	2/28/14	1.048	100.950684425	40,380,273.77	40,770,400.00
15,000,000	UNITED STATES TREASURY NOTES	912828KJ	1.750	3/31/14	.729	101.262206533	15,189,330.98	15,285,300.00
20,000,000	UNITED STATES TREAS NTS	912828SL	.250	3/31/14	.262	99.985079550	19,997,015.91	20,009,400.00
20,000,000	UNITED STATES TREASURY NOTES	912828KN	1.875	4/30/14	1.476	100.522313100	20,104,462.62	20,438,200.00
20,000,000	UNITED STATES TREASURY NOTES	912828KV	2.250	5/31/14	1.509	101.030830600	20,206,166.12	20,568,800.00
3,060,000	NEW MEXICO FIN AUTH REV	64711NNW	3.000	6/01/14	1.490	102.136560784	3,125,378.76	3,153,758.40
3,615,000	NEW MEXICO FIN AUTH REV	64711NPB	2.000	6/01/14	.456	102.186242047	3,694,032.65	3,698,361.90
770,000	NEW MEXICO FIN AUTH REV	64711NPX	2.000	6/01/14	1.014	101.402853247	780,801.97	784,545.30
165,000	UNIVERSITY OF NM-REFUNDING	914692Q6	3.000	6/01/14	.487	103.553393939	170,863.10	170,527.50
330,000	UNIVERSITY OF NM-REFUNDING	914692N3	2.000	6/01/14	.487	102.143300000	337,072.89	336,435.00
20,000,000	UNITED STATES TREASURY NOTES	912828QS	.750	6/15/14	.771	99.969648100	19,993,929.62	20,155,400.00
15,000,000	UNITED STATES TREAS NTS	912828LC	2.625	7/31/14	1.513	101.730640067	15,259,596.01	15,564,300.00
20,000,000	FED NATL MORTGAGE ASSN DEBS	3135G0BY	.875	8/28/14	.457	100.699618150	20,139,923.63	20,201,400.00
10,000,000	FIRST NATIONAL BANK SANTA FE	01033690	.550	10/15/14	.550	100.000000000	10,000,000.00	10,000,000.00
10,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EACY	.750	11/25/14	.772	99.979175600	9,997,917.56	10,090,800.00
7,000,000	UNITED STATES TREASURY NOTES	912828TZ	.250	11/30/14	.238	100.022868572	7,001,600.80	7,000,280.00
20,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EADA	.625	12/29/14	.364	100.528152200	20,105,630.44	20,129,200.00
307,940,000					.022		310,257,167.67	312,615,948.10

====> 0021 ITEMS IN SUBTOTAL FOR ==== FINAL-MATURITY.. ====> 2014 <====

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

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STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

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POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
20,000,000	FED NATL MORTGAGE ASSN DEBS	3135G0HG	.375	3/16/15	.541	99.651338900	19,930,267.78	20,026,600.00
20,000,000	UNITED STATES TREAS NTS	912828SP	.375	4/15/15	.387	99.972674250	19,994,534.85	20,036,000.00
60,000,000	FED NATL MORTGAGE ASSN DEBS	3135G0LN	.500	7/02/15	.511	99.990062467	59,994,037.48	60,208,800.00
10,500,000	UNITED STATES TREASURY NOTES	912828TD	.250	7/15/15	.320	99.823190286	10,481,434.98	10,482,780.00
20,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134A4VC	4.375	7/17/15	.965	108.584402400	21,716,880.48	22,027,600.00
25,000	SOUTHERN SANDOVAL CNTY N MEX A	843789FH	2.000	8/01/15	.710	103.322160000	25,830.54	25,856.25
20,150,000	UNITED STATES TREAS NTS	912828EE	4.250	8/15/15	.346	110.181984367	22,201,669.85	22,201,270.00
20,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3136FR3F	.950	9/08/15	.963	100.000000000	20,000,000.00	20,024,600.00
20,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EACM	1.750	9/10/15	1.015	101.983729400	20,396,745.88	20,732,800.00
14,250,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3135G0NV	.500	9/28/15	.503	100.010801754	14,251,539.25	14,294,887.50
15,000,000	UNITED STATES TREASURY BONDS	912810DT	9.875	11/15/15	.382	127.071052600	19,060,657.89	19,062,900.00
13,000,000	FEDERAL HOME LOAN BANKS	313380L9	.500	11/20/15	.432	100.211993539	13,027,559.16	13,049,010.00
40,000,000	FNMA	3135G0SB	.375	12/21/15	.439	99.828889000	39,931,555.60	39,950,400.00
11,660,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G3EG	1.150	12/30/15	1.166	100.000000000	11,660,000.00	11,751,531.00
10,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G3FA	1.100	12/30/15	1.115	100.000000000	10,000,000.00	10,068,400.00

294,585,000					.023		302,672,713.74	303,943,434.75

==> 0015 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2015 <==

20,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31359MH8	5.000	3/15/16	1.026	112.545891550	22,509,178.31	22,887,000.00
35,500,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3135G0BA	2.375	4/11/16	.804	105.108062197	37,313,362.08	37,729,755.00
20,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EACT	2.500	5/27/16	1.095	104.734980950	20,946,996.19	21,339,000.00
25,000,000	FEDERAL AGRICULTURAL MORTG CORP	31315PB7	.900	6/09/16	.913	100.000000000	25,000,000.00	25,426,000.00
20,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31359MS6	5.375	7/15/16	1.142	114.700021100	22,940,004.22	23,389,800.00

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

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BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

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STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

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POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
40,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EACW	2.000	8/25/16	.844	104.190103175	41,676,041.27	42,097,600.00
20,000,000	UNITED STATES TREASURY NOTES	912828RF	1.000	8/31/16	.929	100.254673050	20,050,934.61	20,381,200.00
20,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3135G0CM	1.250	9/28/16	1.218	100.178291750	20,035,658.35	20,518,800.00
30,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31359M2D	4.875	12/15/16	.582	116.797057567	35,039,117.27	34,953,900.00
10,000,000	FEDERAL HOME LOAN BANKS	3133XHZK	4.750	12/16/16	.704	115.809130600	11,580,913.06	11,599,100.00
25,000,000	UNITED STATES TREAS NTS	912828RX	.875	12/31/16	.776	100.388905040	25,097,226.26	25,343,750.00
265,500,000					.024		282,189,431.62	285,665,905.00

====> 0011 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2016 <====

15,000,000	FED NATL MORTGAGE ASSN DEBS	3136FTYG	1.000	1/30/17	1.026	99.951978467	14,992,796.77	15,009,600.00
40,000,000	FED NATL MORTGAGE ASSN DEBS	3135G0GY	1.250	1/30/17	1.069	100.780599850	40,312,239.94	41,006,800.00
20,000,000	UNITED STATES TREAS NTS	912828SC	.875	1/31/17	.846	100.115976700	20,023,195.34	20,265,600.00
20,000,000	FEDERAL HOME LOAN BANK	3133786Q	1.000	2/13/17	1.044	99.879155650	19,975,831.13	20,332,400.00
40,000,000	UNITED STATES TREAS NTS	912828SJ	.875	2/28/17	.872	100.012023550	40,004,809.42	40,525,200.00
20,000,000	FED HOME LOAN MORTGAGE CORP DBS	3137EADC	1.000	3/08/17	1.121	99.567232400	19,913,446.48	20,255,000.00
10,000,000	FED NATL MORTGAGE ASSN DEBS	3135G0JA	1.125	4/27/17	1.064	100.319995800	10,031,999.58	10,182,900.00
20,000,000	FEDERAL HOME LN MTG CORP	3137EADH	1.000	6/29/17	.934	100.347018150	20,069,403.63	20,248,400.00
25,500,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EADJ	1.000	7/28/17	.932	100.361932667	25,592,292.83	25,756,275.00
17,950,000	UNITED STATES TREASURY NOTES	912828TG	.500	7/31/17	.654	99.305972591	17,825,422.08	17,841,941.00
25,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3135G0MZ	.875	8/28/17	.799	100.396973040	25,099,243.26	25,072,000.00
35,000,000	UNITED STATES TREASURY NOTES	912828TM	.625	8/31/17	.685	99.725149000	34,903,802.15	34,967,100.00
15,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EADL	1.000	9/29/17	.900	100.518935200	15,077,840.28	15,157,650.00
35,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3135G0PQ	.875	10/26/17	.776	100.519317743	35,181,761.21	35,141,750.00
338,450,000					.020		339,004,084.10	341,762,616.00

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

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STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

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POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
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====> 0014 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2017 <====

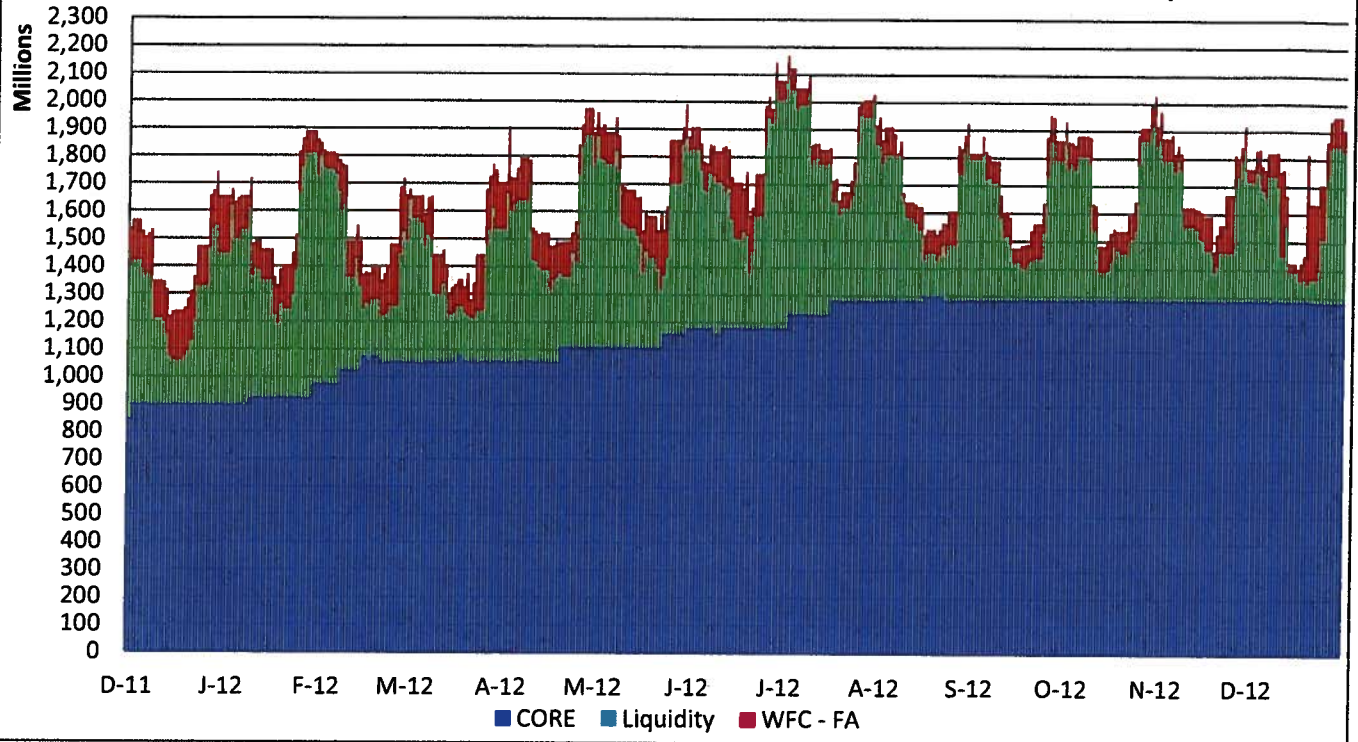
-----	1284534652					-----	.005	-----	-----
								1312249985.46	1322319040.74

====> 0074 ITEMS IN SUBTOTAL FOR ====> FUND-NAME..... ====> GENERAL FUND CORE <====

GFIP Cash Flows

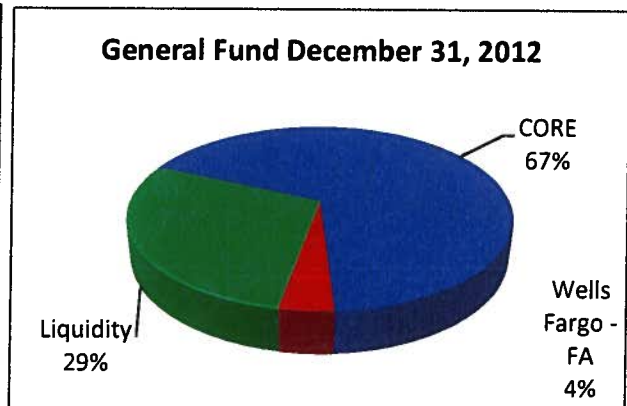
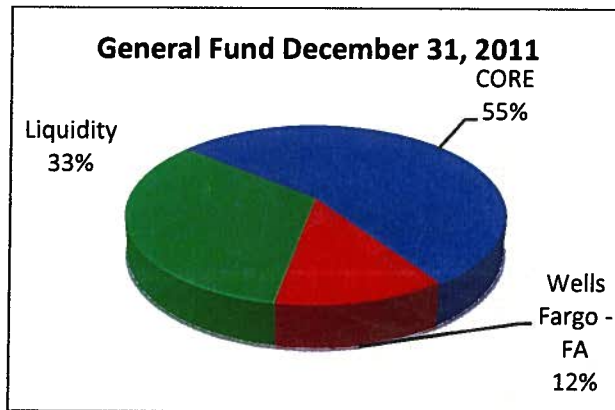


1 year - Cash Balances (Liquidity, CORE, & Fiscal Agent Accounts)

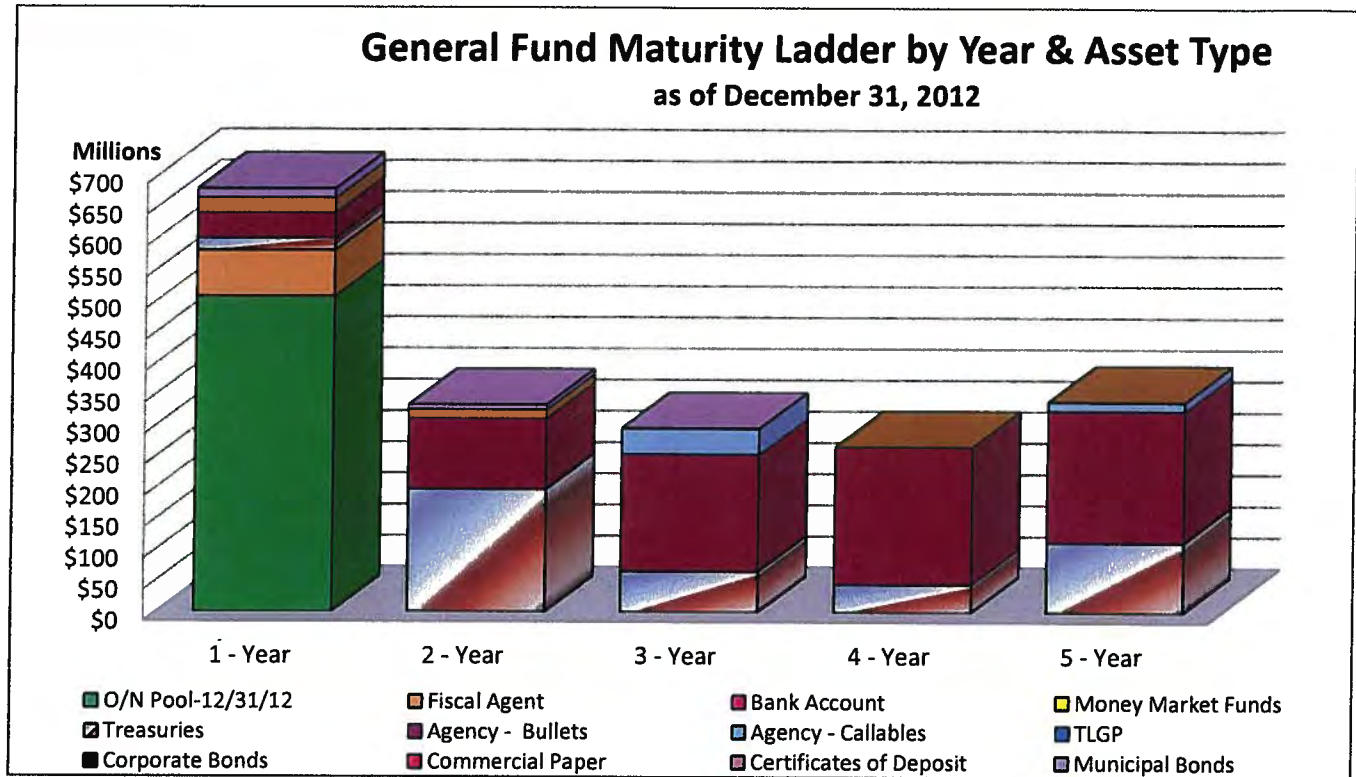


GENERAL FUND	Dec-11	Dec-12	Difference
Liquidity	548,459,413	549,762,472	1,303,059
CORE	899,786,936	1,284,503,958	384,717,022
Wells Fargo - FA	203,859,418	73,606,297	(130,253,121)

