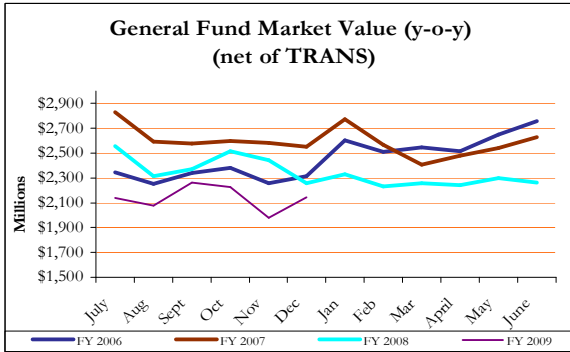


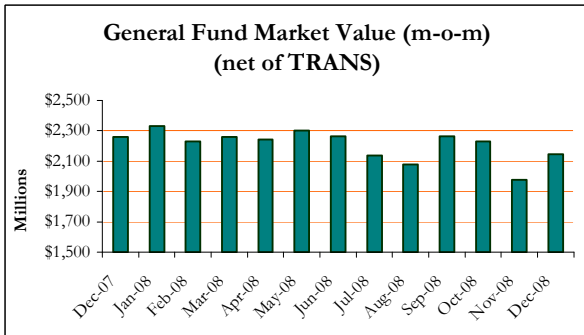
NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of December 31, 2008

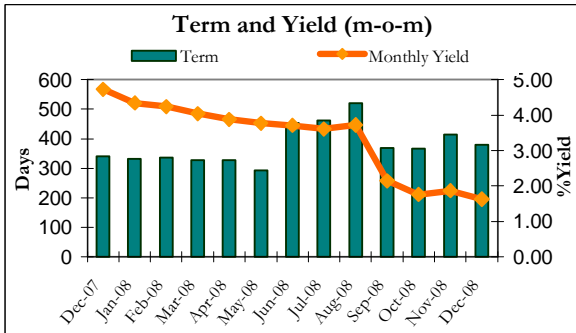
GENERAL FUND INVESTMENT PORTFOLIO



- The market value of the General Fund Investment Portfolio, net of TRANS, on December 31, 2008, was \$2.15 billion, this compares to \$1.98 billion at November 30, and to \$2.26 billion at the same point last year and \$2.55 billion at the same point two years ago.



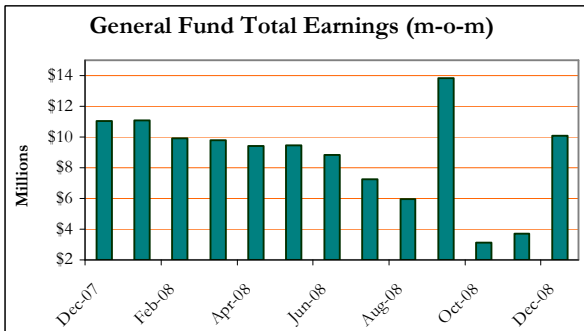
- The market value of the portfolio increased 8.57% to \$2.15 billion from \$1.98 billion at November month-end.



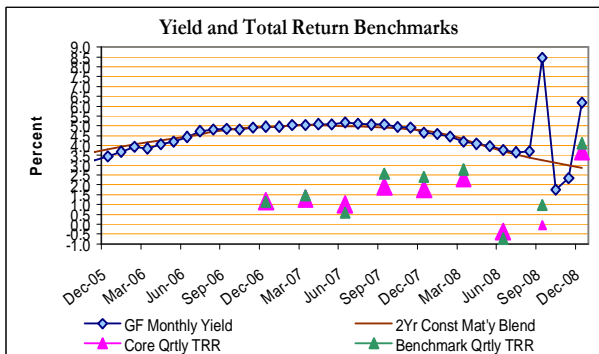
- Purchase yield was 1.63% at month-end, down from 1.87% in November. The weighted average term of the portfolio decreased to 379 days. Effective duration of the CORE segment was 1.63 years, which is 87% of the benchmark's duration, 1.87 years.

