

OFFICE OF THE STATE TREASURER

STATE TREASURER'S INVESTMENT COMMITTEE (STIC) MEETING MINUTES Wednesday, June 13, 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, June 13, 2007.

I. CALL TO ORDER

Roll Call

Members Present:

Mr. James B. Lewis, State Treasurer

Ms. Joelle Mevi, Chief Investment Officer (Chairperson Designee)

Mr. Steven Bohlin, Public Member

Members Absent:

Ms. Olivia Padilla-Jackson, State Board of Finance Director

Mr. Paul Cassidy, Public Member

Staff Present:

Mr. Mark Canavan, Senior Investment Officer

Mr. Joaquin Lujan, Investment Officer

Mr. Orlando Romero, State Cash Manager

Mr. Arsenio Garduno, Collateral Financial Analyst

Ms. Vickie Brown, Special Assistant to the State Treasurer

Guests:

Ms. Stephanie Schardin, Legislative Finance Committee

Mr. Gillis Lang, Department of Finance and Administration

Mr. Laird Graeser, Department of Finance and Administration

Ms. Sharon Romero, Department of Finance and Administration

Approval of June 13, 2007, Agenda

Member Bolin motioned for approval of the agenda; seconded by Member Lewis. The motion carried.

Approval of May 9, 2007 Minutes

Member Bolin motioned for approval of the minutes; seconded by Treasurer Lewis. The motion carried.

II. INVESTMENT REPORTS – Month Ended May 31, 2007

General Fund Report

Mr. Canavan summarized the investment activity for the General Fund portfolio. The market value of the General Fund Investment Portfolio, net of TRANs, on May 31, 2007, was \$2.54 billion compared to \$2.65 billion at the same point last year and \$2.16 billion at the same point two years ago. During the month the market value of the portfolio increased 2.4% to \$2.54 billion from \$2.48 billion at April 30. The May month-end balance represents a 5.82% increase from March's month-end \$2.40 billion. The yield was 5.14% at month-end, up from 5.06% at the end of April. The average term of the portfolio increased to 233 days from 191.2 days at April month-end.

The month-end portfolio holdings were 55.3% in U.S. Agency bonds, 10.9% in the overnight repurchase pool, 7.3% in certificates of deposit, 3.0% in money market mutual funds, and 23.3% in commercial paper. \$751.5 million of investments were purchased for the month: \$41.2 million of certificates of deposit were purchased or renewed for the CD portfolio; \$581.8 million of commercial paper was purchased to cash match liabilities from June to September in the Liquidity portfolio; \$170 million of U.S. Agency securities were purchased for the Core portfolio with maturities ranging from July 2009 to September 2010. Earnings for May were \$12.9 million, an increase of 3.4% from April earnings of \$12.5 million and an increase of 18.9% over May 2006 earnings of \$10.9 million. Fiscal year-to-date earnings totaled \$136.1 million compared to \$85.9 million through the same period last fiscal year.

Mr. Canavan reported that the core portfolio cumulative total returns were 3.06% compared to the benchmark of 2.84%; and the core portfolio's monthly return was 1.94% compared to the -1.86% benchmark at May month-end.

The portfolio asset classifications were 56% in Agencies, 23% in Commercial Paper, 11% in Overnight Repo, 7% in Certificates of Deposit and 3% in Money Market Funds. The weighted-average maturity of the general fund core portfolio was 1.374 years at May month-end. The weighted-average maturity of the General Fund Liquidity Portfolio was 39.342 days as of May 31, 2007. The General Fund Interest Earnings was 5.0820% with \$12,919,300 total interest earned on investments month ending May 31, 2007; the total year-to-date interest earned was 4.9502%. Interest earned for the quarter was 5.0848% while interest earned for the calendar year through May 31 was 5.0754%

New MexiGROW Local Government Investment Pool (LGIP) Report

Chairperson Mevi informed the committee of the LGIP status. The year-over-year market value of the LGIP portfolio as of May 31 was \$973 million, compared to a market value of \$728 million at the same period last year and \$1.19 billion at the same period two years ago. During the month the market value of the portfolio increased 3.4%, from \$891 million in April to \$973 million. Participant contributions were \$134.8 million and withdrawals were \$54.8 million. The gross yield was 5.30% at May 31, unchanged from April month-end. The weighted average maturity at May 31 was 33

days, up from the April 30 weighted average maturity of 12 days and within the S&P-set limit of 50 days.

The month-end portfolio holdings were 8.9% in U.S. government agency securities, 27% in A-1+ commercial paper, 61.3% in AAA money market funds, and 2.8% in the bank account balance. May investment activity in the LGIP portfolio included the purchase of \$147.2 million in A-1+ commercial paper with an annualized yield of 5.37% and average term of 65 days, and \$63.8 million in callable agency bonds with an annualized yield of 5.28% and average term of 323 days. LGIP earnings for May totaled \$4.1 million, a 9.75% increase from April earnings of \$3.8 million. Fiscal year-to-date earnings for the LGIP totaled \$36.6 million compared to \$29 million through the same period last fiscal year. The 30-day net yield of the LGIP as of May 31 was 5.25%, outperforming the 30-day net S&P Rated Government Investment Pool (GIP) index (5.08%) by 17 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 5.32% by 2 basis points. The administrative fee assessed to participants for May was 4 basis points; fees collected through May 31 totaled \$352,000.

Direct issue purchases, without broker fees, of commercial paper totaled 7.42% year-to-date in the Local Government Investment Pool.