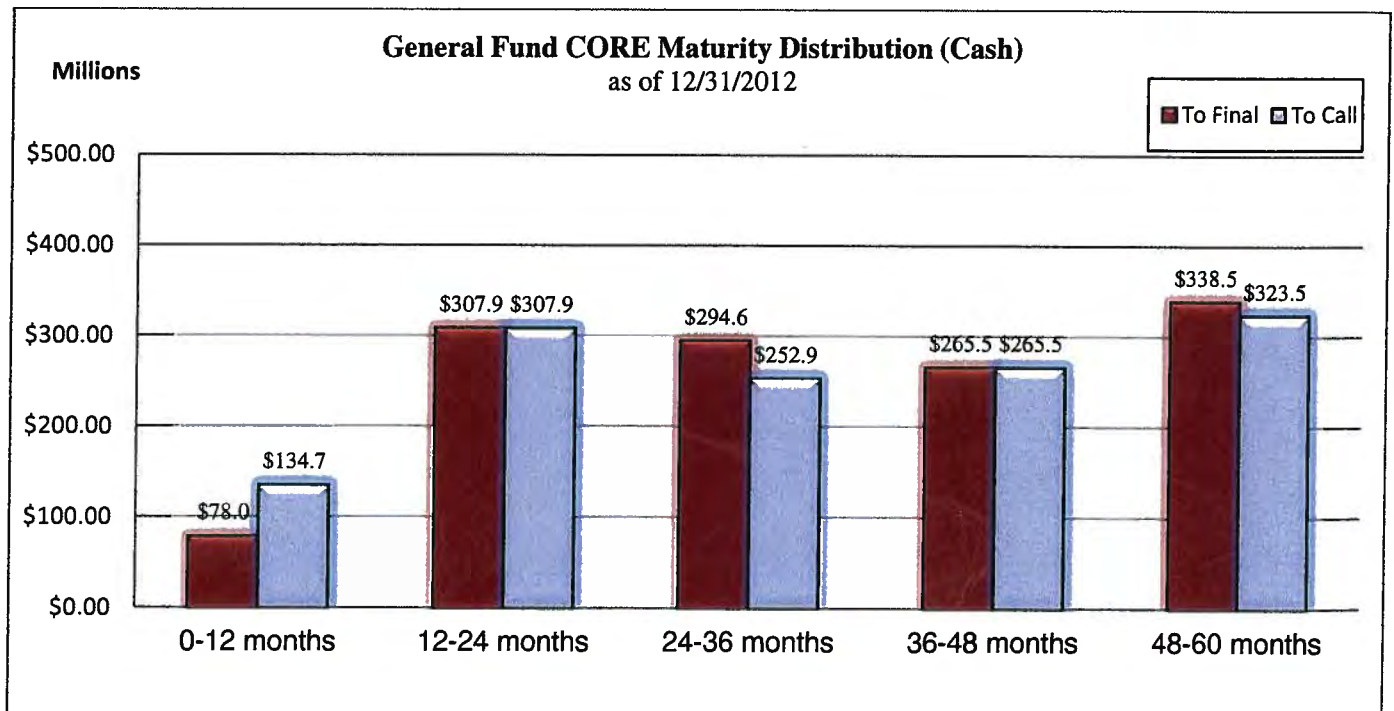
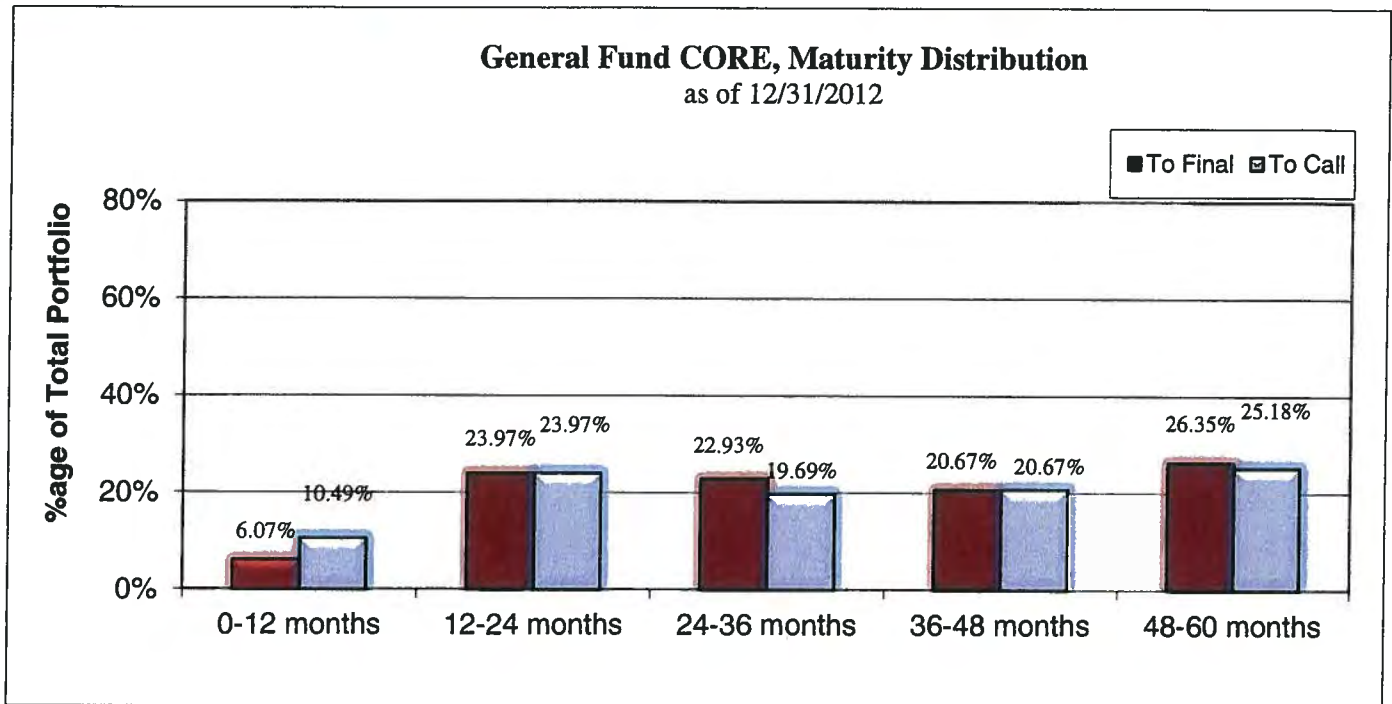
1,652,105,767	1,907,872,727	255,766,960
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General Fund Maturity Ladder by Year & Asset Type as of December 31, 2012



Asset Allocation	1 - Year	2 - Year	3 - Year	4 - Year	5 - Year	Total	%
Agency - Bullets	40,000,000	113,000,000	187,250,000	220,500,000	210,500,000	771,250,000	40%
Agency - Callables	0		41,660,000	0	15,000,000	56,660,000	3%
TLGP	0					0	0%
Corporate Bonds	0					0	0%
Money Market Funds	1,298					1,298	0%
Municipal Bonds	14,915,000	7,940,000	25,000			22,880,000	1%
Certificates of Deposit	23,750,000	14,000,000	0	0	0	37,750,000	2%
Commercial Paper						0	0%
Treasuries	20,000,000	197,000,000	65,650,000	45,000,000	112,950,000	440,600,000	23%
Bank Account						0	0%
Fiscal Agent	73,606,297					73,606,297	4%
O/N Pool-12/31/12	505,125,131					505,125,131	26%
Total:	677,397,726	331,940,000	294,585,000	265,500,000	338,450,000	1,907,872,726	100%
% of Total:	36%	17%	15%	14%	18%		



GFIP Cash Flows

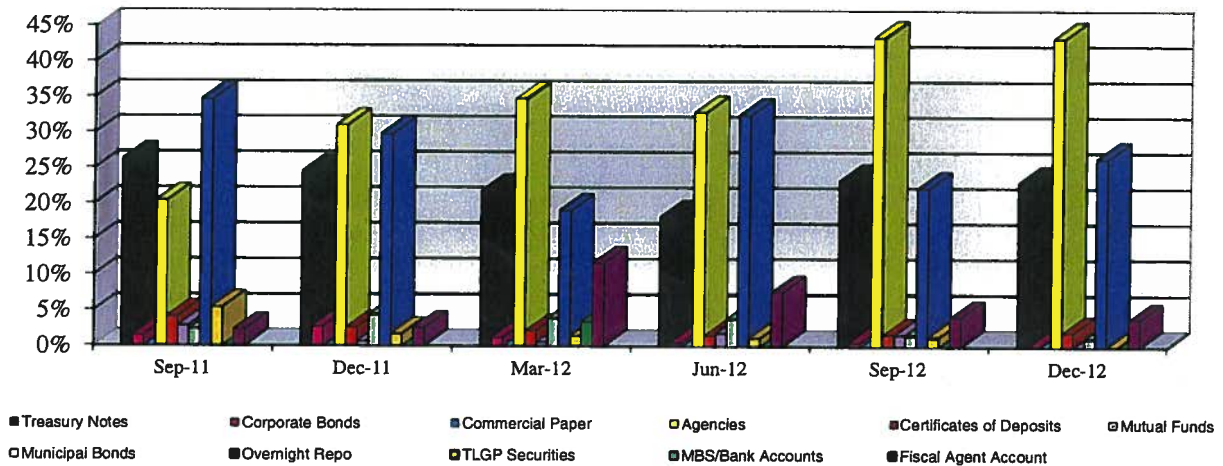
General Fund Portfolio Allocation - Month ending December 31, 2012

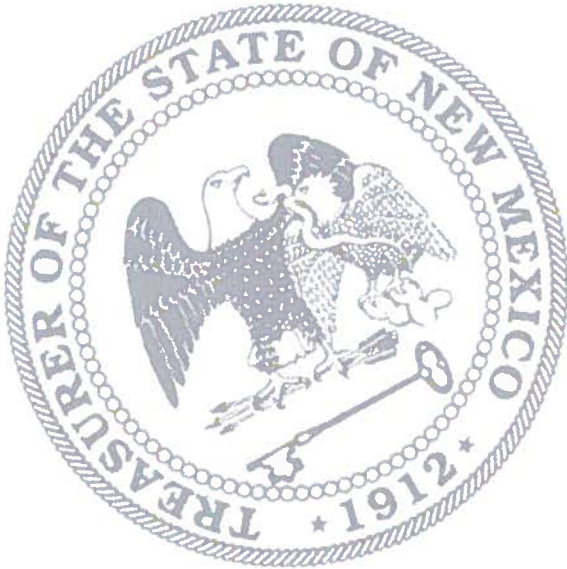
Allocation by Amount

Number of Items	87	96	83	109	100	86
	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Treasury Notes	365,000,000	365,000,000	380,000,000	395,000,000	436,850,000	440,600,000
Corporate Bonds	20,000,000	40,000,000	20,000,000	10,000,000	10,000,000	0
Commercial Paper	0	0	0	0	0	0
TLGP Securities	75,000,000	25,000,000	25,000,000	25,000,000	25,000,000	0
Agencies	283,380,000	461,040,000	604,540,000	714,540,000	814,410,000	827,910,000
MBS/Bank Accounts	0	0	60,017,370	0	0	0
Certificates of Deposits	57,250,000	38,250,000	37,250,000	32,750,000	30,750,000	37,750,000
Mutual Funds	39,354,901	10,026,496	10,027,792	40,027,793	30,027,794	1,299
Municipal Bonds	33,365,000	65,655,000	68,805,000	84,530,000	30,765,000	22,880,000
Overnight Repo	481,795,465	443,273,557	332,440,228	706,683,493	417,064,988	505,125,131
Fiscal Agent Account	32,154,835	38,007,813	203,859,418	164,300,659	77,966,347	73,606,297
Total :	1,387,300,201	1,486,252,866	1,741,939,808	2,172,831,945	1,872,834,129	1,907,872,727

Allocation by Percent

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Treasury Notes	26.3%	24.6%	21.8%	18.2%	23.3%	23.1%
Corporate Bonds	1.4%	2.7%	1.1%	0.5%	0.5%	0.0%
Commercial Paper	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TLGP Securities	5.4%	1.7%	1.4%	1.2%	1.3%	0.0%
Agencies	20.4%	31.0%	34.7%	32.9%	43.5%	43.4%
Certificates of Deposits	4.1%	2.6%	2.1%	1.5%	1.6%	2.0%
MBS/Bank Accounts	0.0%	0.0%	3.4%	0.0%	0.0%	0.0%
Mutual Funds	2.8%	0.7%	0.6%	1.8%	1.6%	0.0%
Municipal Bonds	2.4%	4.4%	3.9%	3.9%	1.6%	1.2%
Overnight Repo	34.7%	29.8%	19.1%	32.5%	22.3%	26.5%
Fiscal Agent Account	2.3%	2.6%	11.7%	7.6%	4.2%	3.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%





7. Portfolio Summary- Local Government Investment Pool (LGIP)

Portfolio Summary – Local Government Investment Pool (LGIP)

Summary

- Ending December market value for the LGIP was \$558mil, lower than the \$579mil reported at the end of November.
- The LGIP maintains an AAAM rating by Standard & Poor's.
- At the end of December the STO LGIP participant balance was \$20,701,457.67 or 3.7% of the Pool.
- At the end of December the Judicial District Court LGIP participant balance was \$4,318,613.85 or 0.8% of the Pool.

Portfolio Mix

- 20% of the portfolio was invested in fixed income securities, 18% in floating rate notes, 15% in collateralized demand deposit accounts with qualified banking institutions, 2% in commercial paper and 45% in a repurchase agreement.
- At month-end, the LGIP held positions in 24 securities.

Investment Earnings

- In December, the fund earned \$101,095 for its participants.
- For Fiscal Year 2013, the fund has earned \$715,553.
- Earnings in the LGIP are retained by participants after a management fee of 0.05% is paid to the General Fund.

