

OFFICE OF THE STATE TREASURER

**STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES
Tuesday February 10, 2009**

The State Treasurer's Investment Committee (STIC) meeting convened at approximately 9:00 a.m. in the Bob Barth Conference Room at the Office of the State Treasurer, 2019 Galisteo St., Bldg. K, Santa Fe, New Mexico, on Tuesday, February 10, 2009.

I. CALL TO ORDER

ROLL CALL

Members Present:

**The Honorable James B. Lewis, State Treasurer
Ms. Joelle Mevi, Chairperson Designee, Chief Investment Officer
Mr. Steven Bohlin, Public Member
Mr. Paul Cassidy, Public Member**

Members Absent:

**Ms. Olivia Padilla-Jackson, Board of Finance Director
Ms. Stephanie Schardin, Board of Finance Deputy Director**

Staff Present:

**Mr. Mark Valdes, Deputy State Treasurer
Mr. Orlando Romero, State Cash Manager
Mr. Scott Newman, General Fund Portfolio Manager
Mr. Joaquin Lujan, BPIP Portfolio Manager
Ms. Kirene Bargas, LGIP Portfolio Manager
Mr. Arsenio Garduno, Collateral Manager
Mr. Clarence Smith, Chief Operations Officer**

Guests:

Gillis Lang, DFA Economist

Mr. Lewis made a few statements commending Joelle Mevi for her service to the State Treasurer's Office. He says she will be a tremendous asset to PERA. He said they will be calling on her expertise. He said it was not a divorce, it was just a separation. Various members and staff members echoed those sentiments. He invited the Board to the staff reception on her behalf on the 19th.

Joelle said it has been a wonderful opportunity. It has been a privilege to have the position and the Board's expertise. She leaves the State Treasurer's Office with much pride.

Approval of February 10, 2009 Agenda

Member Cassidy motioned for approval of the agenda, seconded by Treasurer Lewis. The motion carried.

Approval of January 13, 2009 Agenda

Member Bohlin motioned for approval of the minutes as corrected; seconded by Member Cassidy. The Motion carried.

II. INVESTMENT REPORTS

General Fund Investment Portfolio Report

Mr. Scott Newman presented a summarization of the investment activity as of January 31, 2009. The market value of the General Fund Investment Portfolio, net of TRANS, on January 31, 2009 was \$2.05 billion down from \$2.15 billion at December 31, 2008. This compares to \$2.33 billion at the same point last year and \$2.77 billion at the same point two years ago. The market value of the portfolio decreased 4.63% to \$2.05 billion from \$2.15 billion at December's month end.

Purchase yield was 1.68% at month-end, up from 1.63% in December. The weighted average term of the portfolio increased to 512 days. Effective duration of the CORE segment was 1.75 years, which is 92% of the benchmark's duration, 1.91 years.

During January, there were six purchases for the CORE portfolio with an aggregate par value of \$230 million. Both agency notes and TLG corporate paper were purchases. Additionally, ten securities were sold during the period. Gains of \$6.93 million were realized on the sale of agencies and corporates. These sales amounted to an aggregate par amount of \$105 million. There were four purchases of Certificates of Deposit in the LIQUIDITY portfolio with an aggregate par value of \$12 million.

January earnings were \$9.99 million representing a 0.78% decrease from December earnings of \$10.07 million. Fiscal year earnings total \$52.80 million, compared to \$78.03 million through the same period last fiscal year.

The General Fund outperformed its benchmark with an earned yield of 5.89%, compared to a 2.50% 2yr CMA/CMT 12 month moving average month-end yield.

Annualized total return for the CORE was -0.12% for the month of January while the benchmark realized an annualized total return of -3.715%.

Core outperformed the benchmark due to duration of the portfolio being shorter and we saw some nice recoveries in some of the non corporate.

Member Cassidy asked level of General Fund continues to decline. He wanted to know where the forecast stands. Scott said he is working with Cash Management on this project.

New MexiGROW Local Government Investment Pool (LGIP) Report

Ms. Kirene Bargas presented a summarization of the LGIP. The market value of the LGIP portfolio as of January 31 was \$1.44 billion, compared to a market value of \$1.31 billion at the same period last year and \$792 million at the same period two years ago.

During the month the market value of the portfolio decreased 1.37%, from \$1.46 billion at December month end to \$1.44 billion. Participant contributions for January totaled \$144 million and withdrawals totaled \$163 million.

The gross yield was 1.08% at January 31, a 19% decrease from December month-end of 1.34%. The weighted average maturity at January 31 was 29 days, down from the December 31 weighted average maturity of 37 days and within the rule 2a-7 requirement of 60 days or less.

January investment activities in the LGIP portfolio totaled \$30.8 million in purchases and \$15.8 in sales. Purchases include a \$30.8 million corporate bond position with an average annualized yield of 1.49% and an average term of 224 days. Due to a possible downgrade, a corporate bond was sold, reflecting a \$7,071 dollar loss which was offset by 7 days of interest and resulted in an actual loss of \$253 dollars.

LGIP earnings for January totaled \$1.3 million, a 40 decrease from December earnings of \$2.2 million. Fiscal year-to-date earnings totals \$16.3 million compared to \$32 million through the same period last fiscal year.

The 30-day net yield of the LGIP as of January 23 was 1.12%, outperforming the 30-day net S&P Rated Government Investment Pool (GIP) index (1.08) by 4 basis points. The 30-day gross yield of the LGIP at January 23, 1.17% underperformed compared to the 30-day gross S&P Rated GIP index of 1.29%.