General Fund (including TRANS)				
Asset Type	Yield	Market Value	% of Portfolio	Term (Years)
Agencies	3.59%	\$ 194,409,801	9.05%	2.990
Repurchase Pool	0.11%	\$ 821,033,829	38.24%	0.003
Certificate of Deposit	2.10%	\$ 170,100,000	7.92%	0.556
Money Market Fund	0.41%	\$ 254,110,967	11.83%	unknown
Municipal Bonds	2.45%	\$ 153,067,542	7.13%	0.417
US Treasury Bills & Notes	3.42%	\$ 165,958,000	7.73%	3.384
Corporate Bonds	3.46%	\$ 388,631,300	18.10%	2.569
Total:	1.65%	\$ 2,147,311,439	100.00%	1.073

During December, there were thirteen purchases for the CORE portfolio with an aggregate par value of \$338.53 million. Both Treasury notes and TLG bonds were purchased. Additionally, sixteen securities were sold during the period. Gains of \$6.71 million were realized on the sale of Treasuries, TLG bonds and Agencies. These sales amounted to an aggregate par amount of \$269.44 million. There were fifteen purchases in the LIQUIDITY portfolio with an aggregate par value of \$411 million. Purchases included \$41 million of Certificates of Deposit, \$95.14 million of NMEAF private placement bonds and \$174.9 million of Severance Tax Sponge bonds which matured on December 31, 2008.



December earnings were \$10.07 million representing a 172% increase from November earnings of \$3.70 million. This increase can be attributed to the abovementioned gains realized on sales of securities during the period. Fiscal year earnings total \$42.80 million, compared to \$66.95 million through the same period last fiscal year.



The General Fund outperformed its benchmark with an earned yield of 6.19%, compared to a 2.59% 2yr CMA/CMT 12 month moving average month-end yield.

Annualized total return for the CORE was 22.85% for the month of December while the benchmark realized an annualized total return of 25.64%.

NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of December 31, 2008

Investment Strategy Employed During the Past Quarter

- **General Fund:** While the events of September dominated third quarter activity, the fallout of those events shaped direction of fourth quarter activity. Early fourth quarter was marked by an unwillingness of market participants to take on any credit risk. The subsequent flight to quality, as well as uncertainty, regarding how the GSE's would emerge from conservatorship and regarding the soundness of the banking system in general, limited liquidity across all markets and resulted in historically wide spread levels. As spreads widened, overall weakness in the economy caused by the meltdown of the housing market resulted in a sharp decrease in yields across the curve.
- Investment activity during the quarter was three pronged. Existing liquidity was invested in two year Treasury notes. These bonds were subsequently sold and a 25 basis point holding period gain was realized. Agency exposure was decreased. Given the uncertainty surrounding the GSE's, STO liquidated a number of agency callables and bullets while realizing sizable gains. These proceeds, as well as principal distributions from The Reserve primary fund, were reinvested into the new TLG asset class. TLGP bonds are issued by financial institutions and are guaranteed by the full faith and credit of the US government.
- The CORE portfolio continues to have a barbell structure with maturity of 46% of the assets being twelve months or in. However, less than 1% are longer than 48 months. CORE WAM stands at 1.55 years. Asset weights have shifted. Despite December's purchases, cash positions remain higher than optimal. Agency exposure has been reduced to 12% of the portfolio. Corporate exposure has increased significantly due to the purchases of TLG paper. While STO is reporting these positions as corporate debt, market participants have been carrying them as government debt due to the guarantee. STO will reclassify these assets going forward.

