

# OFFICE OF THE STATE TREASURER

## STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES Wednesday, March 14, 2007

The State Treasurer's Investment Committee (STIC) meeting convened at approximately 9:00 a.m. in the Bob Barth Conference Room at the Office of the State Treasurer, 2019 Galisteo Street, Santa Fe, New Mexico, on Wednesday, March 14, 2007.

### I. CALL TO ORDER

#### Roll Call

##### **Members Present:**

Ms. Joelle Mevi, Chief Investment Officer (Chairperson Designee)  
Ms. Olivia Padilla-Jackson, State Board of Finance Deputy Director  
Mr. Orlando Romero, State Cash Manager (Designee)  
Mr. Paul Cassidy, Public Member

##### **Member(s) Absent:**

Mr. James B. Lewis, State Treasurer  
Mr. Steven Bohlin, Public Member

##### **Staff Present:**

Mr. Mark Canavan, Senior Investment Officer  
Mr. Joaquin Lujan, Investment Officer  
Mr. Arsenio Garduño, Collateral Financial Analyst  
Ms. Vickie A. Brown, Special Assistant to the State Treasurer

##### **Guests:**

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

#### Approval of March 14, 2007, Agenda

Member Cassidy motioned for approval of the agenda; seconded by Member Designee Romero, the motion carried.

#### Approval of February 14, 2007, Minutes

Member Padilla-Jackson motioned for approval of the minutes; seconded by Member Cassidy, the motion carried.

## **II. INVESTMENT REPORTS – Month Ended February 28, 2007**

### **General Fund Report**

Mr. Canavan summarized the investment activity for the General Fund portfolio. The market value, net of TRANs for the General Fund Portfolio for February 2007, was \$2.56 billion, compared to \$2.17 billion at the same point last year and \$1.85 billion at the same point two years ago. There was a fairly consistent rise over time from 2004 and 2005 and it seems to have flattened out presently due to the price of oil and natural gas. Since that time it has stabilized. The yield of the General Fund was 5.04% at month end, up from 4.98% at the end of January. The average term of the portfolio increased to 176.6 days up from 133.9 days at January month end. The 5.04% is a snapshot of the portfolio's holdings at purchase yield at the end of the month. It does not represent what the portfolio earned over the month, but it shows what the portfolio would have earned that particular day on its purchase yield

Member Padilla-Jackson asked why the snapshot is more helpful than reporting the average monthly yield. Mr. Canavan informed the Committee that the average monthly yield is also reported and is discussed later in the report.

Member Padilla-Jackson asked if it was anticipated in advance that the market value would decrease in February; and did that anticipation have something to do with the decline of the interest rate. Mr. Canavan informed the Committee that the market rate decreased due to more money going out than coming in.

Member Canavan directed the Committee members' attention to the 253 day term of the Agencies and mentioned that the duration of the agency sector of the portfolio is being extended. The month-end portfolio holdings of the General Fund were 54.6% in U.S. Agency bonds, 22.3% in the overnight repurchase pool, 7.3% in certificates of deposit, 13.9% in commercial paper, and 1.8% in money market mutual funds. \$682.7 million of investments were purchased for the month, the majority being commercial paper. \$46 million of certificates of deposit were purchased or renewed for the CD portfolio, some of these have been extended to 9 months and may be extended longer; \$456.7 million of commercial paper was purchased to cash match disbursements in the Liquidity Portfolio, these will normally be cash matched anywhere from 30 to 45 to 60 days in advance; \$180 million of U.S. Agency securities were purchased for the Core Portfolio with maturities ranging from June 2008 to February 2010.

The General Fund earnings for February were \$12.6 million, a decrease of 3.9% over January earnings of \$13.1 million and an increase of 45.8% over February 2006 earnings of \$8.6 million. Fiscal year-to-date earnings totaled \$97.2 million compared to \$56.1 million through the same period last fiscal year.

### **Target Liquidity Portfolio**

Mr. Canavan explained to the Committee that the target Liquidity Portfolio maturity weighted average ranges from 21 to 45 days and that it will cycle as the month continues and as investments are rolled out. The asset mix was 13.92% in agencies; 46.08% in commercial paper; 6.06 in money market mutual fund and 33.94% in overnight repurchase agreements.