Performance

- Gross Yield on the LGIP was 0.215% at the end of December.
- Net yield to participants was 0.165%.

Investment Highlights

- For the LGIP, the WAM(R) of 58 days, and WAM (F) of 98 days, were within their maximums of 60 and 120 days respectively.
- The LGIP experienced net withdrawals of approximately \$21mil during the month of December.
- The General Fund liquidated its entire LGIP position of \$25mil+.
- Maturities for December totaled \$135mil face amount.
- The LGIP purchased \$10mil FHLB one year notes at 0.215%.
- The LGIP invested \$20mil in a 30 day term repo to reduce overnight investment exposure.
- US Treasury repo was attractive versus collateralized bank deposits and was utilized to maximize yield on cash balances. Term investments were mostly unattractive, except for one year maturities, but were limited by WAM (R).

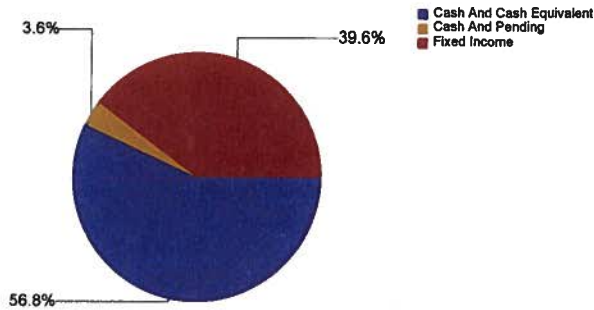
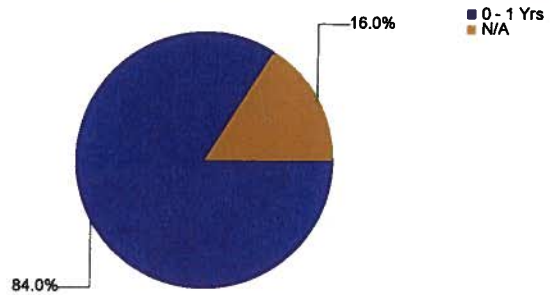
Investment Strategy

- LGIP WAMs are currently 54 and 93 days for WAM(R) and WAM (F) respectively.
- The LGIP has had net subscriptions of approximately \$7mil in January thus far, including the liquidation of the entire position, \$16mil+, held in the Severance Tax Bonding Fund.
- Maturities have totaled \$30mil in January.
- Yields on overnight investments have dropped dramatically. US Treasury repo has at times been below 0.10% making bank deposits a better alternative.
- LGIP has increased its Bank of the West deposits to \$118mil.
- LGIP has been utilizing high quality commercial paper for overnight investments not to exceed 5% of the total portfolio market value per issuer.
- Straight-A Funding CP was purchased at 0.18-0.19% for three month maturities.
- LGIP purchased \$12mil of a FHLB Federal Funds floating rate note maturing in October 2013 bringing the total floating rate note exposure to almost 20% of the total Pool.
- LGIP will continue to focus on maximizing safety of principal and providing adequate liquidity through the use of conservative investments.

Portfolio Characteristics

Duration Mix

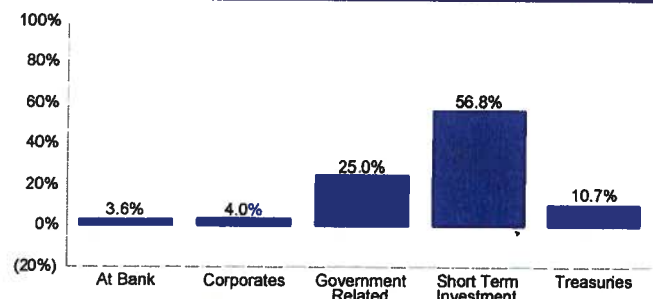
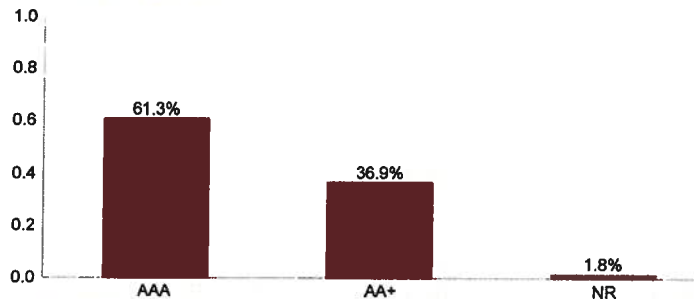
Total Net Assets (Millions)	563.0
Weighted Average Life (Years)	0.27
Weighted Avg. Effective Duration (Years)	0.15
Weighted Average Coupon (%)	0.15
Weighted Average Current Yield (%)	0.17
Weighted Average Yield to Maturity (%)	0.17
Weighted Average Rating	AA+
Number of Holdings	24



Security ID	Security Name	% of Assets	Coupon Rate	Maturity Date
89499LC10	BANK OF THE WEST	12.80%	0.00	1/1/2013
31331KF62	FEDERAL FARM CR BKS CONS BD FLT 13 12/JUN/2013	9.21%	0.16	12/6/2013
99C*60018	REPO BANK OF NEW YORK/SOUTH STREET SECS	9.14%	0.15	2/1/2013
99C*60016	REPO BNP PARIBAS SECURITIES CORP. 31/DEC/2012BNP	9.06%	0.20	2/1/2013
99C*60015	REPO BNP PARIBAS SECURITIES CORP. 31/DEC/2012BNPB	9.06%	0.20	2/1/2013
99C*60017	REPO BANK OF NEW YORK/SOUTH STREET SECS	8.38%	0.15	2/1/2013
99C*60014	REPO BNP PARIBAS SECURITIES CORP. 31/DEC/2012BNPC	6.74%	0.20	2/1/2013
45950VBT2	INTL FINANCE CORP 1.5% MTN 20/MAY/2013 USD (SE)	3.69%	0.30	20/5/2013
912828RN2	UNITED STATES TREAS NTS 0.250% 31/OCT/2013	3.69%	0.25	31/10/2013
912828RS1	UNITED STATES TREAS NTS 0.25% 30/NOV/2013	3.69%	0.25	30/11/2013

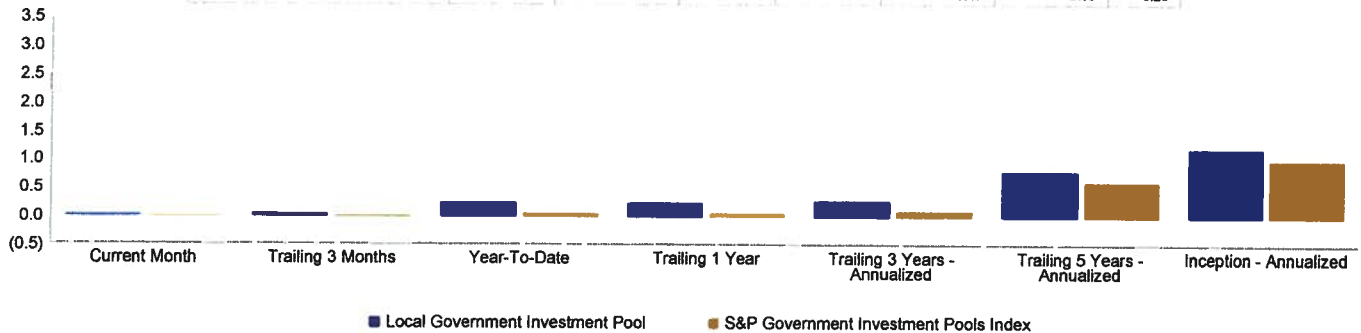
Quality/Rating Weightings

Sector Weightings (as % of Market Value)



Returns Series

	Current Month	Trailing 3 Months	Year-To-Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Inception
Local Government Investment Pool	0.02	0.04	0.23	0.23	0.27	0.78	1.19
S&P Government Investment Pools Index	0.01	0.02	0.06	0.06	0.09	0.60	0.99
Excess	0.02	0.02	0.16	0.16	0.17	0.18	0.20



Performance by Asset Class

Account Performance Results

As of December 2012

Asset Class	End Market Value	Weight	1 Month	3 Months	YTD	FYTD	1 Year
Local Government Investment Pool							
Fixed Income	222,973,365.17	39.61%	0.03	0.03	0.25	0.12	0.25
Corporates	22,302,004.82	3.96%	0.06	(0.07)	0.35	0.15	0.35
Government Related	140,633,013.85	24.98%	0.02	0.04	0.27	0.11	0.27
Treasuries	60,038,346.50	10.66%	0.04	0.07	0.16	0.12	0.16
Cash And Cash Equivalent	320,013,211.22	56.84%	0.02	0.05	0.21	0.11	0.21
Cash And Pending	20,002,333.33	3.55%	0.00	0.00	0.00	0.00	0.00
TOTAL	562,988,909.72	100.00%	0.02	0.04	0.23	0.11	0.23

Performance shown is gross of manager fees

STATE OF NEW MEXICO

LGIP FUND (4101)

Portfolio Classification Summary

Positions Held as of 12/31/12

TXN BASIS: SETTLEMENT
 MKT-SOURCE: IDC-PREFERED+
 AMTZ ADDED: NO

ASSET CLASSIFICATION	ITEMS	YIELD	AVG-TERM	PRINCIPAL	COST-BASIS	MARKET-VALUE	GAIN/LOSS	%MARKET
REPURCHASE AGREEMENTS (O/N)	6	.1795	.00900	250,000,000	250,000,000	250,000,000		44.406
US TREASURY NOTE ACT/ACT 2X	3	.2022	.83197	60,000,000	60,005,055	60,019,000	13,945	10.661
AGENCY US BOND 30/360 2X	3	.2253	.55252	29,450,000	29,437,847	29,445,074	7,227	5.230
AGENCY US VARIABLE ACT/360 4X	4	.1568	.72081	98,200,000	98,214,433	98,166,062	-48,371	17.437
CORP US FLOAT ACT/360 4X	1	.3706	.38900	2,250,000	2,250,867	2,250,867		.400
MEDIUM-TERM NOTES	1	.3042	.38360	20,000,000	20,000,000	20,099,000	99,000	3.570
CORP US DISC ACT/ACT 365 DAY	2	.3331	.20317	13,000,000	12,992,018	12,994,330	2,312	2.308
CASH ACCOUNT	4	.2140		90,012,066	90,012,066	90,012,066		15.988
	<u>24</u>	<u>.1946</u>	<u>.31807</u>	<u>562,912,066</u>	<u>562,912,286</u>	<u>562,986,399</u>	<u>74,113</u>	<u>100.000</u>

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

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BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

AS-OF: 12/31/12

AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 14

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
14,167,511	WELLS FARGO CASH ACCOUNT	CASHCASH	.100			1.000000000	14,167,511.13	14,167,511.00
2,358,810	WELLS FARGO SAVINGS	CASHCASH	.100			1.000000000	2,358,809.80	2,358,810.00
68,397,439	BANK OF THE WEST	CASHCASH	.250			1.000000000	68,397,438.55	68,397,439.00
5,088,306	US BANK	CASHCASH	.200			1.000000000	5,088,305.91	5,088,306.00
90,012,066					.077		90,012,065.39	90,012,066.00

====> 0004 ITEMS IN SUBTOTAL FOR ==== FINAL-MATURITY.. ====> NO-MEANINGFUL-DATE <====

49,203,000	1231BNP US TREASURY REPO	1231BNPR	.200	1/02/13	.203	100.000000000	49,203,000.00	49,203,000.00
49,203,000	1231BNP US TREASURY REPO	1231BNPR	.200	1/02/13	.203	100.000000000	49,203,000.00	49,203,000.00
36,594,000	1231BNP US TREASURY REPO	1231BNPR	.200	1/02/13	.203	100.000000000	36,594,000.00	36,594,000.00
49,632,303	SOUTH STREET US TREASURY REPO	1231SSRP	.150	1/02/13	.152	100.000000000	49,632,303.00	49,632,303.00
45,367,697	SOUTH STREET US TREASURY REPO	1231SSRP	.150	1/02/13	.152	100.000000000	45,367,697.00	45,367,697.00
10,000,000	FDIC SSGN	625475AB		1/07/13	.341	99.994400300	9,999,440.03	10,000,000.00
20,000,000	SOUTH STREET SEC US TREASURY REP	1221SSR4	.150	1/18/13	.152	100.000000000	20,000,000.00	20,000,000.00
9,200,000	FEDERAL HOME LOAN BANKS	313379AA	.160	2/01/13	.218	99.995405544	9,199,577.31	9,200,276.00
20,000,000	INTERNATIONAL FINANCE CORP	45950VBT	.300	5/20/13	.304	100.000000000	20,000,000.00	20,099,000.00
2,250,000	INTL BK RECON & DEVELOP	45905UJW	.460	5/22/13	.371	100.038349778	2,250,862.87	2,250,862.87
50,000,000	FEDERAL FARM CREDIT BANKS	31331KF6	.111	6/12/13	.154	100.012658500	50,006,329.25	49,978,500.00
10,250,000	FEDERAL FARM CREDIT BANKS	3133EACJ	.180	8/07/13	.241	99.965236976	10,246,436.79	10,249,897.50
20,000,000	UNITED STATES TREASURY NOTES	912828RK	.125	9/30/13	.195	99.947940150	19,989,588.03	19,994,600.00
3,000,000	CORUS CONSTRUCTION VENTURE, LLC	22087WAC		10/25/13	.308	99.752229333	2,992,566.88	2,994,330.00
20,000,000	UNITED STATES TREASURY NOTES	912828RN	.250	10/31/13	.211	100.032260350	20,006,452.07	20,012,600.00
20,000,000	UNITED STATES TREASURY NOTES	912828RS	.250	11/30/13	.201	100.044619850	20,008,923.97	20,011,800.00

SOURCE: VisualQED

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BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

AS-OF: 12/31/12

AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 15

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
10,000,000	FEDERAL HOME LOAN BANKS	313381HG	.125	12/06/13	.216	99.918231700	9,991,823.17	9,994,900.00
8,200,000	FEDERAL HOME LOAN BANK	313379R2	.250	12/13/13	.222	100.038782317	8,203,180.15	8,203,362.00
20,000,000	FEDERAL HOME LOAN BANKS	313379QY	.250	12/20/13	.141	100.039598950	20,007,919.79	20,008,000.00
452,900,000					.015		452,903,100.31	452,998,128.37

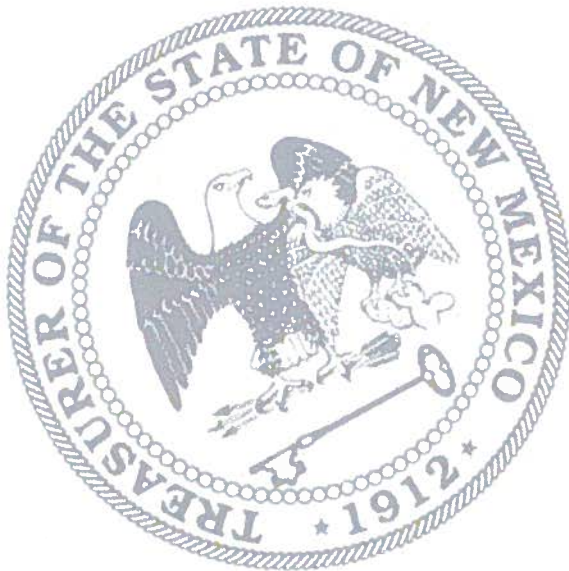
===> 0019 ITEMS IN SUBTOTAL FOR ===> FINAL-MATURITY.. ===> 2013 <===

20,000,000	FEDERAL HOME LOAN BANKS	3133804M	.273	1/23/14	.152	99.985456800	19,997,091.36	19,976,200.00
20,000,000					.345		19,997,091.36	19,976,200.00

===> 0001 ITEMS IN SUBTOTAL FOR ===> FINAL-MATURITY.. ===> 2014 <===

562,912,066					.012		562,912,257.06	562,986,394.37
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===> 0024 ITEMS IN SUBTOTAL FOR ===> FUND-NAME..... ===> LGIP FUND <===



8. Portfolio Summary- Tax-Exempt Bond Proceeds Investment Pool

Portfolio Summary – Tax Exempt Bond Proceeds Investment Pool

Summary

- The Tax Exempt Bond Proceeds Investment Pool closed the month of December at \$332mil vs. \$320mil at the end of November.
- The Pool paid out approximately \$5mil for capital spending in December 2012 and received \$16mil for the debt service payment on January 2, 2013.