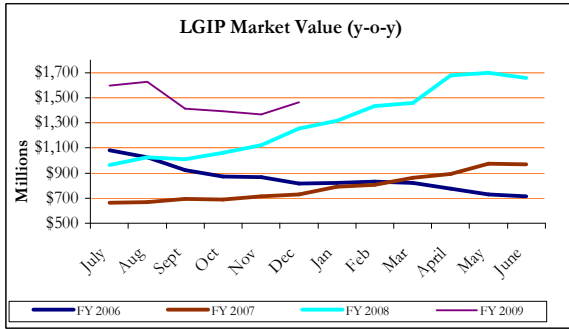
Investment Strategy Planned for the Next Quarter

- **General Fund:** The shape of the yield curve has made a short maturity ladder inefficient and as such, until conditions prove otherwise, that the maturity ladder will not be recreated in the CORE portfolio. Instead a barbell structure will be implemented. Liquid funds will be kept as short as possible and those funds not immediately needed will be invested longer term in an effort to maximize return.
 - STO anticipates that near term rates will remain at current levels. However, we expect rates to increase rapidly with the economy's first signs of recovery. As such, STO will position the portfolio to reflect this market environment and will continue to buy structure and quality on weakness.
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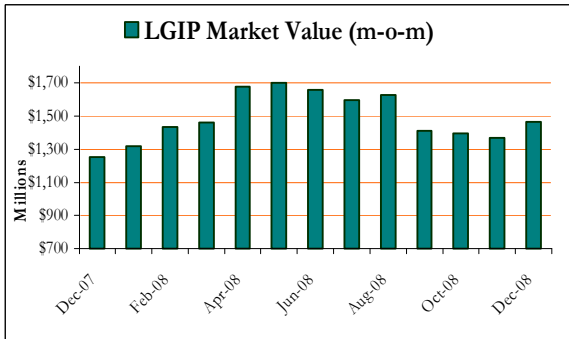
NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of December 31, 2008

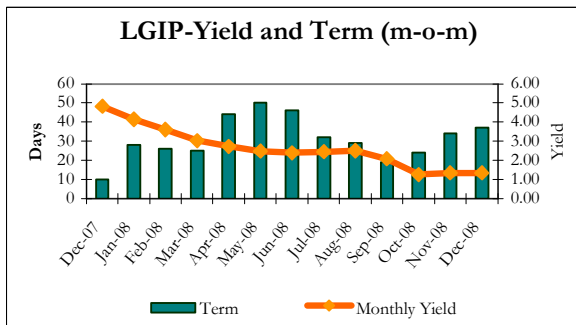
NEW MEXIGROW LOCAL GOVERNMENT INVESTMENT POOL (LGIP)



- The market value of the LGIP portfolio as of December 31 was \$1.46 billion, compared to a market value of \$1.25 billion at the same time last year and \$730 million at the same period two years ago.



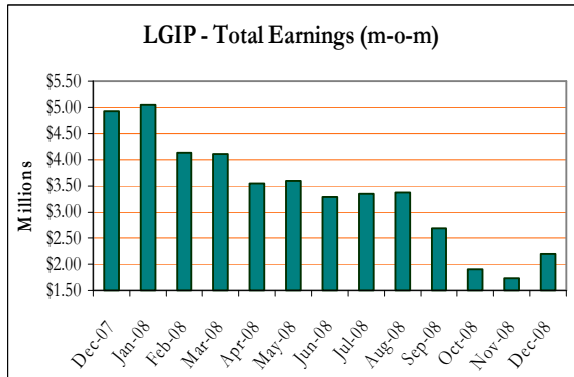
- During the month the market value of the portfolio increased 7.3%, from \$1.36 billion at November month end to \$1.46 billion. Participant contributions for December totaled \$245 million and withdrawals totaled \$144 million.



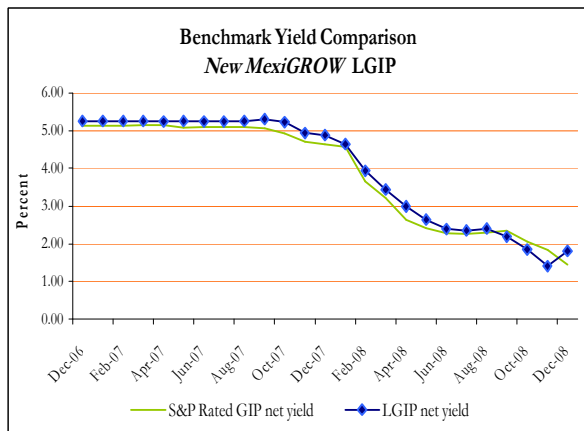
- The gross yield was 1.34% at December 31, a 12% decrease from November month-end of 1.53%. The weighted average maturity at December 31 was 37 days, up from the November 30 weighted average maturity of 34 days and within the rule 2a-7 requirement of 60 days or less.

Local Government Investment Pool				
Asset Type	Yield	Market Value	% of Portfolio	Term (Days)
Agencies	2.34%	\$ 285,513,400	19.48%	86
Money Market Funds	1.08%	\$ 1,129,829,974	77.10%	1.22
Commercial Paper	0.00%	\$ -	0.00%	0
Certificates of Deposit	1.86%	\$ 40,000,000	2.73%	356
LGIP Bank Account	0.11%	\$ 10,058,738	0.69%	2
Total:	1.34%	\$ 1,465,402,112	100%	37

- December investment purchases in the LGIP portfolio totaled \$115 million. Purchases included a \$75 million TLGP CP position and a total of \$40 million in CDs with an average annualized yield of 1.86% and an average term of 356 days. Due to a misrepresentation of TLGP status on the CP, the issuer agreed to repurchase the position at the market price and the LGIP realized a \$7,375 gain.
- During December six agency securities, representing approximately 9% of the portfolio, were sold to take advantage of large unrealized gains. These sales resulted in gains totaling \$400,318.



- LGIP earnings for December totaled \$2.2 million, a 29% increase from November earnings of \$1.7 million. The increase in yield was due to security sales in December. Fiscal year-to-date earnings totaled \$15.1 million compared to \$27 million through the same period last fiscal year.



- The 30-day net yield of the LGIP as of December 26 was 1.81%, outperformed the 30-day net S&P Rated Government Investment Pool (GIP) index (1.45) by 36 basis points. The 30-day gross yield of the LGIP at December 26, 1.86%, outperformed compared to the 30-day gross S&P Rated GIP index of 1.65%. The administrative fee assessed to participants for December was 2.6 basis points; fees collected through December 31 are \$192,002.

NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of December 31, 2008

Investment Strategy Employed During the Past Quarter

- **New MexiGROW LGIP:** During the quarter, the strategy of increasing yield while maintaining safety of the portfolio was employed. Through a very unstable market, the LGIP portfolio was able to sustain a market value of over \$1.4 billion during the quarter.
- Certificate of Deposit investment was reintroduced to the portfolio in December with the purchase of one year CDs from two "A-1" rated financial institutions: Compass Bank and Wells Fargo.
- As yields for money market funds have averaged 1.70% during the quarter, liquidity has been repositioned out of the lower-yielding bank account and into these governmental and prime money market funds. The fiscal agent bank continues to collateralize LGIP bank account balances at 102%.
- During the quarter, a partial distribution of funds was received from the Reserve Primary Fund and the Reserve Government Fund. 78% of the LGIP Reserve Primary Fund position has been recovered and repaid to the General Fund CORE under the put agreement. A liquidation plan received in December from the Reserve Primary Fund estimates the loss at 1.5% (NAV 98.5) and STO has developed a plan to amortize the loss against future LGIP investment earnings. The Reserve Government Fund will distribute all remaining assets in January 2009 at \$1 NAV.
- Although the market value of the portfolio decreased a total of 3.63% during the first two months of the quarter, the portfolio increased by 7.3% in the month of December. The portfolio has received over \$522 million of participant contributions in the quarter.
- During December several agency securities were sold to realize gains and enhance earnings. Quarterly earnings totaled \$5.8 million.

Investment Strategy Planned for the Next Quarter

- **New MexiGROW LGIP:** The portfolio will continue to focus on the safety of participant holdings and will utilize governmental and prime money market funds, and possibly increase Certificate of Deposit investment.
- The LGIP plans to purchase TLGP-issued securities. Due to the misinformation regarding the December CP purchase thought to be TLGP, future investment in this security type will require supporting documentation from the issuer validating TLG program participation. Additionally, as the due diligence process on commercial paper continues, asset-backed CP issued under the TLG program will also be considered for investment. This security type is also insured by the federal government and is, therefore, allowable for the portfolio.
- Securities may be sold to realize gains and enhance investment earnings if it proves to be a prudent and safe strategy.
- The LGIP will amortize the Reserve Primary Fund estimated loss of \$5.7 million against portfolio earnings beginning in January 2009 and continuing for 10 months or as long as practical given the uncertainty of future interest rates.