### **Target Core Portfolio**

Mr. Canavan informed the Committee of the duration of the portfolio as of February 2007; there are maturities with 0-12 months at 61.39%, 13-24 months at 15.99%, 25-36 months at 22.62% and with the weighted average maturity at 0.966 years. The breakdown of the assets was 70.43% in Agencies and 29.57% in the overnight repo.

Member Cassidy asked if one-time lockouts are being purchased. Mr. Canavan affirmed that one-time lockouts are being purchased and they are all one-time calls. There are no American or Bermuda calls.

Member Cassidy asked how brokers are being selected for the new issues, and whether any funds had been purchased at initial issuance. Mr. Canavan explained to the Committee that the current process is to blanket email to all of the brokers asking for offers for specifically defined securities. Additionally, an option adjusted spread analysis is conducted in conjunction with a total rate of return analysis.

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

Chairperson Designee Mevi informed the committee of the LGIP status. The year-over-year market value of the LGIP portfolio as of February 28 was \$806.6 million, compared to a market value of \$829.5 million at the same period last year and \$1.33 billion at the same period two years ago. The \$806.6 million month-over-month market value was an increase of 2% over the \$792.35 million January 31 market value. Participant contributions were \$37.7 million and withdrawals were \$25.2 million. The gross yield was 5.30% at February 28, as it was on January 31. The weighted average maturity at February 28 was 32 days, down from the January 31 weighted average maturity of 41 days, and still within the allowable limit of 50 days. The month-end portfolio holdings were 26% in U.S. government agency securities, 37% in A-1+ commercial paper, 37% in AAA money market funds, and 0.2% in the bank account balance.

February investment activity in the LGIP portfolio included the purchase of \$80 million in A-1+ commercial paper with an annualized yield of 5.38% and average term of 114 days. Total LGIP earnings for February totaled \$3.3 million, a slight decrease from January earnings of \$3.5 million. Fiscal year-to-date earnings for the LGIP totaled \$24.8 million compared to \$20.4 million through the same period last fiscal year. The 30-day net yield of the LGIP as of February 28 was 5.25%, outperforming the 30-day net S&P Rated Government Investment Pool index (5.13%) by 12 basis points. The 30-day gross yield of the LGIP at month-end, 5.30%, trailed the 30-day gross S&P Rated GIP index of 5.33% by 3 basis points. The administrative fee assessed to participants for February was 5.2 basis points. Administrative fees assessed through February totaled \$256,000.

Member Cassidy asked if brokers provide research on commercial paper for staff. Member Cassidy also requested information on the process for reviewing credit. Chairperson Designee Mevi stated that an internal listing of approved commercial paper with an online credit watch has been established on Bloomberg and deferred to Joaquin Lujan for further explanation of the credit watch process. Mr. Lujan informed

the Committee that CP credit review is monitored regularly and as movement in the market occurs for status changes.

### **Bond Proceeds Investment Pools (BPIP) Report**

Mr. Lujan reported that the market value of the Tax-exempt BPIP as of February 28, 2007, was \$463.1 million. During February the market value of the fund increased 2.7% from \$450.8 million to \$463.1 million. The net positive increase includes \$21 million property tax contribution and \$9 million in monthly project withdrawals, with historical averages being \$10 million. Earnings for the month were \$1.79 million. The February 28 yield was 4.99% and the term was 131 days.

The Tax-exempt BPIP yield at February 28, 4.99%, was 37 basis points above the highest arbitrage yield limit of any bond issue in the fund, 4.62%, which is also the selected benchmark. The breakdown of month-end portfolio holdings was 60.3% in U.S. Treasury notes and bills, 6.4% in U.S. Agency securities, 26.6% in the overnight repurchase pool, and 6.6% in flexible repurchase agreements. In February one \$35 million Treasury note with a yield of 5.05% was purchased to match a March 2008 debt service liability.

The market value of the Taxable BPIP as of February 28, 2007, was \$773.3 million. In February the market value of the fund decreased 0.46%, from \$776.9 million to \$773.3 million. Interest earnings for February totaled \$3.03 million. The month-end yield was 4.84% and the term was 314 days. February 28 benchmark yields were:  
5.07%: 2-year Constant Maturity Agency 12-month moving average; and,  
4.86%: Merrill Lynch custom index: 10% of the 0-3 year Treasury and 90% of the 1-3 year Agency. The breakdown of month-end portfolio holdings was 25.8% in money market mutual fund shares, 47.4% in U.S. Agency bonds, 12.3% in flex repurchase agreements, 1.9% in U.S. Treasuries, and 12.4% in the overnight repurchase pool.