Portfolio Mix

- 100% of the Tax-Exempt BPIP portfolio was invested in fixed income securities; 62% in Treasury and Agency Securities, 5% in Supranational (World Bank), 8% in NM municipal securities, 1% in NM bank collateralized CDs and the balance, approximately 24%, held in cash equivalents.
- 46% of the portfolio was invested in securities that mature in one year, 24% in securities that mature from 1-2 years, 25% in securities that mature from 2-4 years and 5% in securities out to 5 years.
- The Tax-Exempt BPIP held positions in 30 securities.
- Weighted Average Life of the Tax Exempt BPIP was 1.5 years. The Weighted Average duration was 1.4 years.
- The maximum security term for the BPIP portfolio is 5 years.

Investment Earnings

- Unrealized gains in the Tax-Exempt BPIP Portfolio were \$1.2mil as of December 31st.
- Monthly Earnings on the portfolio for December were \$179,982.
- Earnings for FY2013 were \$1,287,331.
- Earnings on the Bond Proceeds Investment Pool are used to offset capital and debt service spending.

Investment Highlights

- The duration of the Tax-Exempt BPIP at the end of December was generally unchanged from November and was similar to the Benchmark.
- The Tax-Exempt BPIP had an anticipated \$10mil face amount of FFCB called away on December 14, 2012.
- There were two maturities in December: \$25mil Citigroup TLGP and \$50mil GE TLGP.
- The Tax-Exempt BPIP purchased \$10mil FHLMC 0.52% 12/28/15, callable in 6 months and then quarterly thereafter.
- The Pool purchased \$10mil US Treasury notes maturing in three years at close to 0.40%.

Performance

- The purchase yield was 0.65% at the end of December. The yield-to-worst was 0.32%.
- The Tax-Exempt BPIP returned 0.01% for the month of December and 0.12% for the three months ended December 31, 2012, vs. Index returns of 0.03% and 0.06% respectively. YTD the Pool returned 0.72% vs. 0.35% for the Index.

- US Treasury yields moved lower with three and five year maturities rising 3 and 11 basis points respectively.
- The increase in yields during the month of December slightly hindered performance as the portfolio held securities longer than three years vs. the index that has a maximum maturity of three years.

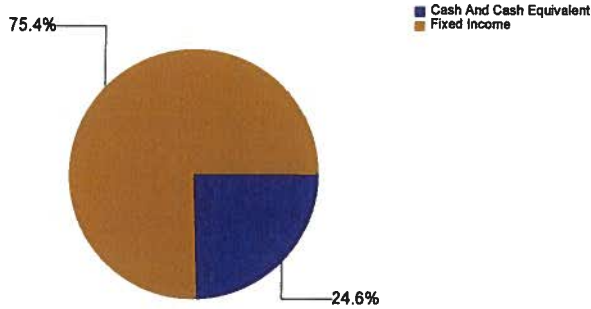
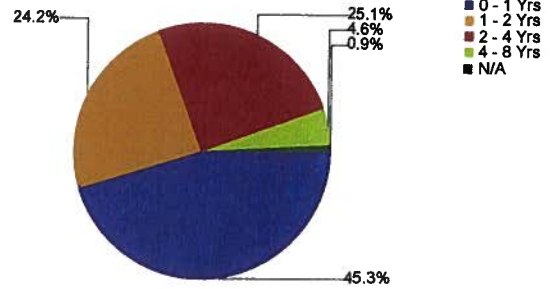
Investment Strategy

- The option-adjusted duration of the Tax-Exempt BPIP portfolio is currently 1.48 yrs. vs. 1.37 yrs. for the benchmark.
- US Treasury yields have continued to climb higher in January with the two, three and five year maturities suffering 3, 7 and 14 basis point increases so far.
- The Tax-Exempt BPIP paid out \$16mil+ for debt service on January 2, 2013.
- The Pool has a \$10mil maturity on January 31, 2013 with the next maturity occurring on April, 15, 2013.
- There is a debt service payment on March 1, 2013 for \$69mil+. Estimated contributions from property taxes are about \$35mil. The Pool will need to generate the difference of \$34mil in cash to pay debt service as well as meet liquidity needs for capital project withdrawals.
- The cash position is currently around \$41mil or 13% of the total market value and should be sufficient to cover immediate liquidity needs.
- With overnight repo rates currently very low the Pool purchased \$10mil of Straight-A CP with a three month maturity at 0.19%.
- The Tax-Exempt BPIP will maintain its duration close to slightly longer than the benchmark.

Portfolio Characteristics

Duration Mix

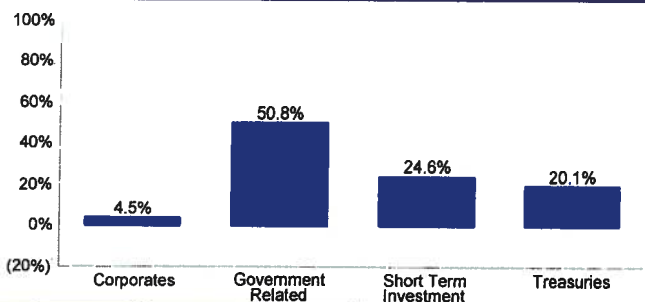
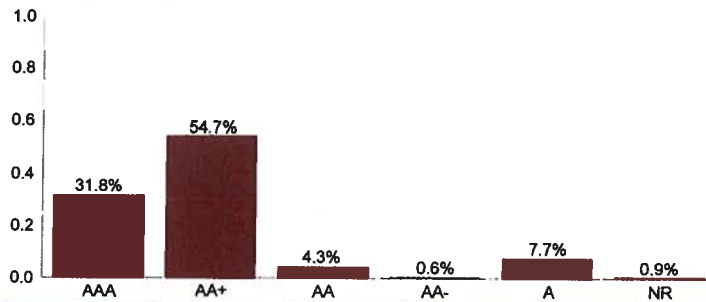
Total Net Assets (Millions) 333.6
Weighted Average Life (Years) 1.47
Weighted Avg. Effective Duration (Years) 1.42
Weighted Average Coupon (%) 1.52
Weighted Average Current Yield (%) 0.48
Weighted Average Yield to Maturity (%) 0.48
Weighted Average Rating AA+
Number of Holdings 27



Security ID	Security Name	% of Assets	Coupon Rate	Maturity Date
99C*80065	REPO MITSUBISHI UFJ SECURITIES (USA), INC.	14.74%	0.65	2/1/2013
99C*60084	REPO BANK OF NEW YORK/SOUTH STREET SECS	8.01%	0.45	2/1/2013
31359MRK1	FED NATL MORT ASSC 4.825% NOTES 01/MAY/2013	7.68%	4.62	1/5/2013
3137EACW7	FED HOME LOAN MTG 2% BDS 25/AUG/2018 USD1000	8.35%	2.00	25/8/2018
912828PM8	US 2.12500 '15	4.73%	2.12	31/12/2015
912828KF6	US 1.87500 '14	4.61%	1.88	28/2/2014
313379FW4	FEDERAL HOME LOAN BANKS 1% BDS 09/JUN/2017 USD5000	4.55%	1.00	9/8/2017
912828MX5	UNITED STATES TREAS NTS 1.75% 15/APR/2013	4.53%	1.75	15/4/2013
3134G3ZA1	FEDERAL HOME LOAN MORTGAGE CORP 0.5% BDS	4.52%	0.50	28/8/2015
45850VBW5	INTL FINANCE CORP 0.33% MTN 01/AUG/2013 USD	4.50%	0.33	1/8/2013

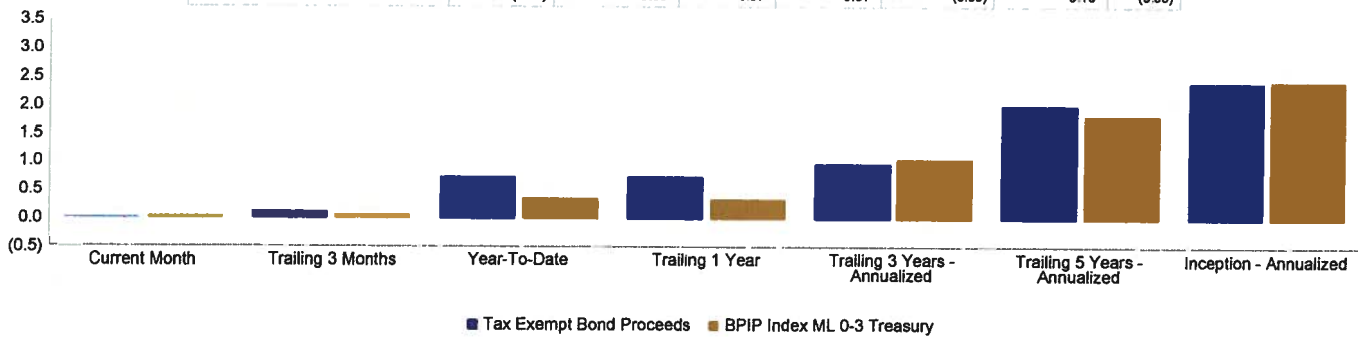
Quality/Rating Weightings

Sector Weightings (as % of Market Value)



Returns Series

	Current Month	Trailing 3 Months	Year-To-Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Inception
Tax Exempt Bond Proceeds	0.01	0.12	0.72	0.72	0.97	2.00	2.40
BPIP Index ML 0-3 Treasury	0.03	0.06	0.35	0.35	1.05	1.82	2.43
Excess	(0.02)	0.05	0.37	0.37	(0.08)	0.18	(0.03)



Performance by Asset Class

Account Performance Results

As of December 2012

Asset Class	End Market Value	Weight	1 Month	3 Months	YTD	FYTD	1 Year
Tax Exempt Bond Proceeds							
Fixed Income	251,724,240.09	75.45%	0.01	0.12	0.80	0.39	0.80
Corporates	15,021,340.50	4.50%	(0.03)	0.05		0.17	
Government Related	169,586,859.34	50.83%	0.01	0.13	0.89	0.43	0.89
Treasuries	56,326,048.26	16.88%	0.02	0.05	0.35	0.27	0.35
Cash And Cash Equivalent	81,910,620.00	24.55%	0.03	0.08	0.25	0.14	0.25
Cash And Pending	0.00	0.00%	0.00	0.00	0.00	0.00	0.00
TOTAL	333,634,860.09	100.00%	0.01	0.12	0.72	0.35	0.72

Performance shown is gross of manager fees

STATE OF NEW MEXICO
BOND PROCEEDS INV POOL1 TAX EX (4000)

Portfolio Classification Summary

Positions Held as of 12/31/12

TXN BASIS: SETTLEMENT
MKT-SOURCE: IDC-PREFERED+
AMTZ ADDED: NO

ASSET CLASSIFICATION	ITEMS	YIELD	AVG-TERM	PRINCIPAL	COST-BASIS	MARKET-VALUE	GAIN/LOSS	%MARKET
REPURCHASE AGREEMENTS (O/N)	2	.5876	.00550	75,891,041	75,891,041	75,891,041		22.825
CERTIFICATES OF DEPOSIT	2	.6000	1.51510	3,000,000	3,000,000	3,000,000		.902
US TREASURY NOTE ACT/ACT 2X	5	.6079	1.52622	65,000,000	66,654,108	66,848,000	193,892	20.105
AGENCY US BOND 30/360 2X	2	.6877	3.85208	25,000,000	25,089,512	25,161,150	71,638	7.567
AGENCY US NOTES 30/360 2X	6	.7125	1.61598	90,000,000	90,971,377	91,537,150	565,773	27.531
FED NATL MORTGAGE ASSN DEBS	3	1.3371	2.22169	23,495,000	23,557,248	23,943,051	385,803	7.201
MEDIUM-TERM NOTES	1	.3346	.58360	15,000,000	15,000,000	15,010,650	10,650	4.515
MUNI US 30/360 2X	7	.3899	1.21909	27,235,000	28,173,149	28,179,461	6,312	8.475
UNITS - INVESTMENT POOL 1	1			3,009,262	3,009,262	3,009,262		.905
CASH ACCOUNT	1			-88,510	-88,510	-88,510		-.027
	<u>30</u>	<u>.6535</u>	<u>1.35562</u>	<u>327,541,793</u>	<u>331,257,187</u>	<u>332,491,255</u>	<u>1,234,068</u>	<u>100.000</u>

SOURCE: VisualQED
 MODEL: INVENTORY
 USER: WRIGHT
 RUN: 1/31/13 @ 08:42:08

STATE OF NEW MEXICO
 T R E A S U R E R ' S O F F I C E

BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)
 AS-OF: 12/31/12
 AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

PAGE: 1

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
- 88,510	CASH KEY	CASHCASH				1.000000000	- 88,509.61	- 88,510.00
3,009,262	UNITS - INVESTMENT POOL 1	UNITS001				1.000000027	3,009,262.08	3,009,262.00
2,920,752					2.361		2,920,752.47	2,920,752.00

====> 0002 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> NO-MEANINGFUL-DATE <====

49,175,000	OVERNIGHT REPO	0102RP	.650	1/02/13	.659	100.000000000	49,175,000.00	49,175,000.00
26,716,041	OVERNIGHT REPO	0102RP	.450	1/02/13	.456	99.999998391	26,716,040.57	26,716,040.57
10,000,000	UNITED STATES TREASURY NOTES	912828PR	.625	1/31/13	.377	100.020130800	10,002,013.08	10,003,900.00
15,000,000	UNITED STATES TREASURY NOTES	912828MX	1.750	4/15/13	.715	100.294346933	15,044,152.04	15,070,350.00
25,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31359MRK	4.625	5/01/13	.550	101.357155440	25,339,288.86	25,370,000.00
2,000,000	LOS ALAMOS CNTY N MEX INC UTIL	54423EBV	5.000	7/01/13	.355	102.320938500	2,046,418.77	2,045,040.00
15,000,000	INTL FINANCE CORP	45950VBW	.330	8/01/13	.335	100.000000000	15,000,000.00	15,010,650.00
7,350,000	ALBUQUERQUE N MEX MUN SCH DIST	013595RQ	1.000	8/01/13	.300	100.409957959	7,380,131.91	7,379,179.50
150,241,041					.046		150,703,045.23	150,770,160.07

====> 0008 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2013 <====

15,000,000	UNITED STATES TREASURY NOTES	912828KF	1.875	2/28/14	.986	101.022551667	15,153,382.75	15,288,900.00
6,485,000	NEW MEXICO ST SEVERANCE TAX	647310P4	4.000	7/01/14	.406	105.378471858	6,833,793.90	6,834,865.75
4,780,000	NEW MEXICO ST SEVERANCE TAX	647310N4	4.000	7/01/14	.406	105.378471757	5,037,090.95	5,030,902.20

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

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STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 2

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
2,000,000	FARMERS & STOCKMENS BANK	8521444	.600	7/07/14	.600	100.000000000	2,000,000.00	2,000,000.00
1,000,000	FARMERS & STOCKMENS BANK	8521448	.600	7/07/14	.600	100.000000000	1,000,000.00	1,000,000.00
500,000	ALBUQUERQUE N MEX MUN SCH DIST	013595RR	2.000	8/01/14	.466	102.426536000	512,132.68	512,655.00
5,570,000	ALBUQUERQUE N MEX MUN SCH DIST	013595RE	3.000	8/01/14	.456	104.018413106	5,793,825.61	5,806,836.40
10,000,000	FEDERAL HOME LOAN MORTGAGE CORP	3134G3Y6	.375	12/10/14	.380	100.000000000	10,000,000.00	10,003,100.00
45,335,000					.149		46,330,225.89	46,477,259.35

====> 0008 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2014 <====

550,000	ALBUQUERQUE N MEX MUN SCH DIST	013595RS	2.000	8/01/15	.598	103.609396364	569,851.68	569,981.50
15,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G3ZA	.500	8/28/15	.450	100.147768533	15,022,165.28	15,049,350.00
10,000,000	FNMA	3135G0SB	.375	12/21/15	.457	99.775858200	9,977,585.82	9,987,600.00
10,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G32F	.520	12/28/15	.527	100.000000000	10,000,000.00	9,997,500.00
10,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G3FA	1.100	12/30/15	1.115	100.000000000	10,000,000.00	10,068,400.00
15,000,000	UNITED STATES TREAS NTS	912828PM	2.125	12/31/15	.433	105.033142467	15,754,971.37	15,784,050.00
60,550,000					.112		61,324,574.15	61,456,881.50

====> 0006 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2015 <====

10,000,000	UNITED STATES TREASURY NOTES	912828KS	2.625	2/29/16	.395	106.996344200	10,699,634.42	10,700,800.00
20,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EACW	2.000	8/25/16	1.160	103.050929900	20,610,185.98	21,048,800.00

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

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STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 3

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
10,000,000	FEDERAL NATL MTG ASSN DEBS	3135G0ES	1.375	11/15/16	1.227	100.621948600	10,062,194.86	10,301,900.00
10,000,000	FED NATL MORTGAGE ASSN DEBS	3136FTUZ	1.400	12/30/16	1.419	100.000000000	10,000,000.00	10,108,300.00
3,495,000	FED NATL MORTGAGE ASSN DEBS	3136FTUZ	1.400	12/30/16	1.419	100.000000000	3,495,000.00	3,532,850.85
53,495,000					.126		54,867,015.26	55,692,650.85

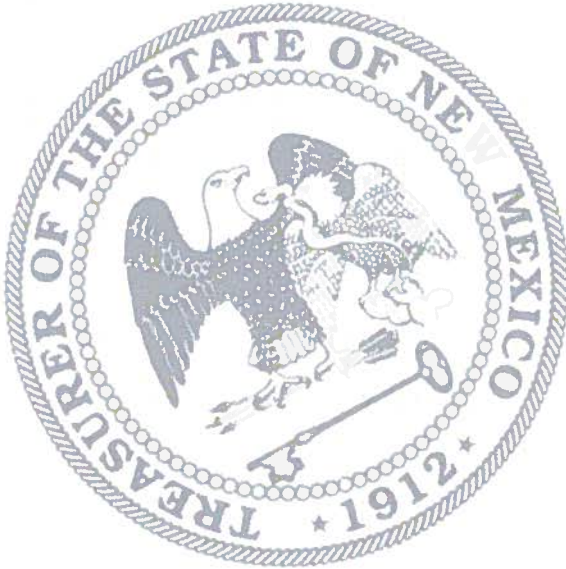
====> 0005 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2016 <===

15,000,000	FEDERAL HOME LOAN BANKS	313379FW	1.000	6/09/17	.840	100.747998600	15,112,199.79	15,173,550.00
15,000,000					.456		15,112,199.79	15,173,550.00

====> 0001 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2017 <===

327,541,793					.021		331,257,812.79	332,491,253.77
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====> 0030 ITEMS IN SUBTOTAL FOR ==> FUND-NAME..... ==> BOND PROCEEDS INV POOL1 TAX EX <



9. Portfolio Summary- Taxable Bond Proceeds Investment Pool

Portfolio Summary – Taxable Bond Proceeds Investment Pool

Summary

- The Taxable Bond Proceeds Investment Pool closed the month of December at \$599mil vs. \$541mil on November 30th.
- Approximately \$87mil in external contributions were received during December.
- The Pool paid out approximately \$29mil for capital spending in December 2012.

Portfolio Mix

- 100% of the Taxable BPIP portfolio was invested in fixed income securities; 78% in US Treasury and Agency securities, 3% in Supranational (World Bank), 2% in NM municipal securities and the balance, approximately 17%, was held in cash equivalents and collateralized NM bank CDs.
- 43% of the portfolio was invested in securities that mature in one year, 32% in securities that mature from 1-2 years, 23% in securities that mature from 2-4 years and 2% in securities out to 5 years.
- The Taxable BPIP held positions in 54 securities.
- Weighted Average Life of the Taxable BPIP was 1.6 years. The Weighted Average duration was 1.40 years.
- The maximum security term for the BPIP portfolio is 5 years.

Investment Earnings

- The unrealized gains in the Taxable BPIP Portfolio were \$2.7mil as of December 31st.
- Monthly earnings on the portfolio for December were \$338,267.
- For fiscal year 2013, the fund has earned \$2.6mil.
- Earnings on the Bond Proceeds Investment Pool are used to offset capital and debt service spending.

Investment Highlights

- The duration of the Taxable BPIP at the end of December shortened 0.05yr. to 1.40 vs. November and was similar to the Benchmark.
- The Taxable BPIP had an anticipated \$20mil face amount of FHLMC called away on 12/5/12 and \$4.365mil FFCB called on 12/14/12.
- There were three maturities in December totaling \$65.155mil.
- In addition, \$1.1mil NM CD on 12/27/12 was reinvested for a two year term at 0.75%.
- A new \$8mil CD was purchased from Century Bank of Santa Fe NM for a one year term at 0.40%.
- The Taxable BPIP purchased \$20mil FHLMC 0.52% 12/28/15, callable in 6 months and then quarterly thereafter.

Performance

- Purchase Yield at the end of December was 0.70%, 9 bp lower than November. The yield-to-worst was lower at 0.27%.

- The Taxable BPIP returned 0.02% for the month of December and 0.08% for the three months ended December 30, 2012, vs. Index returns of 0.03% and 0.06% respectively. YTD the Pool returned 0.86% vs. 0.35% for the Index.
- US Treasury yields moved lower with three and five year maturities rising 3 and 11 basis points respectively.
- The increase in yields during the month of December slightly hindered performance as the portfolio held securities longer than three years vs. the index that has a maximum maturity of three years.

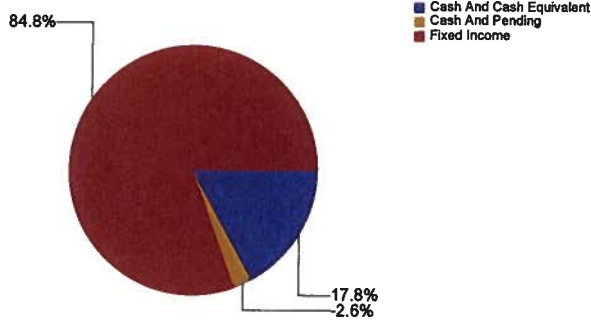
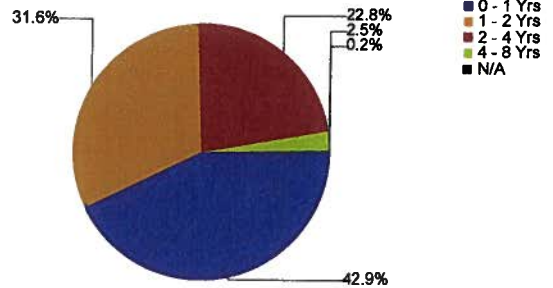
Investment Strategy

- The option adjusted duration of the portfolio is currently 1.36 yrs. vs. 1.37 yrs. for the benchmark.
- US Treasury yields have continued to climb higher in January with the two, three and five year maturities suffering 3, 7 and 14 basis point increases so far.
- The Tax-Exempt BPIP has purchased \$15.5mil FAMCA (Farmer Mac) three year bullet notes at 0.46%.
- NM municipals, \$1.38mil, were purchased for 1 to 3 year maturities at yields of 0.35-0.56%.
- With overnight repo rates currently very low the Pool purchased \$20mil of Straight-A CP with a three month maturity at 0.19%.
- The Tax-Exempt BPIP will invest cash generated from calls and maturities with the objective of maintaining the portfolio duration close to slightly longer than the benchmark.

Portfolio Characteristics

Duration Mix

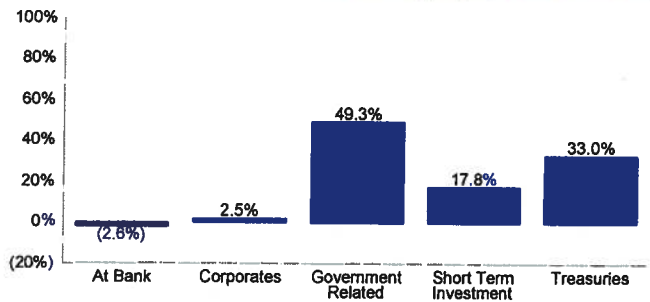
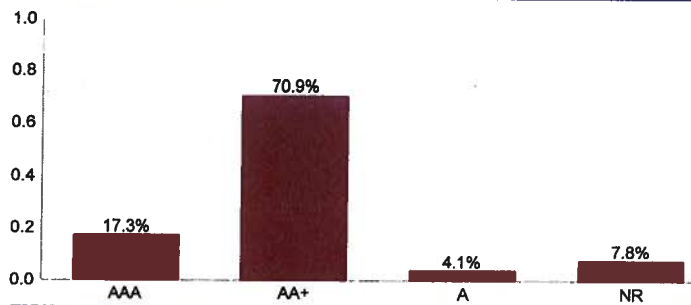
Total Net Assets (Millions) 601.7
Weighted Average Life (Years) 1.60
Weighted Avg. Effective Duration (Years) 1.40
Weighted Average Coupon (%) 1.22
Weighted Average Current Yield (%) 0.41
Weighted Average Yield to Maturity (%) 0.47
Weighted Average Rating AA-
Number of Holdings 50



Security ID	Security Name	% of Assets	Coupon Rate	Maturity Date
99C*60083	REPO BANK OF NEW YORK/SOUTH STREET SECS	7.70%	0.45	2/1/2013
912828KF6	US 1.87500'14	6.65%	1.88	28/2/2014
99C*60046	REPO BANK OF NEW YORK/SOUTH STREET SECS	6.49%	0.45	2/1/2013
912828NU0	UNITED STATES TREAS NTS 0.750% 15/AUG/2013	4.89%	0.75	15/8/2013
3137EACW7	FED HOME LOAN MTG 2% BDS 25/AUG/2016 USD1000	4.29%	2.00	25/8/2016
31359MTP8	FED NATL MTG ASSN 5.12% 02/JAN/2014	3.95%	5.12	2/1/2014
31398A4M1	FED NATL MORT ASSC 1.625% BDS 28/OCT/2015 USD1000	3.36%	1.62	28/10/2015
3135G0AP8	FEDERAL NATIONAL MORTGAGE ASSOC 1.25% NTS	3.30%	1.25	27/2/2014
3137EACV9	FEDERAL HOME LOAN MORTGAGE CORP 1% NTS 27/AUG/2014	3.29%	1.00	27/8/2014
31398A2S0	FEDERAL NATIONAL MORTGAGE ASSOC 1% BDS 23/SEP/2013	3.27%	1.00	23/9/2013

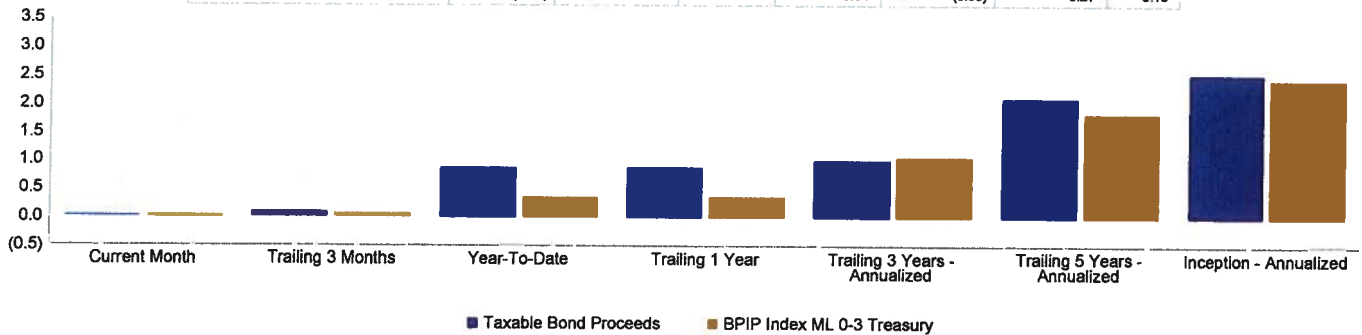
Quality/Rating Weightings

Sector Weightings (as % of Market Value)



Returns Series

	Current Month	Trailing 3 Months	Year-To-Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Inception
Taxable Bond Proceeds	0.02	0.08	0.86	0.86	0.99	2.10	2.53
BPIP Index ML 0-3 Treasury	0.03	0.06	0.35	0.35	1.05	1.82	2.43
Excess	(0.01)	0.02	0.51	0.51	(0.06)	0.27	0.10



Performance by Asset Class

Account Performance Results

As of December 2012

Asset Class	End Market Value	Weight	1 Month	3 Months	YTD	FYTD	1 Year
Taxable Bond Proceeds							
Fixed Income	510,084,030.37	84.77%	0.02	0.08	0.93	0.34	0.93
Corporates	15,021,340.50	2.50%	(0.03)	0.05	2.11	0.26	2.11
Government Related	281,183,767.60	46.73%	0.07	0.14	1.18	0.42	1.18
Treasuries	198,560,529.57	33.00%	0.03	0.06	0.44	0.31	0.44
Cash And Cash Equivalent	107,118,934.61	17.80%	0.03	0.10	0.36	0.18	0.36
Cash And Pending	(15,484,500.01)	(2.57%)	0.00	0.00	0.00	0.00	0.00
TOTAL	601,718,464.97	100.00%	0.02	0.08	0.86	0.32	0.86

Performance shown is gross of manager fees

STATE OF NEW MEXICO
BOND PROCEEDS INV POOL2 TAXABL (4002)

TXN BASIS: SETTLEMENT
MKT-SOURCE: IDC-PREFERED+
AMTZ ADDED: NO

Portfolio Classification Summary

Positions Held as of 12/31/12

ASSET CLASSIFICATION	ITEMS	YIELD	AVG-TERM	PRINCIPAL	COST-BASIS	MARKET-VALUE	GAIN/LOSS	%MARKET
REPURCHASE AGREEMENTS (O/N)	1	.4563	.00550	87,587,680	87,587,680	87,587,680		14.604
CERTIFICATES OF DEPOSIT	6	.4989	.91304	14,200,000	14,200,000	14,200,000		2.368
LINKED-CERTIFICATE OF DEPOSIT	2	.5000	1.04110	4,000,000	4,000,000	4,000,000		.667
US TREASURY NOTE ACT/ACT 2X	14	.7534	1.26251	195,000,000	196,941,779	198,021,950	1,080,171	33.017
AGENCY US BOND 30/360 2X	2	.6207	3.60080	35,000,000	35,069,300	35,148,750	79,450	5.860
AGENCY US NOTES 30/360 2X	10	.7330	1.56309	152,410,000	154,348,919	155,330,492	981,573	25.899
FED NATL MORTGAGE ASSN DEBS	5	.9821	1.28221	75,000,000	75,538,958	76,132,250	593,292	12.694
MEDIUM-TERM NOTES	1	.3346	.58360	15,000,000	15,000,000	15,010,650	10,650	2.503
MUNI US 30/360 2X	9	.5244	1.13360	11,585,000	11,752,510	11,758,975	6,465	1.961
MUNICIPAL BOND REVENUE	2	.5825	.41044	1,560,000	1,568,353	1,568,533	180	.262
UNITS - INVESTMENT POOL 1	1			1,306,534	1,306,534	1,306,534		.218
CASH ACCOUNT	1			-307,370	-307,370	-307,370		-.051
	<u>54</u>	<u>.7012</u>	<u>1.26281</u>	<u>592,341,844</u>	<u>597,006,663</u>	<u>599,758,444</u>	<u>2,751,781</u>	<u>100.000</u>

SOURCE: VisualQED
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STATE OF NEW MEXICO
 T R E A S U R E R ' S O F F I C E

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POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
- 307,370	CASH KEY	CASHCASH				1.000000000	- 307,370.45	- 307,370.00
1,306,534	UNITS - INVESTMENT POOL 1	UNITS001				.999999786	1,306,533.72	1,306,534.00
999,164					6.902		999,163.27	999,164.00

====> 0002 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> NO-MEANINGFUL-DATE <===

87,587,680	OVERNIGHT REPO	0102RP	.450	1/02/13	.456	99.999999635	87,587,679.68	87,587,679.68
5,000,000	UNITED STATES TREAS NTS	912828QK	.625	2/28/13	.724	99.983910400	4,999,195.52	5,004,300.00
2,400,000	FEDERAL NATIONAL MORTGAGE ASSOCI	3136F9DU	4.000	4/15/13	4.136	99.967608750	2,399,222.61	2,426,616.00
200,000	SANTA ROSA N MEX CONS SCH DIST	802751DK	1.000	5/15/13	.406	100.222810000	200,445.62	200,400.00
20,000,000	UNITED STATES TREASURY NOTES	912828QZ	.500	5/31/13	.454	100.018838550	20,003,767.71	20,032,000.00
1,360,000	CLOVIS N MEX GROSS RCPTS TAX R	189387CU	2.000	6/01/13	.608	100.581463235	1,367,907.90	1,368,132.80
20,000,000	UNITED STATES TREASURY NOTES	912828RA	.375	6/30/13	.474	99.950886800	19,990,177.36	20,025,000.00
10,000,000	UNITED STATES TREASURY NOTES	912828NN	1.000	7/15/13	.914	100.045973100	10,004,597.31	10,046,100.00
600,000	WESTERN BANK CLOVIS	15894	.600	7/15/13	.600	100.000000000	600,000.00	600,000.00
2,000,000	WESTERN BANK CLOVIS	15957	.600	7/15/13	.600	100.000000000	2,000,000.00	2,000,000.00
1,000,000	WESTERN BANK ALAMOGORDO	81186647	.600	7/22/13	.600	100.000000000	1,000,000.00	1,000,000.00
1,500,000	WESTERN BANK ALAMOGORDO	81186647	.600	7/22/13	.600	100.000000000	1,500,000.00	1,500,000.00
15,000,000	INTL FINANCE CORP	45950VBW	.330	8/01/13	.335	100.000000000	15,000,000.00	15,010,650.00
785,000	LOS ALAMOS N MEX PUB SCH DIST	54422NDB	2.000	8/01/13	.407	100.930588535	792,305.12	792,622.35
1,700,000	SAN JUAN CNTY N MEX CENT CONS	798359JP	2.000	8/01/13	.407	100.930589412	1,715,820.02	1,716,507.00
20,000,000	UNITED STATES TREASURY NOTES	912828NU	.750	8/15/13	.789	99.975701550	19,995,140.31	20,075,000.00
10,000,000	UNITED STATES TREASURY NOTES	912828NU	.750	8/15/13	.946	99.878513200	9,987,851.32	10,037,500.00
2,245,000	GADSDEN N MEX INDPT SCH DIST N	362550KT	2.000	8/15/13	.407	100.992514477	2,267,281.95	2,268,235.75

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

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PAGE: 5

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
1,750,000	GADSDEN N MEX INDPT SCH DIST N	362550LL	1.000	8/15/13	.559	100.278389714	1,754,871.82	1,756,107.50
20,000,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31398A2S	1.000	9/23/13	.572	100.316041400	20,063,208.28	20,115,800.00
5,000,000	UNITED STATES TREASURY NOTES	912828PB	.500	10/15/13	.575	99.941200600	4,997,060.03	5,012,900.00
8,000,000	CENTURY BANK SANTA FE	17099241	.400	12/30/13	.400	100.000000000	8,000,000.00	8,000,000.00

236,127,680					.029		236,226,532.56	236,575,551.08

====> 0022 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2013 <====

14,260,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31359MTP	5.125	1/02/14	.828	104.293562062	14,872,261.95	14,955,602.80
8,450,000	FEDERAL NATIONAL MORTGAGE ASSOCI	31359MTP	5.125	1/02/14	.854	104.267846864	8,810,633.06	8,862,191.00
2,000,000	WESTERN COMMERCE BANK	2012477	.500	1/15/14	.500	100.000000000	2,000,000.00	2,000,000.00
2,000,000	WESTERN COMMERCE BANK	2012634	.500	1/15/14	.500	100.000000000	2,000,000.00	2,000,000.00
20,000,000	FED NATIONAL MTG ASSN DEB	3135G0AP	1.250	2/27/14	.725	100.614342850	20,122,868.57	20,266,800.00
40,000,000	UNITED STATES TREASURY NOTES	912828KF	1.875	2/28/14	1.007	100.998201325	40,399,280.53	40,770,400.00
10,000,000	UNITED STATES TREASURY NOTES	912828KN	1.875	4/30/14	1.298	100.756985700	10,075,698.57	10,219,100.00
200,000	SANTA ROSA N MEX CONS SCH DIST	802751DL	1.000	5/15/14	.507	100.682795000	201,365.59	201,348.00
10,000,000	UNITED STATES TREASURY NOTES	912828KV	2.250	5/31/14	1.346	101.259730400	10,125,973.04	10,284,400.00
1,325,000	CLOVIS N MEX GROSS RCPTS TAX R	189387CV	2.000	6/01/14	.659	101.900423396	1,350,180.61	1,351,778.25
2,005,000	GADSDEN N MEX INDPT SCH DIST N	362550KU	2.000	8/15/14	.507	102.420248878	2,053,525.99	2,051,776.65
20,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EACV	1.000	8/27/14	.279	101.196655300	20,239,331.06	20,258,800.00
20,000,000	FEDERAL HOME LOAN MORTGAGE CORP	3134G3Y6	.375	12/10/14	.380	100.000000000	20,000,000.00	20,006,200.00
10,000,000	UNITED STATES TREAS NTS	912828RV	.250	12/15/14	.330	99.844358000	9,984,435.80	10,000,000.00
1,100,000	WESTERN BANK ALAMOGORDO	81185441	.750	12/31/14	.750	100.000000000	1,100,000.00	1,100,000.00

161,340,000					.042		163,335,554.77	164,328,396.70

====> 0015 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2014 <====

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

AS-OF: 12/31/12

AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 6

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
225,000	SANTA ROSA N MEX CONS SCH DIST	802751DM	1.000	5/15/15	.659	100.822431111	226,850.47	226,899.00
1,350,000	CLOVIS N MEX GROSS RCPTS TAX R	189387CW	2.000	6/01/15	.760	102.987813333	1,390,335.48	1,393,699.50
10,000,000	UNITED STATES TREAS NTS	912828NP	1.750	7/31/15	.453	103.324854900	10,332,485.49	10,365,600.00
15,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G3ZA	.500	8/28/15	.450	100.147768533	15,022,165.28	15,049,350.00
20,000,000	FED NATL MORTGAGE ASSN DEBS	31398A4M	1.625	10/26/15	.870	102.131650950	20,426,330.19	20,690,200.00
20,000,000	FNMA	3135G0SB	.375	12/21/15	.457	99.775858200	19,955,171.64	19,975,200.00
20,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G32F	.520	12/28/15	.527	100.000000000	20,000,000.00	19,995,000.00
7,300,000	FEDERAL HOME LOAN MORTGAGE CORPO	3134G3FA	1.100	12/30/15	1.115	100.000000000	7,300,000.00	7,349,932.00
15,000,000	UNITED STATES TREAS NTS	912828PM	2.125	12/31/15	.433	105.033142467	15,754,971.37	15,784,050.00
108,875,000					.062		110,408,309.92	110,829,930.50

====> 0009 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2015 <====

10,000,000	UNITED STATES TREAS NTS	912828QR	1.500	6/30/16	.656	102.913340100	10,291,334.01	10,365,600.00
25,000,000	FEDERAL HOME LOAN MORTGAGE CORPO	3137EACW	2.000	8/25/16	1.295	102.569716840	25,642,429.21	26,311,000.00
10,000,000	FED NATL MORTGAGE ASSN DEBS	3136FTUZ	1.400	12/30/16	1.419	100.000000000	10,000,000.00	10,108,300.00
5,000,000	FED NATL MORTGAGE ASSN DEBS	3136FTUZ	1.400	12/30/16	1.419	100.000000000	5,000,000.00	5,054,150.00
50,000,000					.135		50,933,763.22	51,839,050.00

====> 0004 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2016 <====

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

RUN: 1/31/13 @ 08:42:08

BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

AS-OF: 12/31/12

AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
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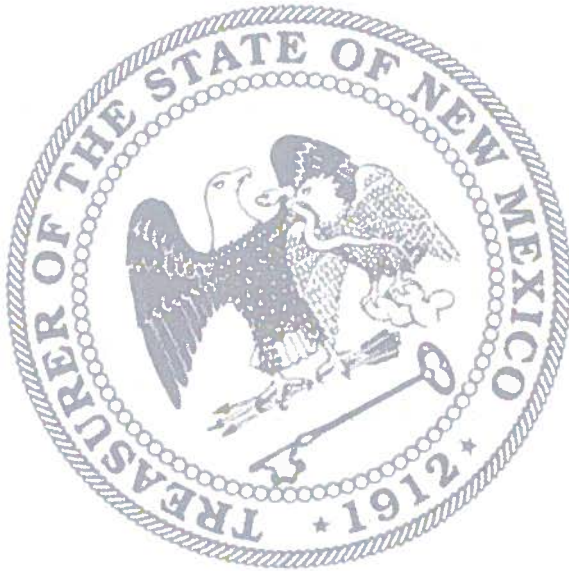
PAGE: 7

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
20,000,000	FED NATL MORTGAGE ASSN DEBS	3136FTYG	1.000	1/30/17	1.026	99.951978450	19,990,395.69	20,012,800.00
15,000,000	FEDERAL HOME LOAN BANKS	313379FW	1.000	6/09/17	.836	100.761103267	15,114,165.49	15,173,550.00
35,000,000					.196		35,104,561.18	35,186,350.00

====> 0002 ITEMS IN SUBTOTAL FOR ==> FINAL-MATURITY.. ==> 2017 <===

592,341,844					.012		597,007,884.92	599,758,442.28
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====> 0054 ITEMS IN SUBTOTAL FOR ==> FUND-NAME..... ==> BOND PROCEEDS INV POOL2 TAXABL <



10. Portfolio Summary- Severance Tax Bonding Fund

Portfolio Summary – Severance Tax Bonding Fund

Summary

- The Severance Tax Bonding Fund⁶ closed the month of December at \$125 Million.
- The Severance Tax Bonding Fund earned \$43,792 during December.
- The Severance Tax Bonding Fund earned \$147,605 during FY2013.

Portfolio Mix

- Severance Tax Bonding Fund Proceeds are invested in the LGIP and the overnight repurchase agreement pool.
- Severance Tax Bonding Fund holdings are pledged and used to pay debt service on Severance Tax and Supplemental Severance Tax Bonds.
- Once debt service needs are met, the balance in the Severance Tax Bonding Fund is transferred to the Severance Tax Permanent Fund.
- Severance Note Financing of approximately \$86MM was paid from the STBF in December. \$16MM in bond debt service was paid to Severance Tax and Supplemental Severance Tax bondholders on January 1st.
- After the January 1st debt service payments, \$125 million will be remaining in the STBF representing debt service obligations to be paid on July 1, 2013.
- Severance Taxes are remitted to the Treasury on a monthly basis and range between \$30 and \$35MM per month.

Investment Strategy

- Due to its short-term nature, investments of three to six month maturities are viable investments for the STBF pool.

⁶ The Severance Tax Bonding Fund as included in this report excludes debt service fund amounts on outstanding Severance Tax and Supplemental Severance Tax Bonds and Notes. Such debt service balances are included in, and reported on, the Tax-Exempt Bond Purchase Investment Pool.

STATE OF NEW MEXICO

STB FUND (4001)

Portfolio Classification Summary

Positions Held as of 12/31/12

TXN BASIS: SETTLEMENT
 MKT-SOURCE: IDC-PREFERED+
 AMTZ ADDED: NO

ASSET CLASSIFICATION	ITEMS	YIELD	AVG-TERM	PRINCIPAL	COST-BASIS	MARKET-VALUE	GAIN/LOSS	%MARKET
REPURCHASE AGREEMENTS (O/N)	2	.6396	.00550	108,761,245	108,761,245	108,761,245		86.908
UNITS - INVESTMENT POOL 1	1			16,384,363	16,384,363	16,384,363		13.092
	3	.5559	.00550	125,145,608	125,145,608	125,145,608		100.000

SOURCE: VisualQED

MODEL: INVENTORY

USER: WRIGHT

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BASIS: SETTLEMENT (SIC FROM QMARKET-LIBRARY)

AS-OF: 12/31/12

AMRTZD: BOOK VALUES AMORTIZED THROUGH 12/31/12

STATE OF NEW MEXICO
T R E A S U R E R ' S O F F I C E

PAGE: 16

POSITION-SIZ	DESCRIPTION	CUSIP#	RATE	MATURITY	YIELD	UNIT-BOOK	CURRENT BK	LOC-MKT-VALUE
16,384,363 UNITS	INVESTMENT POOL 1	UNITS001				.999999979	16,384,362.66	16,384,363.00
16,384,363					.421		16,384,362.66	16,384,363.00

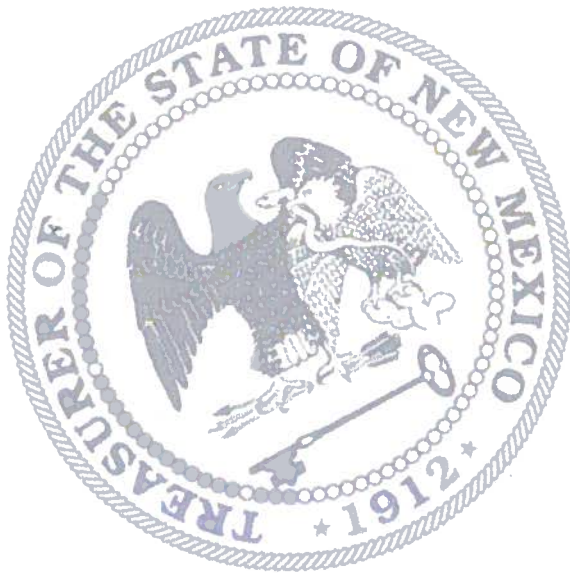
====> 0001 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> NO-MEANINGFUL-DATE <====

10,411,245	OVERNIGHT REPO	0102RP	.450	1/02/13	.456	100.000002593	10,411,245.27	10,411,245.27
98,350,000	OVERNIGHT REPO	0102RP	.650	1/02/13	.659	100.000000000	98,350,000.00	98,350,000.00
108,761,245					.063		108,761,245.27	108,761,245.27

====> 0002 ITEMS IN SUBTOTAL FOR ====> FINAL-MATURITY.. ====> 2013 <====

125,145,608					.055		125,145,607.93	125,145,608.27
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====> 0003 ITEMS IN SUBTOTAL FOR ====> FUND-NAME..... ====> STB FUND <====



11. Broker Dealer Activities

Broker-Dealer Activities

The attached summaries detail activities by STO with our Broker-Dealer counterparties. Activities by dealer and by security type are summarized.

New Mexico State Treasurer's
Executive Summary of Investment Activity
Summary of Broker Participation
Purchases and Sales By Broker, Market & Security Type
All Funds
2012-2013

Volume at Par (\$ in thousands)

Broker/Dealer:	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	YTD Total	YTD Percent
Arbor Research and Trading														0.0%
Bank of America/MLPFS	25,000		25,000		20,000	7,500								4.9%
Bank of Oklahoma (Bk ABQ)			760										77,500	0.0%
Barclays	41,790	7,500	30,000	13,000	28,200	55,000								11.1%
BB&T/Scott & Stringfellow														0.0%
BNP Paribas	101,100	66,000	26,000		10,000	50,000								16.0%
Cantor Fitzgerald														0.0%
Citigroup	25,000		2,970	10,000	55,750									5.9%
Credit Suisse Securities		20,000					3,600						93,720	1.8%
Deutsche Bank	90,000			19,050	30,000								23,600	8.8%
FTN Financial			1,760		20,000	7,000							139,050	1.8%
George K. Baum & Company	8,400		1,550										28,760	0.6%
Goldman Sachs				30,200	10,000	20,000							9,950	3.8%
Great Pacific Securities													60,200	0.0%
HSBC	60,000													8.2%
Jefferies	20,000		21,690	58,000	20,000	10,000							60,000	0.0%
Lawson Financial													129,690	0.0%
Loop Capital					20,000									1.3%
Mitsubishi UFJ (Repo)													20,000	0.0%
Morgan Keegan		3,225												0.2%
Morgan Stanley	10,000	14,250		15,000									3,225	5.6%
Muriel Siebert & Co.							50,000						89,250	0.0%
Nomura Securities	10,500	18,000	24,260		20,000	20,000								5.9%
Northern Trust													92,750	0.0%
Piper Jaffrey		11,280	2,600			10,000								1.5%
RW Pressprich													23,880	0.0%
Raymond James & Associates			875											0.1%
Robert W. Baird & Co.	5,000		4,225			10,000							875	1.2%
South Street (Repo Only)													19,225	0.0%
Southwest Securities		4,825												0.3%
Stifel Financial	100	2,195	375		1,750	15,000							4,825	1.2%
UBS Financial Services	40,000				20,000								60,000	0.0%
Vining Sparks														0.4%
Wedbush Securities	6,470												6,470	0.9%
Williams Capital Group					15,000								15,000	7.9%
Direct Purchase	12,100	4,000		15,000		94,765							125,865	3.3%
Interfund		37,670		14,720									52,390	
Total	455,460	188,945	142,055	174,970	270,700	299,265	53,600						1,584,995	100.0%

Market type:

	Column1	Column2	Column3	Column4	Column5	Column6	Column7	Column8	Column9	Column10	Column11	Column12	Column13	Column14	Column15
Primary Market		6,470	66,000	29,035	15,000	81,750	104,765							303,020	19.1%
Secondary Market	448,990	122,945	113,020	159,970	188,950	194,500	53,600							1,281,975	80.9%
Total	455,460	188,945	142,055	174,970	270,700	299,265	53,600							1,584,995	100.0%

Security type:

	Column1	Column2	Column3	Column4	Column5	Column6	Column7	Column8	Column9	Column10	Column11	Column12	Column13	Column14	Column15
CD's	12,100	4,000		15,000		9,100								40,200	2.5%
Corporate Bonds			2,250	3,000	15,000	35,000								55,250	3.5%
TLGP				25,000	30,000									55,000	3.5%
Agencies	236,790	39,750	25,000	58,200	203,950	130,000								693,690	43.8%
Commercial Paper	140,000	66,000	25,000				50,000							281,000	17.7%
MBS															0.0%
Treasuries	51,600	20,000	75,250	59,050	20,000	39,500	3,600							269,000	17.0%
Municipal/Sponge	14,970	59,195	14,555	14,720	1,750	85,665								190,855	12.0%
ABS															0.0%
Money Markets															0.0%
Total	455,460	188,945	142,055	174,970	270,700	299,265	53,600							1,584,995	100.0%

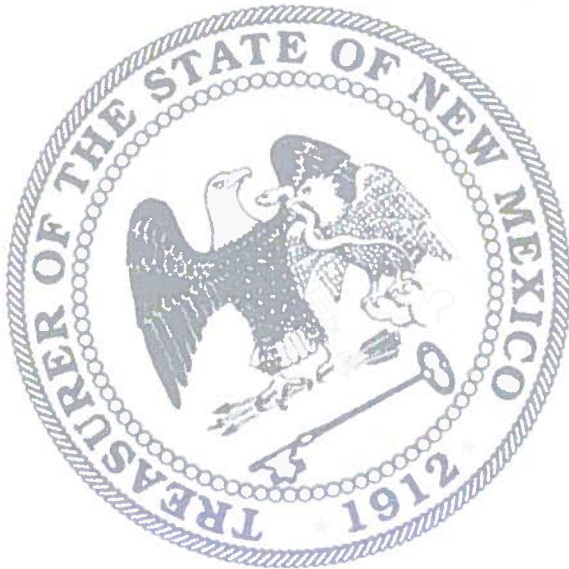
STATE OF NEW MEXICO

Summary of Fixed-Income Purchases and Sales

TRADES During The Period 12/01/12 Through 12/31/12

TXN-DATE	CUSIP#	ASSET-TYPE	INVST#	ISSUE-NAME	RATE	MATURITY	YIELD	BRKR/DLR/AGENT	FUND	PAR-VALUE	COST/PROCEEDS	GAIN/LOSS	NXT-CALL
<u>PURCHASE TRANSACTIONS</u>													
12/27/12	81185441	CERTIFICATES OF	18025	WESTERN BANK ALAMOGORDO	.750	12/31/14	.7500	SYSTEM - UNIDEN	4002	1,100,000.00	1,100,000.00		
12/28/12	17099241	CERTIFICATES OF	18026	CENTURY BANK SANTA FE	.400	12/30/13	.4000	SYSTEM - UNIDEN	4002	8,000,000.00	8,000,000.00		
12/20/12	912810DT	U.S. TREASURY B	18082	UNITED STATES TREASURY	9.875	11/15/15	.3822	BARCLAYS	1001	15,000,000.00	19,103,320.31		
12/05/12	912828TG	US TREASURY NOT	17407	UNITED STATES TREASURY	.500	7/31/17	.5596	BANK OF AMERICA	1001	7,500,000.00	7,479,492.19		
12/12/12	912828TZ	US TREASURY NOT	18036	UNITED STATES TREASURY	.250	11/30/14	.2380	FTN FINANCIAL S	1001	7,000,000.00	7,001,640.63		
12/28/12	912828KS	US TREASURY NOT	18159	UNITED STATES TREASURY	2.625	2/29/16	.3945	GOLDMAN SACHS	4000	10,000,000.00	10,700,390.63		
12/10/12	313381HG	AGENCY US BOND	18007	FEDERAL HOME LOAN BANKS	.125	12/06/13	.2131	PIPER JAFFREY	4101	10,000,000.00	9,991,300.00		
12/12/12	3135G0SB	AGENCY US BOND	17852	FNMA	.375	12/21/15	.4143	NOMURA	1001	20,000,000.00	19,976,440.00		
12/05/12	3134G32F	AGENCY US NOTES	17987	FEDERAL HOME LOAN MORTG	.520	12/28/15	.5200	BNP PARIBAS	4000	10,000,000.00	10,000,000.00		6/28/13
12/05/12	31359M2D	AGENCY US NOTES	17985	FEDERAL NATIONAL MORTGA	4.875	12/15/16	.5691	BNP PARIBAS	1001	20,000,000.00	23,422,200.00		
12/05/12	3137EACW	AGENCY US NOTES	15529	FEDERAL HOME LOAN MORTG	2.000	8/25/16	.5161	BARCLAYS	1001	20,000,000.00	21,091,940.00		
12/06/12	3134G32F	AGENCY US NOTES	17986	FEDERAL HOME LOAN MORTG	.520	12/28/15	.5200	BNP PARIBAS	4002	20,000,000.00	20,000,000.00		6/28/13
12/10/12	31359M2D	AGENCY US NOTES	17985	FEDERAL NATIONAL MORTGA	4.875	12/15/16	.5738	JEFFRIES & CO	1001	10,000,000.00	11,703,220.00		
12/06/12	00206RBL	CORP US NOTE 30	18015	AT&T INC.	.800	12/01/15	.8109	GOLDMAN SACHS	1001	10,000,000.00	9,996,800.00		
12/17/12	SSTB12SD	MUNI US 30/360	18106	SUPP SEV TAX BOND 2012S	.260	12/31/12	.1731	SYSTEM - UNIDEN	1000	47,497,000.00	47,497,000.00		
12/17/12	STB12SC	MUNI US 30/360	18105	SEV TAX BOND 2012SC	.260	12/31/12	.1731	SYSTEM - UNIDEN	1000	38,168,000.00	8,168,000.00		
16 PURCHASES DURING PERIOD TOTAL.....										254,265,000.00	265,231,743.76		
<u>SALE TRANSACTIONS</u>													
12/11/12	36962G6K	CORPORATE BONDS	17874	GE CAPITAL	1.600	11/20/17		STIFFEL NICOLAU	1001	15,000,000.00	14,988,750.00	7,916.63	
12/20/12	3135G0GY	FED NATL MORTGA	15885	FED NATL MORTGAGE ASSN	1.250	1/30/17		BARCLAYS	1001	20,000,000.00	20,445,440.00	288,522.95	
12/10/12	00206RBL	CORP US NOTE 30	18015	AT&T INC.	.800	12/01/15		ROBERT W BAIRD	1001	10,000,000.00	9,995,300.00	-1,501.03	
3 SALES DURING PERIOD TOTAL.....										45,000,000.00	45,429,490.00	294,938.55	
== GRAND-TOTAL ==>										299,265,000.00	310,661,233.76	294,938.55	

*** END-OF-REPORT ***



12. State Agency Deposit Balances




James B. Lewis
State Treasurer

STATE OF NEW MEXICO
OFFICE OF THE TREASURER

Mark F. Valdes
Deputy State Treasurer

P. O. Box 5135
2055 South Pacheco, Suite 100
Santa Fe, New Mexico 87505
Phone: (505) 955-1120
FAX (505) 955-1195

Date: January 29, 2013
To: James B. Lewis, State Treasurer
For: Governor Martinez and Members of the State Board of Finance
From: Samuel K. Collins, Jr., State Cash Manager 
Subject: State Fund Deposit Activity for the month ending December 31, 2012

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. Attached for your review is a summary of State fund balances in each institution through December 31, 2012.

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. Agencies are also advised not to make any new deposits 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 December 31, 2012

(Attachments)

Depository Account Summary by Agency

December 2012

STATE FUNDS

NON-STATE FUNDS

AGENCY	# OF ACCTS.	BALANCE
AOC (fines, fees etc.)	50	\$2,838,614
BERN. CO. METRO COURT	2	\$324,933
1-13 DISTRICT ATTORNEY	6	\$46,002
EDUCATION RETIREMENT BOARD	1	\$18,230
TAXATION & REVENUE DEPT.	29	\$122,946
PUBLIC SCHOOL INS. AUTHORITY	6	\$25,839,849
PUBLIC DEFENDER	1	\$485
SECRETARY OF STATE	1	\$0
STATE TREASURER (JDC)	28	\$390,300
STATE TREASURER (OTHER INVEST)	0	\$0
NM RACING COMMISSION	7	\$593,301
SPACEPORT AUTHORITY	1	\$1,446,309
DEPT. OF GAME & FISH	2	\$89,309
SOUTHWEST REGION ED.	1	\$2,292,606
ENERGY & MINERALS	4	\$459,338
COMMISSION PUBLIC LAND	2	\$49,349
STATE ENGINEER'S OFFICE	3	\$124,721
IRRG WKS CONST	1	\$252,287
COMMISSION FOR THE BLIND	0	\$0
HUMAN SERVICES DEPT.	5	\$26,462
WORKFORCE SOLUTIONS	6	\$2,158,167
DIVISION OF VOCATIONAL REHAB	1	\$65,253
MINER'S HOSPITAL	1	\$1,485,252
DEPARTMENT OF HEALTH	76	\$594,331
ENVIRONMENT DEPARTMENT	1	\$0
CORRECTIONS DEPARTMENT	6	\$1,431
DEPT. OF PUBLIC SAFETY	2	\$36,787
HIGHWAY & TRANSPORTATION	4	\$917
CENTRAL REGIONAL CO-OP	1	\$422,959

AGENCY	# OF ACCTS.	BALANCE
AOC (Bonds)	50	
1ST JUDICIAL DIST. COURT	3	\$1,488,188
2ND JUDICIAL DIST. COURT	2	\$1,035,225
3RD JUDICIAL DIST. COURT	2	\$1,661,599
4TH JUDICIAL DIST. COURT	4	\$71,480
5TH JUDICIAL DIST. COURT	3	\$1,527,193
6TH JUDICIAL DIST. COURT	3	\$408,469
7TH JUDICIAL DIST. COURT	4	\$149,152
8TH JUDICIAL DIST. COURT	4	\$494,662
9TH JUDICIAL DIST. COURT	3	\$557,261
10TH JUDICIAL DIST. COURT	2	\$292,468
11TH JUDICIAL DIST. COURT	10	\$1,345,247
12TH JUDICIAL DIST. COURT	4	\$915,004
13TH JUDICIAL DIST. COURT	59	\$4,706,716
BERNALILLO CO. METRO COURT	2	\$746,819
6TH DISTRICT ATTORNEY	3	\$33,091
7TH DISTRICT ATTORNEY	1	\$1,651
10TH DISTRICT ATTORNEY	1	\$55
11TH JUDICIAL DIST. ATTORNEY	1	\$11,267
ATTORNEY GENERAL	1	\$8,014
LGIP	4	\$90,012,065
PUBLIC REG. COMMISSION	2	\$627,728
NM STATE FAIR	5	\$2,386,504
SOUTHWEST REGION ED.	1	\$15
COMM STATUS OF WOMEN	0	\$0
COMM FOR THE BLIND	2	\$245,973
WORKFORCE SOLUTIONS	0	\$0
MINER'S HOSPITAL	1	\$2,086
DEPARTMENT OF HEALTH	11	\$863,662
CHILDREN, YOUTH & FAMILIES	6	\$86,078
CORRECTIONS DEPARTMENT	11	\$1,929,043
DEPT. OF PUBLIC SAFETY	2	\$27,283
CENTRAL REGION CO-OP	1	\$447,468