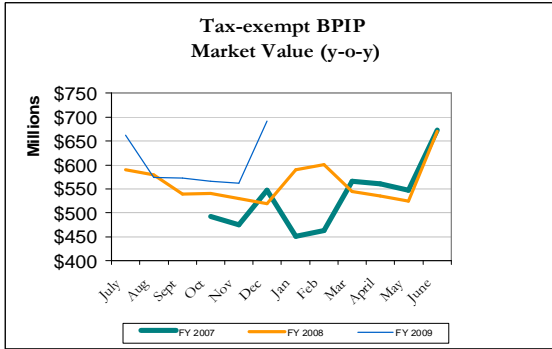
Asset Mix and Maturity Targets

- **New MexiGROW LGIP:** The LGIP portfolio continues to maintain a weighted average maturity within the 2a-7 criteria for "AAA" of 60 days or less. The addition of one year CDs to the portfolio has increased WAM slightly.
 - During the quarter the portfolio held commercial paper, agency securities, money market funds, and bank account balances of over \$10 million.
 - The portfolio manager will continue to research new investment opportunity within allowable investment parameters in an effort to diversify holdings and increase yield.
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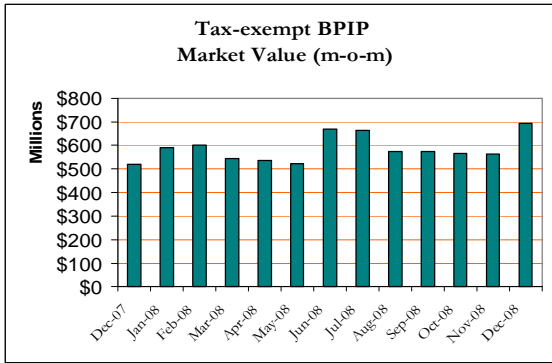
NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of December 31, 2008

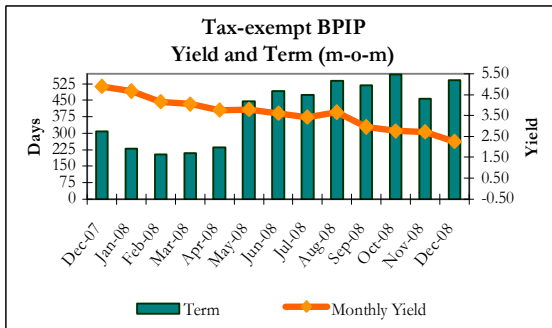
TAX-EXEMPT BOND PROCEEDS INVESTMENT POOL (BPIP)



- The market value of the Tax-exempt BPIP as of December 31, 2008, was \$692.3 million. This compares to a market value of \$518.4 million one year ago and \$547.6 million two years ago.



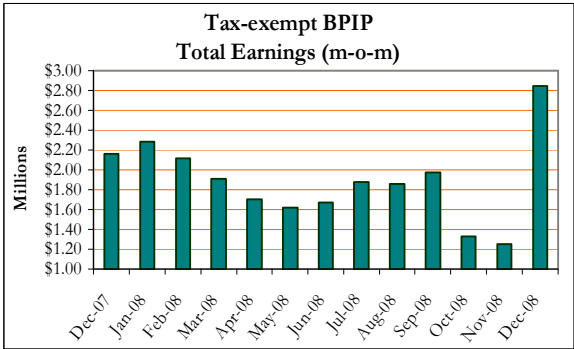
- During December, the market value of the fund increased by 23.3% to \$692.3 million from \$561.3 million November month end.



- The Tax-exempt BPIP month-end purchase yield and term were 2.26% and 1.48 years. The month-end yield was 210 basis points below the selected benchmark yield, 4.36%, which is the highest arbitrage yield limit of any bond issue in the fund.