There were no administrative fees assessed to participants for the month of January. The loss amortization plan was incorporated in the end-of-month procedures, and \$512,435 was repaid to the GFC. The remaining principal balance due to the GFC is \$81.9 million dollars. During the month, LGIP

received the last \$1 NAV with interest disbursement of the Reserve Government Fund.

Member Schardin asked a question of Kirene regarding the corporate bond that was sold. Scott Newman answered the question. Member Bohlin continued on the question. Member Cassidy recommended continuing to send the LGIP participants more information.

Kirene says they get about 20 calls a day explaining A-Z. About 20 participants have withdrawn their monies for less than \$6 million.

Bond Proceed Investment Pools (BPIP)

Mr. Joaquin Lujan presented a summarization of the Bond Proceeds. The market value of the Tax-exempt BPIP as of January 31 was \$611 million. This compares to a market value of \$590.6 million one year ago and \$450.8 million two years ago.

During January, the market value of the fund decreased by 11.7% to \$611 million from \$692.2 million December month end.

The Tax-exempt BPIP month-end purchase yield and term were 2.74% and 2.22 years. The month-end yield was 28 basis points below the 2-year constant maturity agency index (12 mo. Average).

There were four purchases and one sale in the Tax-exempt BPIP during January with an aggregate par amount of \$133.9 million.

Interest earning for the month totaled \$1.48 million, a decrease of 47.7% from December earnings of \$2.84 million. Fiscal year to date earnings totaled \$12.53 million.

The market value of the Taxable BPIP as of January 31 was \$993.5 million. This compares to a market value of \$829.9 million one year ago and \$776.9 million two years ago.

During January, the market value of the fund increased 10%, to \$993.5 million from \$900.6 million at December month end.

The Taxable BPIP month-end purchase yield and term were 2.25% and 1.72 years.

The month-end yield was 77 basis points below 3.02%, which is the month-end yield for the 2-year Constant Maturity Agency 12 month moving average index.

There were five purchases in the Taxable BPIP during January with an aggregate par amount of \$180 million.

January interest earnings totaled \$1.74 million, a 62% decrease from December earnings of \$4.69 million. Fiscal year to date earnings totaled \$17.57 million.

Summary of Broker Participation

Chairperson-designee Mevi presented a summarization of the broker participation for security purchases for January.

Economic and Investment Outlook

Mr. Joaquin Lujan presented a brief economic outlook. At the end of January we learned that fourth quarter 2008 GDP had its weakest showing since 1982, -3.8%. Member Cassidy asked a question of Member Schardin regarding Bond Monies. Joaquin said he is working with Mark on HB 9. Treasurer Lewis asked Joaquin about arbitrage. He spoke of railrunner and spaceport.

III. CASH MANAGEMENT & COLLATERAL REPORTS: JANUARY 30, 2009

Cash Management Report

Mr. Orlando Romero reported that, pursuant to section 8-6-3.1 NMSA 1978, the State Cash Manager shall submit to the State Board of Finance a report showing state fund balances in each Financial Institution established pursuant to this section. A summary of State Agency Accounts in each institution through the month ending December 31, 2008 was provided.

Additionally, the State Treasurer's Office is required to report to the State Board of Finance any Financial Institution that exceeds certain equity capital and deposit ratios and notify all state agencies who maintain State Fund Deposits within those institutions of the violation. The agencies are advised not to make any new deposits to those accounts until the violations are corrected. Pursuant to section 6-10-24.1 NMSA 1978 there were no Financial Institutions exceeding the statutory limitations on equity capital and deposit ratios for the month ending December 31, 2008.

IV. COLLATERAL REPORT

Mr. Arsenio Garduno reported that all depository institutions holding public funds for the month ending December 2008 met the minimum collateral requirements. The ratio of collateral required by each institution is a result of a quarterly risk assessment analysis.

As of January 31, 2009 there have been six institutions that have failed in 2009. Arsenio presented a chart with the balances, deposited amounts, and collateral pledged for those amounts.

Arsenio brought it to the Board's attention that:

2.60.4.15 CUSTODIAL BANK NON-COMPLIANCE:

- A. A financial institution will be disqualified from serving as custodian for state deposits when any of the following conditions occur.
 1. When any of the following risk assessment ratio conditions occur for three consecutive quarters:..., net operating income-to-total average asset ratio falls below.61 percent...

Arsenio asked the Board how he should proceed with Bank of America since they are our Custodial Bank. Member Cassidy asked what the RFP criteria require of potential custodial banks. Arsenio answered that the Board of Finance handles that. Treasurer Lewis and Member Cassidy agree that more banks maybe falling. Member Cassidy said you want a custodial bank that is a trustee, a regulated entity. Member Bohlin spoke of difference of past banks to current ones. Treasurer Lewis said we might need to go to the legislature for an amendment or a bill.

Member Schardin asked about the type of collateral used. Suggested it should go from 102% to 103%.

**V. STAFF REPORTS
None**

**VI. COMMITTEE REPORTS
Quarterly Investment Report Provided**

**VII. NEXT MEETING
The next STIC meeting will be held on Wednesday, March 11, 2009 at 9:00 a.m.**

**VIII. ADJOURNMENT
Member Cassidy motioned to adjourn the meeting, seconded by Member Schardin.**

Respectfully submitted by:
Judy A. Espinosa, Compliance Officer