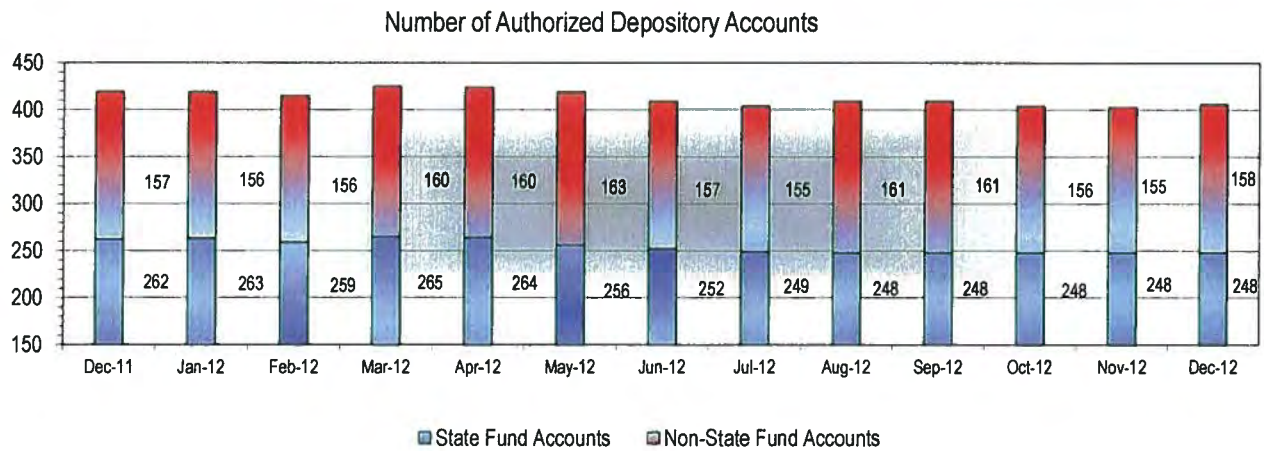
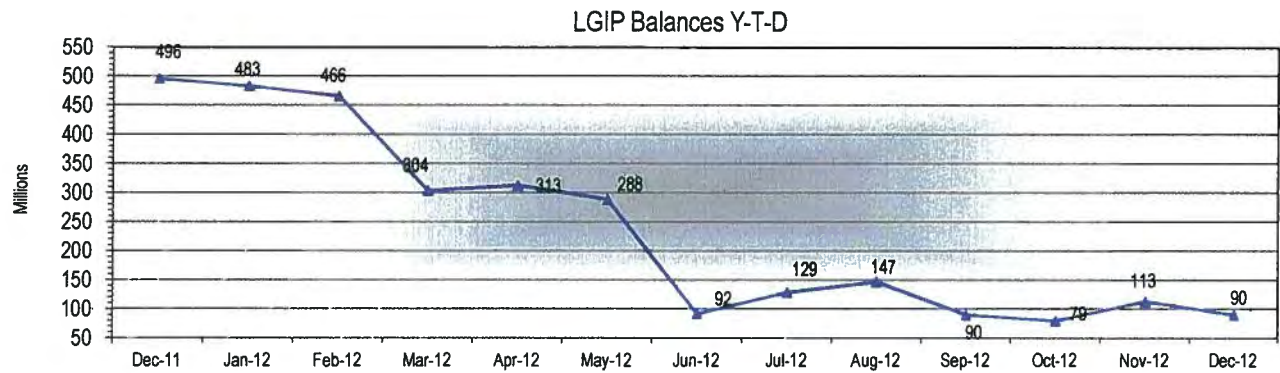
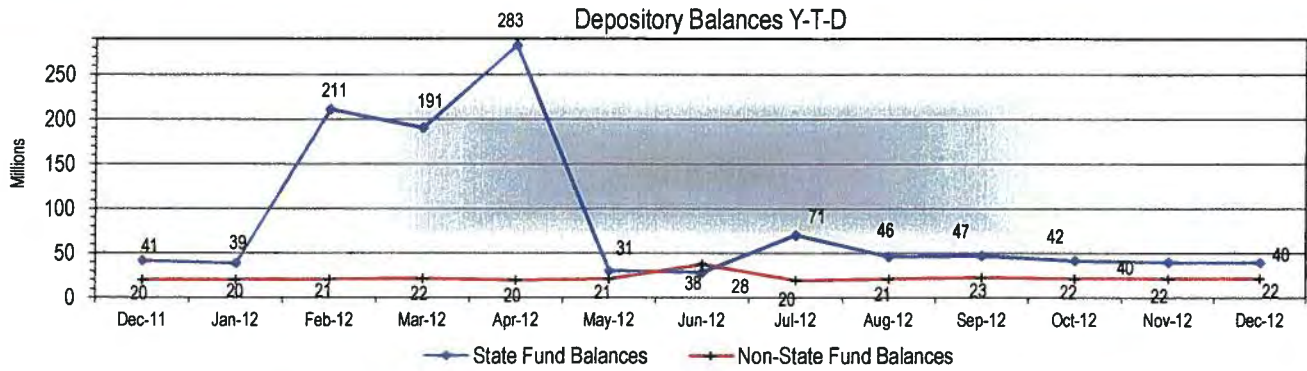
Total: 248 \$39,680,138

Total: 158 \$112,081,466

Total Depository Balances: \$151,761,604

Total Depository Accounts: 406

Depository Account Summary -December 2012



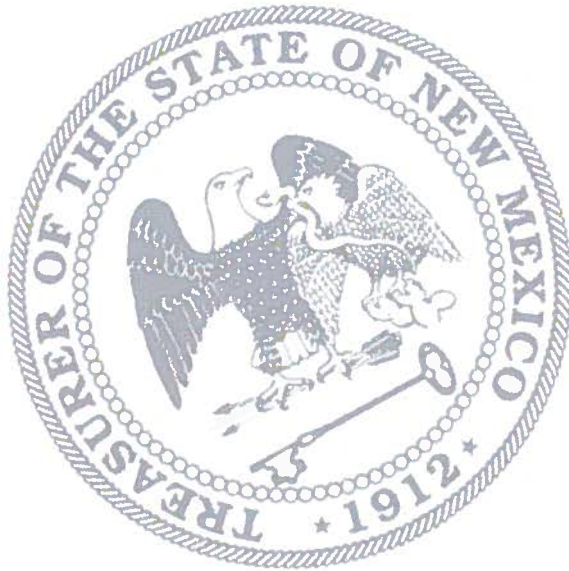
Depository accounts authorized in November 2012 pursuant to Section 6-1-13 NMSA :

Depository accounts opened in December 2012 7 12th District Court
 Depository accounts closed in December 2012: 4 12th District Court

State Fund Balances by Financial Institution

December- 2012

Bank 34/Alamogordo	
Century Bank/Santa Fe	
First National Bank/Alamogordo	97,170
Bank of America/Albuquerque	2,480,159
Wells Fargo Bank/Albuquerque	31,164,707
Compass Bank/Albuquerque	2,749,145
Bank of the West/Albuquerque	591
First American Bank/Artesia	57,779
My Bank/Belen	5,112
Carlsbad National Bank/Carlsbad	1,852
Western Commerce Bank/Carlsbad	62,758
Farmers/Stockmens Bank/Clayton	22,897
First National Bank/Clayton	1,499,662
Bank of Clovis/Clovis	0
Citizens Bank/Clovis	21,880
NM Bank & Trust/Albuquerque	212,282
Community Bank/Santa Fe	1,359
Valley National Bank/Espanola	314
Pinnacle Bank/Gallup	1,830
Grants State Bank/Grants	100
Lea County State Bank/Hobbs	178,767
Citizens Bank/Las Cruces	0
Southwest Capitol/Las Vegas	163,393
Community 1st Bank/Las Vegas	398,462
Western Bank/Lordsburg	79,905
Los Alamos National Bank/Los Alamos	20,596
James Polk Stone National Bank/Portales	40,666
International Bank/Raton	28,580
Valley Bank of Commerce/Roswell	64,030
First National Bank of Santa Fe/Santa Fe	0
First State Bank/Socorro	9,598
Centinel Bank/Taos	49,242
US Bank/Albuquerque	158,198
Bank of the Southwest/Roswell	82,887
People's Bank	11,150
AmBank	15,067
Total:	\$39,680,138



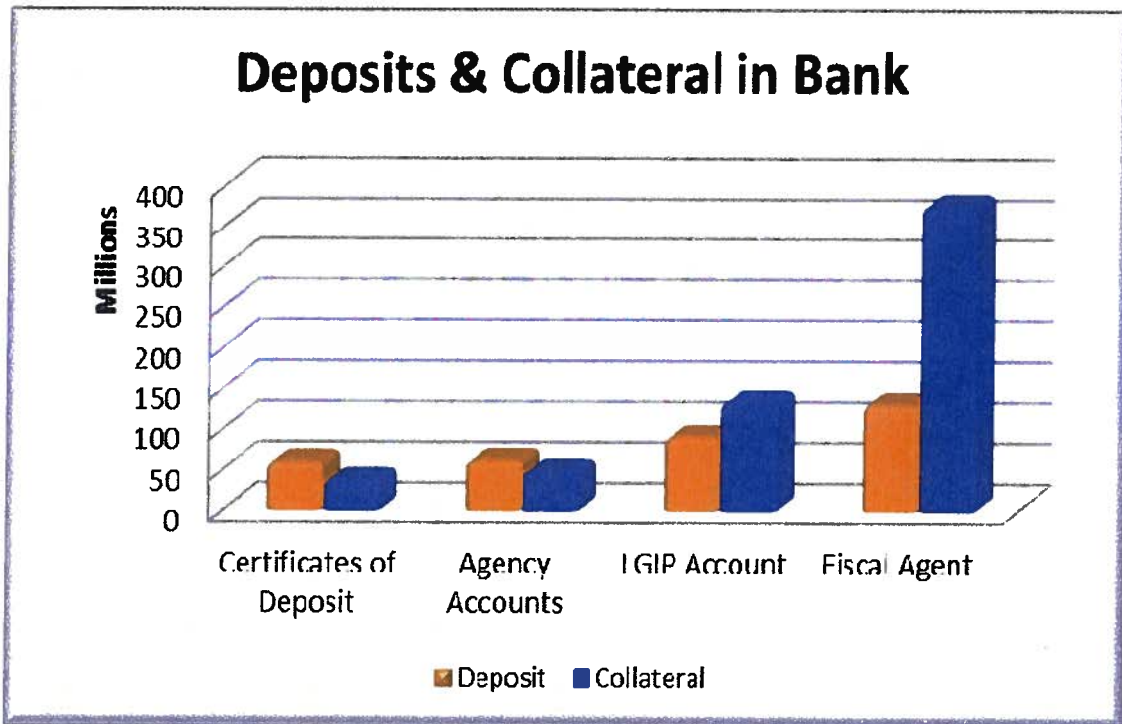
13. Collateral Report on Agency Deposits & CDs

Office of the Treasurer

Collateral Summary Review

December 31, 2012

All depository institutions holding public funds for the month ending December 2012 met the minimum collateral requirements. The required ratio of collateral for each depository institution holding public funds is determined by a statutorily defined quarterly risk assessment and is not intended as an opinion as to the financial health of the subject institution.



Balances

	<u>Deposit</u>	<u>Collateral</u>	<u>Percentage</u>
Certificate of Deposit	\$ 59.0 Million	\$ 36.7 Million	62.3%
Agency Deposit	61.1 Million	47.5 Million	77.8%
LGIP Deposits	90.0 Million	132.0 Million	146.7%
Fiscal Agent	130.4 Million	374.8 Million	287.5%
Totals →	340.5 Million	591.1 Million	173.6%



Office of the Treasurer
Collateral Review
 Accumulated Total by Institution
 December 31, 2012

FINANCIAL INSTITUTION	%	TOTAL	FDIC / NCUA	LESS INSURANCE	SUBJECT TO BE	COLLATERAL	EXCESS
		DEPOSITS	INSURANCE	COVERAGE	COLLATERIALIZED	PLEGGED	(UNDER)
First National - Alamogordo	50%	534,206	250,000	284,206	142,103	371,893	229,790
Western - Alamogordo	75%	3,600,000	250,000	3,350,000	2,512,500	3,141,053	628,553
Bank of America	50%	2,993,487	997,764	1,995,724	997,862	5,609,067	4,611,206
Bank of the West	50%	70,056,038	250,613	69,805,425	34,902,713	74,882,962	39,980,249
BBVA Compass	102%	2,749,145	2,425,669	323,477	329,946	4,989,266	4,659,319
US Bank	50%	6,364,002	436,132	5,927,870	2,963,935	6,000,000	3,036,065
Wells Fargo	50%	62,451,911	10,672,669	51,779,242	25,889,621	83,642,528	57,752,907
First American	50%	57,779	57,779	0	0	0	0
My Bank	102%	2,240,954	251,971	1,988,983	2,028,763	2,295,000	266,237
Carlsbad National	50%	1,852	1,852	0	0	0	0
Western Commerce	50%	4,062,758	253,954	3,808,804	1,904,402	2,733,977	829,574
Farmers & Stockmen	50%	3,106,377	275,088	2,831,289	1,415,645	3,045,883	1,630,238
First National - Clayton	50%	1,499,662	250,000	1,249,662	624,831	1,171,703	546,872
Bank of Clovis	50%	557,260	557,260	0	0	557,260	557,260
Citizens - Clovis	50%	21,881	21,881	0	0	0	0
NM Bank & Trust	50%	212,282	232,243	-19,961	-9,980	250,000	259,980
Western - Clovis	50%	3,100,000	250,000	2,850,000	1,425,000	1,508,194	83,194
Valley National	102%	314	314	0	0	0	0
Pinnacle	50%	1,830	1,830	0	0	0	0
Grants State	50%	89,485	89,485	0	0	0	0
Lea County State	50%	178,766	178,766	0	0	0	0
Citizens - Las Cruces	50%	3,590	3,590	0	0	0	0
Southwest Capital	50%	730,088	279,316	450,773	225,386	753,836	528,450
Community 1st - Las Vegas	50%	398,462	398,462	0	0	0	0
Western - Lordsburg	50%	93,305	93,305	0	0	0	0
Los Alamos National	75%	20,596	20,596	0	0	0	0
James Polk Stone Communi	50%	488,134	488,134	0	0	0	0
International	50%	222,922	222,922	0	0	100,000	100,000
Bank of the Southwest	50%	411,170	256,636	154,534	77,267	272,565	195,298
Valley Commerce	50%	64,030	64,030	0	0	0	0
Century	50%	24,627,729	250,000	24,377,729	12,188,865	12,735,000	546,136
Community	102%	238,823	238,823	0	0	0	0
First National - Santa Fe	50%	15,000,000	15,000,000	0	0	8,076,462	8,076,462
First State	50%	54,003	54,003	0	0	0	0
AM	50%	15,067	15,067	0	0	0	0
Centinel	50%	49,243	49,243	0	0	0	0
Peoples	75%	11,150	11,150	0	0	0	0
BANK'34	102%	2,160,171	2,160,171	0	0	2,140,564	2,140,564
Union Savings	50%	2,000,000	250,000	1,750,000	875,000	2,000,964	1,125,964
Guadalupe Credit	50%	250,000	250,000	0	0	0	0
		210,718,471	37,810,714	172,907,757	88,493,858	216,278,177	127,784,320



14- 17. Committee Reports



18. Question Period



19. Next Meeting- Wednesday, March 13,
2013