Tax-exempt Bond Proceeds Investment Pool				
Asset Type	Yield	Market Value	% of Portfolio	Term
Agencies	3.54%	\$ 215,258,654	31.09%	1.89 yrs
Mmkt Funds & Cash	0.00%	\$ 26,724,412	3.86%	0
US Treasuries	2.70%	\$ 4,393,996	0.63%	3.83 yrs
Corporate Bonds	2.85%	\$ 254,473,900	36.76%	2.12 yrs
Repurchase Pool	0.10%	\$ 191,420,095	27.65%	1 day
Total:	2.25%	\$ 692,271,057	100%	1.48 yrs

- There were twelve purchases in the Tax-exempt BPIP during December with an aggregate par amount of \$305 million. Additionally, there were ten sales with an aggregate par value of \$162 million during the month resulting in a gain of \$1.59 million.

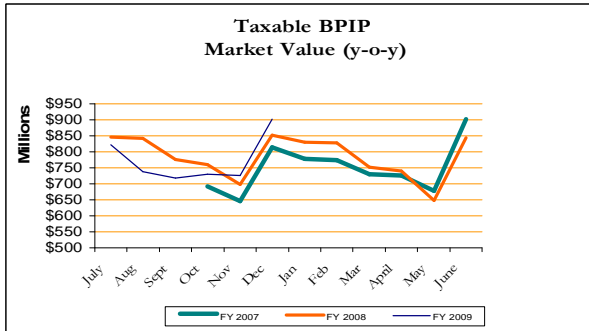


- Interest earnings for the month totaled \$2.84 million, an increase of 127% from November earnings of \$1.25 million. Fiscal year to date earnings totaled \$11.05 million.

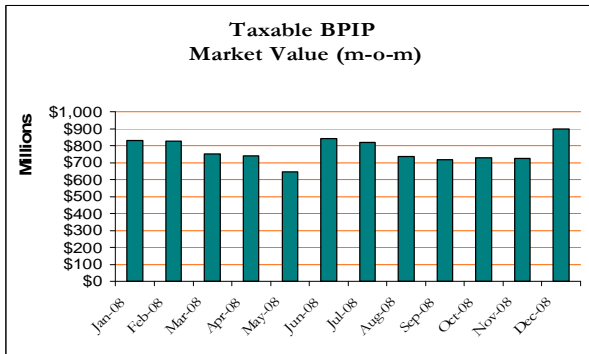
NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of December 31, 2008

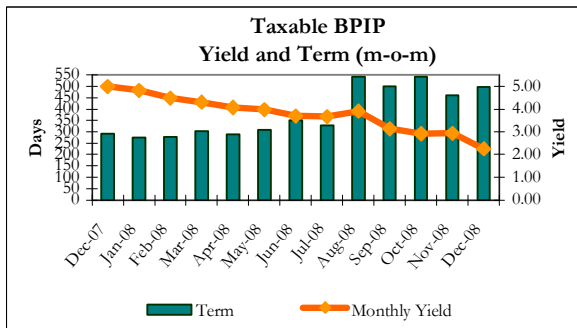
TAXABLE BOND PROCEEDS INVESTMENT POOL (BPIP)



- The market value of the Taxable BPIP as of December 31, 2008, was \$900.57 million. This compares to a market value of \$851.4 million one year ago and \$813.0 million two years ago.



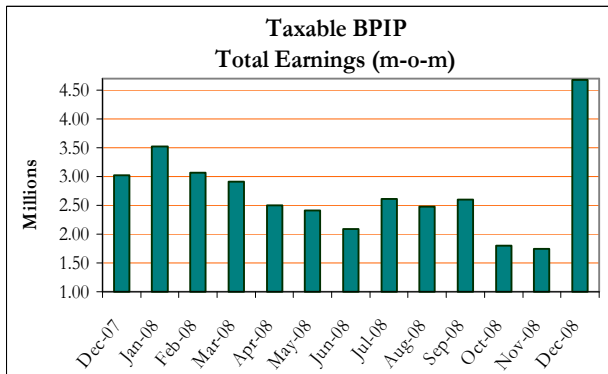
- During December, the market value of the fund increased 24.1%, to \$900.6 million from \$725.5 million at November month end.



- The Taxable BPIP month-end purchase yield and term were 2.25% and 1.36 years.
- The month-end yield was 56 basis points below 2.81%, which is the month-end yield for the 2-year CMA 12 month moving average index.

Taxable Bond Proceeds Investment Pool				
Asset Type	Yield	Market Value	% of Portfolio	Term (Days)
Agencies	3.87%	\$ 276,692,069	30.72%	1.83 yrs
Mmkt Funds & Cash	0.00%	\$ 39,265,264	4.36%	0
US Treasuries	na	\$ -	0.00%	na
Corporate Bonds	3.00%	\$ 286,975,988	31.87%	2.54 yrs
Asset-backed Sec.	4.77%	\$ 9,552,514	1.06%	1.38 yrs
Repurchase Pool	0.10%	\$ 288,085,329	31.99%	1
Total:	2.25%	\$ 900,571,164	100%	1.36 yrs

- There were twelve purchases in the Tax-exempt BPIP during December with an aggregate par amount of \$280 million. Additionally, there were eighteen sales with an aggregate par value of \$171 million during the month resulting in a gain of \$2.96 million.



- December interest earnings totaled \$4.69 million, a 167% increase from November earnings of \$1.75 million. Fiscal year to date earnings totaled \$15.8 million

NEW MEXICO STATE TREASURER'S EXECUTIVE SUMMARY OF INVESTMENT ACTIVITY

As of December 31, 2008

Investment Strategy Employed During the Past Quarter

▪ **BPIP:**

Fixed income markets remained severely dislocated through the last quarter of 2008, which, for investors left standing, presented some interesting opportunities.

Both BPIP portfolios took advantage of such opportunities in this order.

1) Through much of 2008 the portfolios' prior year allocations to Treasuries paid off handsomely because of the flight-to-quality bid. While the flight to quality bid promised to remain, the pricing asymmetry of Treasuries at the end of 2008 (yields can only go so low/prices can only go so high) meant that it was time to take profits—which we did.

2) The proceeds were then invested into a substantial portion of FHLB debt, as Federal Home Loan member banks were tapping the system for cash at almost any cost (FHLB was issuing 3 month paper at almost 3% at one point). By comparison three month agency securities today are yielding only .20%, so you can see that the portfolios enjoy substantial price appreciation on these holdings.

3) In part because of The Reserve breaking the buck, fear of corporate defaults, state budget problems, and mutual fund and hedge fund redemption requests, many market participants were scrambling to sell assets for cash. When this happens “all assets become correlated” and you can't sell what you want, you sell what you can. Unfortunately the BPIP's Agency holdings became mired in this mess and we suffered substantial price declines for what makes up a majority of holdings in both portfolios. The U.S. Treasury and the Federal Reserve, however, understood that this was not the time GSE funding costs should be going up, so in late December they began implementing a plan to purchase \$100 billion in Agency bullet securities. We took this opportunity- the bid in the market- to substantially lighten our allocation to Agency securities selling to both the FED and dealers for substantial gains over cost. Returns on these trades ranged from 6% to 15%.

4) Lastly, the TLGP story. New issue TLGP corporate paper came to market at significant concessions because it was an untested product. In short, the market has accepted the product and the asset class is well bid.

Investment Strategy Planned for the Next Quarter

▪ **BPIP:**

BPIP portfolios will remain focused on return of principal and providing liquidity for project drawdowns. It's hard to image opportunities such as those outline above presenting themselves again, but should they PMs will be well positioned to take advantage.

Asset Mix and Maturity Targets

▪ **BPIP:**

Portfolio managers are currently in the process of reviewing and refining the BPIP's benchmarks. Until that process is complete we will not have a complete picture of precise asset allocation and maturity targets. Generally, though, we will remain focused on highest quality credits and portfolio duration in the 1.5- 2.0 area. With the BPIP portfolios reaching 3yr since-inception landmarks come late 2009, we look forward to communicating these early successes and the continuing results and innovations.