Approximately \$20 million was invested in callable U.S. Agency bonds and \$15 million in U.S. Treasury notes during February. These purchases increased monthly maturity targets from \$10 million to \$15 million increments. Yields on the callable agencies ranged from 5.38% to 5.45%, while yields on the U.S. Treasuries ranged from 4.79% to 4.81%.

Member Padilla-Jackson asked for the amount of bond proceeds that are kept liquid. Mr. Lujan stated that 30% of each portfolio is kept liquid during the month, funded with either maturities or in cash balances. Member Padilla-Jackson further asked how much is kept in cash. Mr. Lujan mentioned approximately 30-33% is maintained in cash.

### **Summary of Broker Participation**

There were no questions on this section.

### **Economic and Investment Outlook**

Member Canavan informed the Committee that February was a tumultuous month characterized by a tremendous flight to quality. The month began with weak economic numbers and a sell off in sub-prime mortgage-backed securities. The resultant flight to quality saw 2-year Treasury rates decline 20 basis from the 4.92 percent level to the

mid to low 4.70s. Concerns mounted that sub-prime delinquencies and defaults would trigger a broad based liquidity crunch across the credit spectrum. Exacerbating concerns, on February 27<sup>th</sup> the Chinese stock market corrected and a weak durable goods orders report was released. This fueled an impressive month end rally driving 2-year Treasury rates down to 4.55.

Mr. Canavan also stated that the General Fund will selectively continue to extend duration using market retracements as buying opportunities. Callable Agency paper with one year or greater call protection will continue to be considered for purchase, and the STO will monitor the corporate bond market seeking opportunities.

The Local Government Pool will postpone further ABS-CP investment until final analysis of the sector is accomplished. Duration of the LGIP will continue to be extended and maintained at the longer end of the allowable WAM.

The Bond Proceeds Investment Pool (BPIP) will continue deploying asset liability matching, while extending the duration of the two BPIP pools as opportunities arise.

### **III. CASH MANAGEMENT REPORT – Month Ended January 31, 2007**

#### **State Agency Deposit Balances in Financial Institutions**

Chairperson Mevi stated that this report is a requirement to be presented to the Treasurer's Office to Governor Richardson and members of the State Board of Finance. It identifies financial institutions that exceed certain equity capital and deposit ratios and notify any state agencies that maintain funds in those institutions of any potential violations. For the period ending January 2007, there were no financial institutions exceeding the statutory limitations on equity capital and deposit ratios. There were \$21 million in non-interest bearing accounts and \$62,193,893 in interest bearing accounts. Interest received for the month of January was \$236,949.

Chairperson Mevi further reported a total dollar value of state funds of \$60,126,977, and of non-state funds, \$27,578,433. There were a total 499 accounts with 9 accounts closed during the month and 4 accounts opened.

#### **Collateral Report**

Mr. Arsenio Garduno, Collateral Manager reported that there were no financial institutions out of compliance for the month ending January 31, 2007. Mesilla Valley Bank in Las Cruces had a change in the ratio of collateral required for quarter ending December 31, 2006, also a Cease and Desist order was placed on this institution by FDIC and NM Financial Institutions Division. Mesilla Valley Bank's state funds consist of a \$2 million CD invested in the General Fund with a \$2 million dollar surety bond pledged as collateral to secure this deposit.

Mr. Garduno further reported that Flexible Repurchase Agreements are to be collateralized at 102% of the investment and that at month end there were no counter-party violations. During the month, however, there were two counter-parties out of compliance. Cantor Fitzgerald was in violation three consecutive days and Morgan Stanley was in violation one day.

**IV. STAFF REPORTS**

None

**V. NEXT MEETING**

Wednesday, April 11, 2007, 9:00 a.m.

**VI. ADJOURNMENT**

Member Olivia-Padilla motioned to adjourn the meeting; seconded by Member Designee Romero, the meeting adjourned at 10:25 a.m.