Member Bolin asked if the LGIP has completely dropped out of the overnight repurchase pool. Chairperson Mevi informed the Committee that LGIP has been out of the overnight repurchase since summer 2006 because money market rates and overnight repurchase rates are comparable. She further stated that one of the counter parties previously approved by STO was not S&P rated; however, another counter party has been added. Chairperson Mevi is currently waiting for Bank of America's Columbia Management to add several more counter parties on a tri-party basis. She stated that she contacted Columbia Management last month for a status and is waiting for their response.

Member Bolin informed the Committee that when there are equivalent rates on a money market fund and an overnight repurchase, that the yield on the overnight repurchase is better than the money market because of the day count convention used—30/360 versus actual/365. Chairperson Mevi added that PFM also pointed this out in their quarterly review and that LGIP is considering returning to the overnight repurchase pool.

Bond Proceeds Investment Pool (BPIP) Report

Mr. Lujan reported that the market value of the Tax-exempt BPIP as of May 31, 2007, was \$547.6 million. During May the market value of the fund decreased 2.2% from \$560.1 million to \$547.6 million. The approximate \$4 million decrease was the net result of property tax revenues, interest earnings, and project expenditures. Earnings for the month were \$2.29 million. The month-end yield was 5.04% and the term was 207 days. The Tax-exempt BPIP yield at May 31, 5.04%, was 41 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 19.8% in the overnight repurchase pool, 1.28% in flexible repurchase agreements, 53.1% in U.S. Treasury notes and bills, 23.6% in U.S. Agency bonds, and 2.2% in commercial paper. Purchases included \$12.3 million in commercial paper, and \$60 million in U.S. Agency bonds (bullets) ranging in maturity from August 2007 to August 2008.

Member Bolin asked if the Tax Exempt Proceeds Pool has been reviewed to determine what the arbitrage restrictions and/or limits would be on each bond issue. Mr. Lujan informed the Committee that he has been meeting with Olivia Padilla-Jackson and they have determined that most issues would not fall under any of the exemption rules. Since inception, the Pool has had positive arbitrage on all issues. We will contract with Bond Logistics to give us an annual estimate of what the arbitrage to the IRS might be in five (5) years so that we may put aside a rebate account withholding liability to ensure funds are available when they are due.

Taxable Bond Proceeds Investment Pool (BPIP) Report

The market value of the Taxable BPIP as of May 31, 2007, was \$678.7 million. During May the market value of the fund decreased 6.5%, from \$726.1 million to \$678.7 million. The approximate \$47 million decrease was a result of large project expenditure draws. Interest earnings for May totaled \$2.9 million. The month-end yield was 5.07% and the term was 323 days. May 31 benchmark yields were: 5.08%: 2-year Constant Maturity Agency 12-month moving average; and, 5.19%: 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 8.3% in the overnight repurchase pool, 3.0% in flex repurchase agreements, 55.6% in U.S. Agency notes and bonds, 2.2% in U.S. Treasury notes, 5.9% in commercial paper, and 25.0% in money market mutual fund shares. May purchases included \$40 million in 15- and 30-day term commercial paper and \$30 million of callable two-year U.S. Agency bonds.

Member Bolin asked for an update on where we are with working with DFA to closeout pre-2004 bond issues. Mr. Lujan informed the Committee that we are seeing larger draws and agencies are reverting unused project funds to Board of Finance.

Treasurer Lewis asked if there is anything that we can do tighten up the draw down process with Board of Finance. Guest Sharon Romero stated that Olivia Padilla-Jackson is working with the Department of Finance to ensure that agencies draw down on the older projects.

Economic and Investment Outlook

Bond market prices will likely adjust to the economic conditions as outlined in Mr. Lujan's presentation. This adjustment will establish a trading range for both the two (2) year and ten (10) year Treasury from between 4.85% and 5.0%. This provides an opportunity for STO funds to reach target portfolio allocations. With the new CORE and BPIP funds close to full investment and heavy allocations in treasuries, agencies, and commercial paper, STO will continue its efforts researching the corporate and asset-

backed sectors of the bond market. This research will allow STO to capture relative value in said sectors should an opportunity present itself in the coming months.

III. CASH MANAGEMENT REPORT – Month Ended April 2007

State Fund Deposit Activity for the month ending April 2007

Mr. Orlando Romero reported that 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 April, 2007. State funds for month ending April 2007 included 295 funds with a total balance of \$59,956,140; the non-State funds totaled 204 accounts with a total balance of \$26,902,497; total State agency balances were \$86,858,637, and the total number of accounts was 499; there were five (5) accounts opened and eight (8) account closed during the month.

Collateral Report

Mr. Garduno stated that no financial institution out of compliance for the month ended April 30, 2007.

Mr. Garduno further informed the Committee that at May month-end, no flexible repurchase counterparties were out of compliance with their agreements which require 102% collateral on the investment. Citigroup was in full compliance and Morgan Stanley was out of compliance five (5) consecutive days during the month.

IV. ANNOUNCEMENTS

Treasurer Lewis informed the Committee that the Oversight Committee for Investments and Pensions would be meeting June 14, 2007, at 1:00 pm at the State Capital to hear reports from PERA, ERB and SIC. He also stated that STO would report to the oversight committee at a later date.

Chairperson Mevi congratulated Mr. Garduno on his fatherhood and Member Olivia Padilla-Jackson on the recent birth of her son.

V. NEXT MEETING

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

VI. ADJORNMENT

Treasurer Lewis motioned to adjourn the meeting; seconded by Member Bolin, the meeting adjourned at 9:50 a.m.

Respectfully submitted by Vickie A. Brown

Date:
