



51st ANNUAL REPORT

FISCAL YEAR 2006-2007

POOLED MONEY

INVESTMENT

BOARD

BILL LOCKYER
State Treasurer and Chairman

Preface

Pooled Money Investment Board

The Pooled Money Investment Board (PMIB), created by the Legislature in 1955, is comprised of the State Treasurer, as chairman; the State Controller and the Director of Finance. At the end of 2006-07, the members were Bill Lockyer, Treasurer; John Chiang, Controller; and Michael C. Genest, Director of Finance.

The purpose of the Board is to design and administer an effective cash management and investment program, called the Pooled Money Investment Account (PMIA). The PMIA uses all monies flowing through the Treasurer's bank accounts and keeps all available funds invested consistent with the goals of safety, liquidity and yield.

The law restricts the Treasurer to investments in the following categories: U.S. government securities; securities of federally-sponsored agencies; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions; prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker's acceptances; negotiable certificates of deposit; and loans to various bond funds. Subsequent sections of this report deal individually with the demand account and investment programs for which the Board has oversight responsibilities, and which the Treasurer directly administers.

During 2006-07, the PMIA's earnings totaled \$2.978 billion. Approximately \$870 million of this amount was credited to units of local government as a result of their deposits in our investment pool. The level of local governments' voluntary investment, which averaged \$16.975 billion, reflects the confidence these agencies have in our investment management capabilities. The magnitude of these investment earnings provide a significant reduction in the tax burden that otherwise would have been imposed on the citizens of California.

Pooled Money Investment Board
51st Annual Report
Fiscal Year 2006-2007
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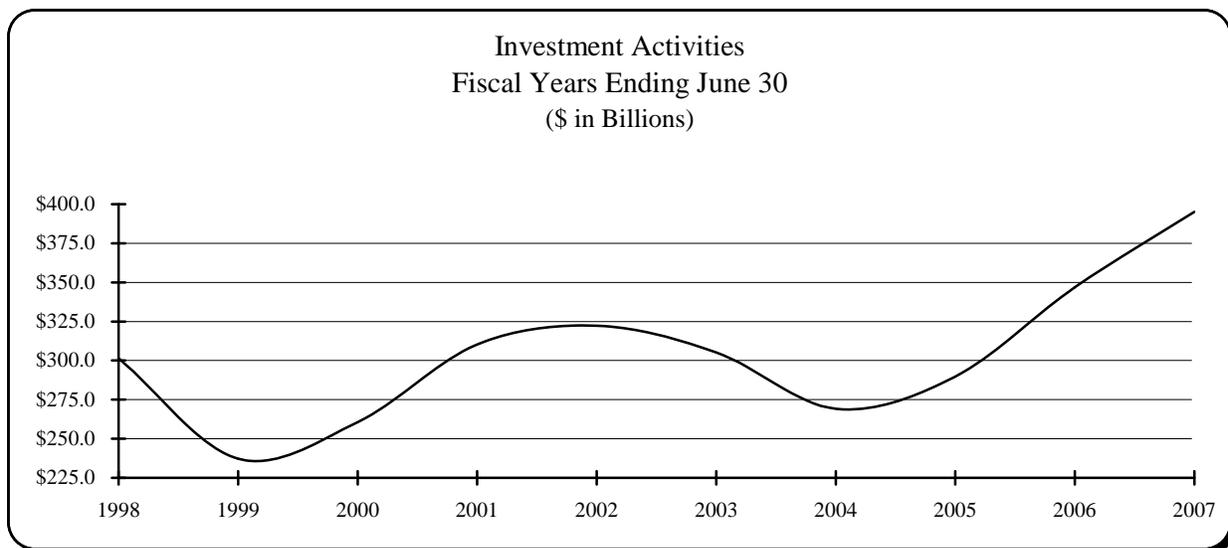
Overview

The Year in Review

Average Daily Portfolio	\$58,147,441,341
Earnings	\$2,977,625,501
Effective Yield	5.12%

Investment Activity for Fiscal Years Ending June 30 (\$ in Billions)

Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Amount	\$301.6	\$237.3	\$260.6	\$310.2	\$322.3	\$305.1	\$269.1	\$289.8	\$346.8	\$395.0
Transactions	7,108	5,804	6,447	7,889	8,025	7,524	6,630	6,961	8,242	9,448



Source: State Treasurer's Office, Investment Division

2006-07 Investment Market Conditions

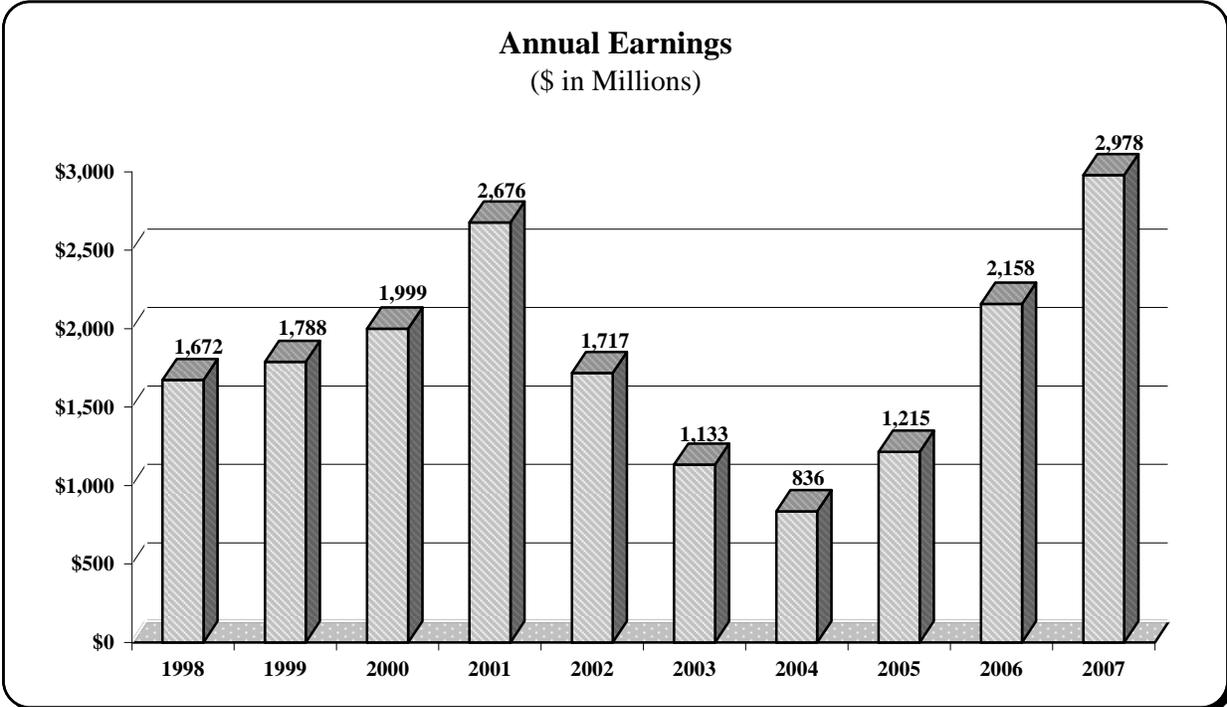
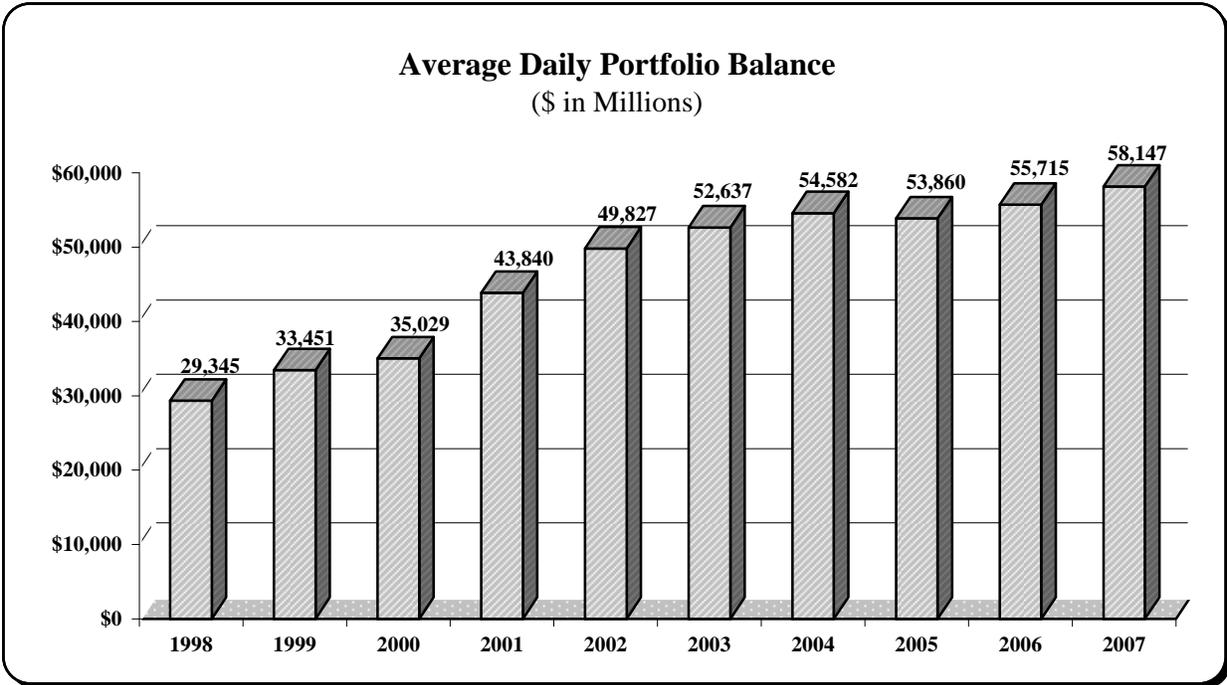
To indicate prevailing market conditions during 2006-07, the following table shows monthly money market rates, as computed from daily closing bid prices. The information was obtained from the Federal Reserve Statistical Release.

Monthly Yield on Money Market Securities (Yield in Percent per Year)

Month	Federal Funds	3-Month Treasuries	90-Day Finance Company Commercial Paper	90-Day Certificate of Deposits	6-Month Treasuries	1-Year Treasuries	3-Year Treasuries
July 2006	5.24	5.08	5.37	5.46	5.27	5.22	5.07
August	5.25	5.09	5.29	5.38	5.17	5.08	4.85
September	5.25	4.93	5.25	5.34	5.08	4.97	4.69
October	5.25	5.05	5.24	5.33	5.12	5.01	4.72
November	5.25	5.07	5.24	5.32	5.15	5.01	4.64
December	5.24	4.97	5.24	5.32	5.07	4.94	4.58
January 2007	5.25	5.11	5.24	5.32	5.15	5.06	4.79
February	5.26	5.16	5.23	5.31	5.16	5.05	4.75
March	5.26	5.08	5.22	5.30	5.10	4.92	4.51
April	5.25	5.01	5.23	5.31	5.07	4.93	4.60
May	5.25	4.87	5.23	5.31	4.98	4.91	4.69
June	5.25	4.74	5.25	5.33	4.95	4.96	5.00
2006-2007 Average	5.25	5.01	5.25	5.34	5.11	5.01	4.74
2005-2006 Average	4.20	4.17	4.40	4.48	4.41	4.43	4.48
Increase-(Decrease)	1.05	0.84	0.85	0.86	0.70	0.58	0.26

Note: Yields on Treasury nominal securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve for non-inflation-indexed Treasury securities. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The constant maturity yield values are read from the yield curve at fixed maturities, currently 1, 3, and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. This method provides a yield for a 10-year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity. The 90-day Commercial Paper is quoted on a discount basis.

Comparisons of Portfolio Balance and Earnings for Fiscal Years Ending June 30 1998 through 2007



Source: State Treasurer’s Office, Investment Division

Pooled Money Investment Account

Summary Statistics

Resources	\$	58,596.8	million per day on the average
Demand Accounts.....	\$	449.4	million per day on the average
Portfolio.....	\$	58,147.4	million per day on the average
Earnings	\$	2,512.1	million from security investments
		431.5	million from bank time deposits
		34.0	million from General Fund loans
Earning Rate		5.12	percent average for all investments
Dollar Value of Investment Transactions	\$	395.0	billion
Number of Investment Transactions		9,448	transactions
Time Deposits		98	banks, credit unions and savings banks held PMIA money at year-end

Source: State Treasurer's Office, Investment Division

Resources of the PMIA averaged \$58,596,846,877 per day during the fiscal year although the daily figures fluctuated widely with receipts and disbursements. The high point for the year occurred on June 28, 2007, when the total reached \$68,753,235,326. Resources for the account were lowest on December 11, 2006, when balances totaled \$52,522,240,611.

A breakdown of an average day's resources during the fiscal year shows the following: \$449.4 million in non-interest-bearing bank accounts; \$49.798 billion in securities and General Fund Loans; and \$8.350 billion in interest-bearing time deposits.

On the closing day of the fiscal year, the following resources were on hand in the PMIA:

Demand deposit balances	\$ 253,605,932
Time deposit balances	8,740,495,000
Securities	<u>56,474,146,886</u>
Total Resources	\$65,468,247,818

Demand Account Program

Investments of the PMIA are made from monies flowing through the Treasurer's demand (non-interest-bearing) bank accounts maintained in six banks that serve as State depositories. As of June 30, 2007, the six depository banks were: Bank of America, Union Bank of California, Bank of the West, U.S. Bank, Wells Fargo Bank, and Westamerica Bank. A small portion of these funds must remain in the accounts as compensating balances, which consist of: (1) a balance for uncollected funds and (2) a balance for banking services. Uncollected funds represent the total dollar amount of checks deposited by the State for which the banks give immediate credit, but for which they do not receive good funds until these checks are presented to the banks on which they are drawn. The State allows the banks an average balance for uncollected funds equivalent to 1.3 calendar days on all checks deposited other than cashier's checks and checks deposited under the presort deposit program.

Under the presort deposit program, the major revenue collecting agencies sort their checks by the six State depository banks and then deposit them directly into the banks on which they are drawn, thus avoiding the need for providing bank balances for uncollected funds. The remaining miscellaneous checks (drawn on non-State depository banks) are deposited into the State depository bank that holds the miscellaneous sort contract. Currently, Union Bank of California has the contract and receives bank balances equivalent to 1.1 calendar days for the amount of such deposits.

The balances allowed for banking services represent compensation for handling 343,801 deposits, 54.9 million checks deposited, 309,368 dishonored checks, \$852.6 million in currency deposited, \$9.2 million in coin deposited, and 116.8 million warrants paid.

All amounts in excess of these compensating balances are promptly invested by the Treasurer. Intensive and expert analysis of receipts and disbursement data is used daily to estimate the State's rapidly shifting cash position in order to determine exactly how much money is available for investment. This results in maximum earnings consistent with prudent management.

Compensating balances are determined by a formula, which accounts for the estimated volume of each service item as well as its unit cost. The rate schedule for the compensating balance formula is determined through annual negotiations with the State's depository banks and the cost for any particular service may be raised or lowered as conditions warrant. Adjustments for the difference between actual and estimated workload for any fiscal year are made in the following fiscal year. The State made no changes in the rate schedule for banking services for 2006-07.

In addition to the rates shown below, the State agreed to include the costs of account reconciliation and electronic funds transfer services within the compensating balance formula starting in 1991-92. The costs for these two services are paid (with balances) on a lagged, actual basis when billed by each bank. During 2006-07, a total of \$91.4 billion was collected under the EFT contract and approximately \$2.1 trillion flowed in and out of the State Treasurer's demand accounts.

The following schedule shows the approved rates, actual volume, and total costs for banking services for 2006-07:

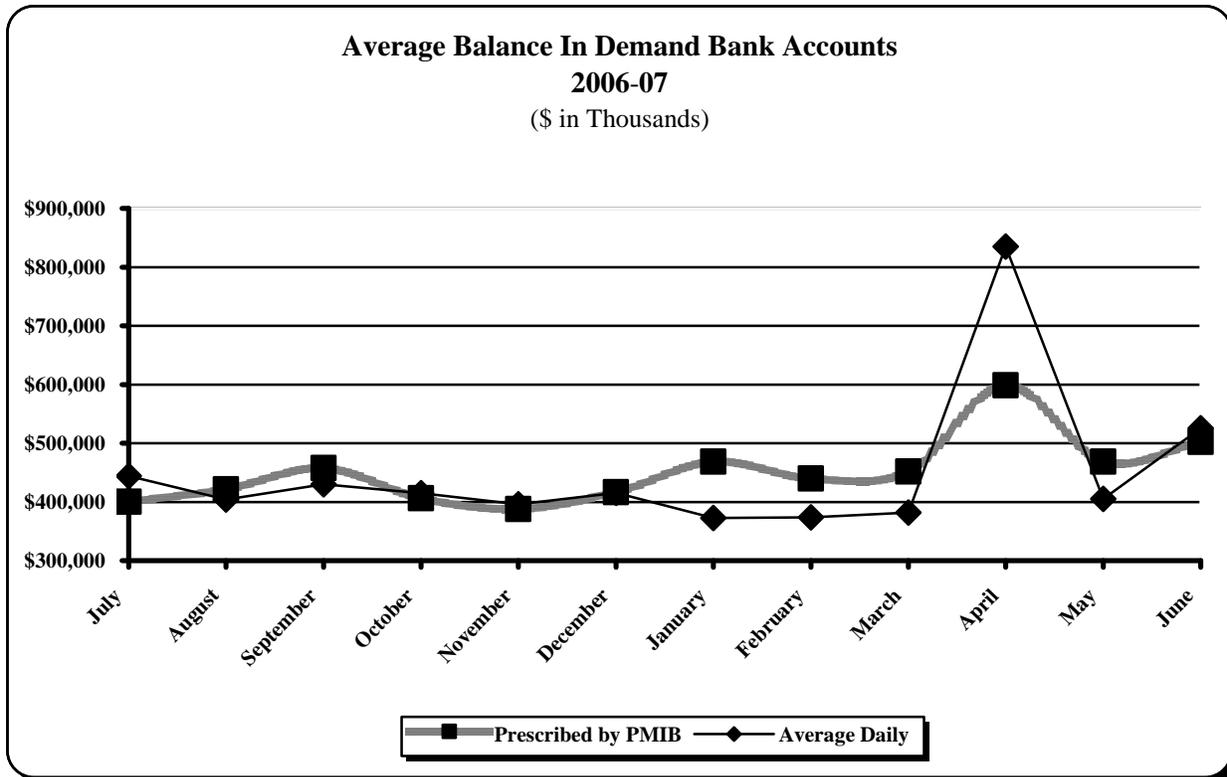
Schedule of Banking Services 2006-07 Fiscal Year

Banking Service	Approved Charges	Actual Volume	Actual Cost
Encoded Checks Deposited - On Us			
"On Us"	\$0.04	15,927,886	\$637,115
"Other"	0.053	22,384,651	1,186,387
Non Encoded Checks	0.09	16,587,970	1,492,917
Warrants	0.01	116,778,568	1,167,786
Checks Paid	0.12	703	84
Dishonored Checks	2.75	309,368	850,762
Regular Deposits	1.40	230,709	322,993
Split Bag Deposits	0.55	113,092	62,201
Coin	0.01100	9,243,771	101,681
Currency	0.00105	849,309,190	891,775
Account Maintenance (ZBA's)	15.00	2,931	43,965
Account Maintenance (Demand & LAIF)	55.00	36	1,980
Daily Statements	6.00	1,747	10,482
Direct Billed Services			751,632
Subtotal Non-EFT Contract Services			<u>\$7,521,759</u>
EFT Contract Services (Direct Billed)			
ACH Credit/Debit	\$0.5985	5,749,755	\$3,441,228
Direct Debit	0.03	2,059,900	61,797
Other transactions	Various	105,427	132,967
Subtotal EFT Contract Services			<u>\$3,635,992</u>
Total Banking Services			\$11,157,751

Source: State Treasurer's Office, Cash Management Division

Average Daily Balance in Demand Bank Accounts 2006-07 (\$ in Thousands)

Month	Bank Balance Required for Banking Services	Bank Balance Required for Uncollected Funds	Less Net Delayed Deposit Credit	Bank Balance Prescribed by PMIB	Actual Average Daily Bank Balance
July 2006	\$274,403	\$132,294	\$6,235	\$400,462	\$444,216
August	243,323	186,467	8,175	421,616	403,929
September	266,120	191,994	222	457,892	430,183
October	251,154	163,087	8,260	405,982	414,724
November	241,889	153,006	6,914	387,981	395,825
December	251,189	175,217	9,792	416,615	415,374
January 2007	248,440	218,271	(1,990)	468,702	372,650
February	241,027	184,030	(14,848)	439,905	373,460
March	272,525	176,787	(2,230)	451,542	381,755
April	237,357	361,454	42	598,768	835,115
May	248,657	221,888	1,820	468,725	405,335
June	293,701	210,268	1,699	502,269	525,500
Weighted Average	\$255,894	\$197,668	\$2,144	\$451,418	\$449,406



Source: State Treasurer's Office, Cash Management Division

Investment Program

Although the PMIB designates how much shall be invested in interest-bearing time accounts and securities, it is the responsibility of the State Treasurer to administer the investment program on a day-to-day basis in line with overall Board policy. This entails a daily determination of amounts available for investment, or the need for liquidating securities to meet estimated warrant redemption requirements, while maintaining the approved compensating balance position. This means that the State Treasurer must continually adjust the estimates for receipts and disbursements to reflect current, available information.

For 2006-07, investments in time deposits ranged from \$7,853,495,000 to \$8,740,495,000 and averaged \$8,349,640,205. There were 2,202 time deposit transactions totaling \$50,329,670,000 during the year. California commercial banks, savings banks and credit unions receiving these State deposits must secure them with approved securities having a market value of at least 110 percent of the deposits or with approved promissory notes secured by mortgages or deeds of trust having a market value of at least 150 percent of the deposits. The same collateral requirements also apply to the State's demand accounts. At the end of 2006-07, interest-bearing time deposits were held by 74 commercial banks, 14 credit unions and 10 savings banks throughout California. For the fiscal year, PMIA holdings in time deposits had an average yield of 5.17 percent.

The amount of money designated by the Board for investment in securities varies dramatically throughout the year. Such designations are made at least monthly. Again, the Treasurer handles the actual investments, determining the issue and maturity of authorized securities to be bought or sold in accordance with cash needs and both current and projected market conditions. During 2006-07, there were 3,636 security purchase transactions and 3,610 security sales or redemption transactions, with a total investment activity of \$344.7 billion.

Total earnings for the PMIA in 2006-07 were \$2,977,625,501. These earnings were credited as follows:

General Fund	\$ 536,853,571
Fish and Game Preservation Fund	\$ 1,594,324
Surplus Money Investment Fund	\$1,561,365,234
Local Agency Investment Fund	\$ 870,414,609
Public Employee's Retirement Fund	\$ 4,549,448
State Teacher's Retirement Fund	\$ 2,848,315

Earnings consisted of \$2,512,140,311 from security investments at an average 5.11 percent yield, \$431,451,747 from time deposits at an average 5.17 percent yield and \$34,033,443 from General Fund loans at an average 5.20 percent yield. The overall return on investment was 5.12 percent.

The portfolio holdings of the PMIA for 2006-07 are illustrated in the following tables:

Schedule of Security Purchases by Term							
2006-07 Fiscal Year							
(At Cost - \$ in Thousands)							
Month	Under 10 Days	10-29 Days	30-89 Days	90 Days- 1 Year	1 - 3 Years	Over 3 Years	TOTALS
July 2006	\$3,858,742	\$1,397,975	\$995,905	\$3,229,002	\$2,048,441	\$6,244	\$ 11,536,309
August	3,993,551	950,406	1,222,585	3,800,777	498,792	0	10,466,111
September	202,839	2,899,473	926,925	8,608,413	179,066	27,031	12,843,747
October	5,138,490	760,936	1,951,751	2,380,160	552,832	393,167	11,177,336
November	2,142,249	3,314,058	2,629,902	2,728,236	541,737	0	11,356,182
December	3,832,873	1,593,776	2,621,219	8,157,922	728,096	0	16,933,886
January 2007	2,521,910	2,394,002	2,287,181	5,083,808	1,029,160	43,078	13,359,139
February	3,598,788	2,035,867	3,418,592	4,791,693	100,141	0	13,945,081
March	4,459,473	2,222,887	2,450,740	3,606,176	40,027	9,943	12,789,246
April	3,298,344	2,103,942	3,396,955	10,733,028	898,257	20,797	20,451,323
May	3,673,681	1,192,371	2,898,397	7,189,039	496,376	0	15,449,864
June	4,262,260	2,406,251	2,115,985	8,714,090	1,258,376	14,540	18,771,502
Total	\$40,983,200	\$23,271,944	\$26,916,137	\$69,022,344	\$8,371,301	\$514,800	\$169,079,726
Percent	24.24%	13.76%	15.92%	40.82%	4.95%	0.31%	100.00%

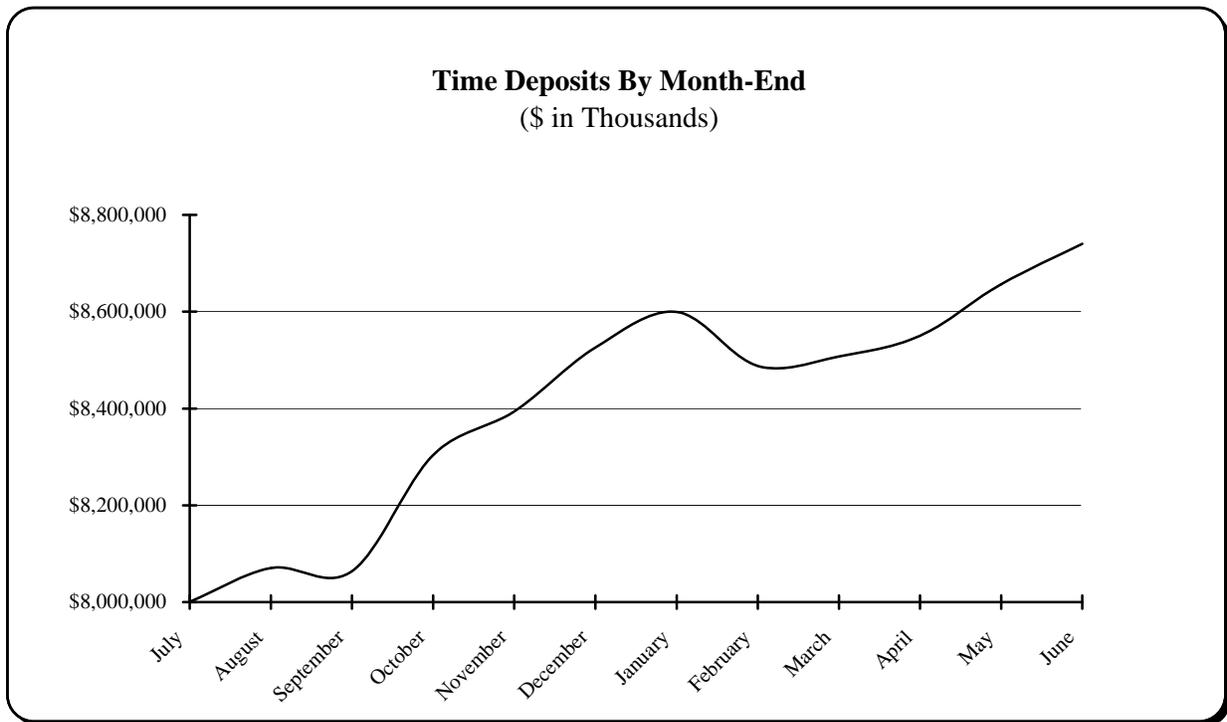
Source: State Treasurer's Office, Investment Division

Analysis of Portfolio						
2006-07 Fiscal Year						
Type Of Security	Average Daily Portfolio	Percent of Portfolio	Earnings For Year	Effective Percentage Yield For Year	Average Portfolio Life on 6/30/07 (in Days)	Percent of Portfolio on 6/30/07
U.S. Treasury Bills/Strips	\$2,919,941,365	5.02	\$148,179,539	5.07	88	5.07
U.S. Treasury Bonds & Notes	279,841,989	0.48	8,473,388	3.03	152	0.00
Federal Agency Cpn Securities	9,492,392,479	16.32	459,442,988	4.84	278	12.38
Federal Agency Discount Notes	5,229,599,339	8.99	274,743,469	5.25	194	8.71
GNMA	224,927	0.00	26,788	11.91	4,381	0.00
FHLMC	840,330,134	1.45	36,949,094	4.40	4,381	1.32
Negotiable CDs	13,349,462,188	22.96	717,896,169	5.38	82	25.73
Time Deposits	8,349,640,205	14.36	431,451,747	5.17	58	13.32
Bankers Acceptances	0	0.00	0	0.00	0	0.00
Commercial Paper	8,908,203,382	15.32	478,875,773	5.38	40	21.90
Corporate Bonds	540,711,592	0.93	24,418,502	4.52	401	0.59
Repurchase Agreements	452,055	0.00	24,164	5.35	2	0.00
Reverse Repurchase Agreements	(260,651,555)	-0.45	(12,938,607)	4.96	236	0.00
AB 55 Loans	7,842,868,584	13.49	376,049,044	4.79	236	10.98
General Fund Loans	654,424,657	1.13	34,033,443	5.20	97	0.00
Total Portfolio	\$58,147,441,341	100%	\$2,977,625,501	5.12%	176	100%

Source: State Treasurer's Office, Investment Division

Time Deposits by Month-End 2006-07 Fiscal Year

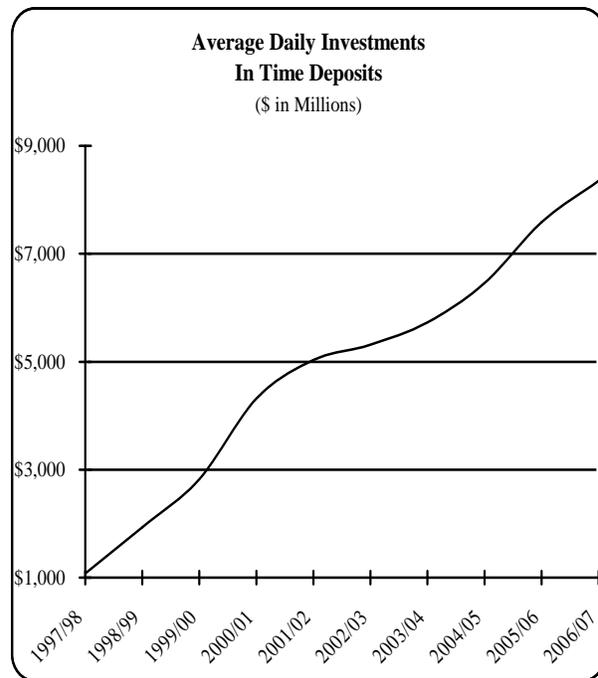
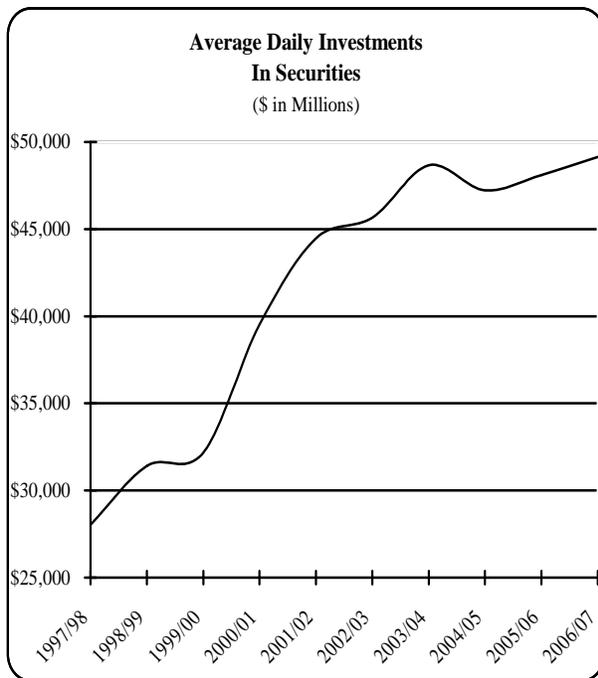
Month	Total
July 2006.....	\$ 8,000,495,000
August.....	8,070,495,000
September.....	8,063,495,000
October.....	8,303,495,000
November.....	8,393,495,000
December.....	8,525,995,000
January 2007.....	8,599,495,000
February.....	8,487,495,000
March.....	8,507,495,000
April.....	8,550,495,000
May.....	8,656,995,000
June.....	8,740,495,000



Source: State Treasurer's Office, Investment Division

Summary of Investments and Earnings for Fiscal Years Ending June 30 1998 through 2007 (\$ in Thousands)

Investment in Securities				Investment in Time Deposits			
Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)	Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)
1997-98	\$28,034,192	\$1,601,603	5.71	1997-98	\$1,076,268	\$57,452	5.34
1998-99	31,409,593	1,688,570	5.38	1998-99	1,928,600	93,095	4.83
1999-00	32,177,870	1,845,503	5.74	1999-00	2,820,736	152,310	5.40
2000-01	39,522,485	2,424,943	6.14	2000-01	4,317,936	251,215	5.82
2001-02	44,467,159	1,563,523	3.52	2001-02	5,031,747	143,920	2.86
2002-03	45,644,967	1,013,254	2.22	2002-03	5,313,015	84,296	1.59
2003-04	48,663,614	771,823	1.59	2003-04	5,726,197	61,298	1.07
2004-05	47,229,141	1,073,098	2.27	2004-05	6,457,397	138,940	2.15
2005-06	48,095,303	1,850,015	3.85	2005-06	7,586,240	306,641	4.04
2006-07	49,143,376	2,512,140	5.11	2006-07	8,349,640	431,452	5.17



Source: State Treasurer's Office, Investment Division

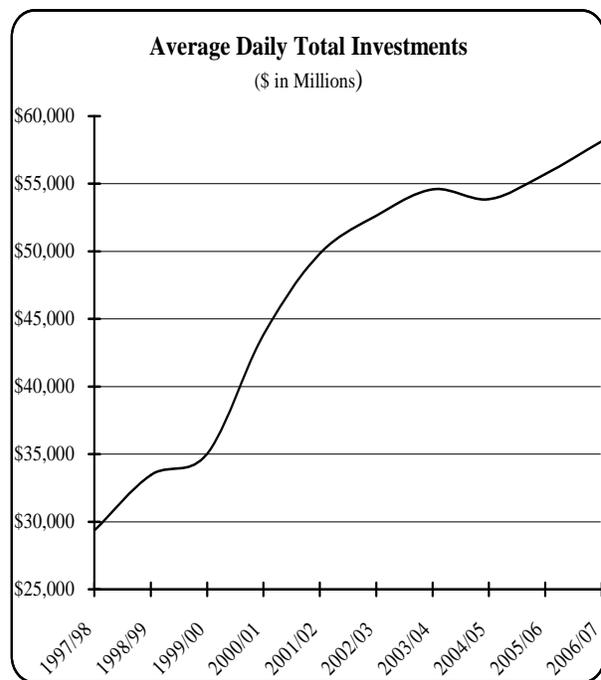
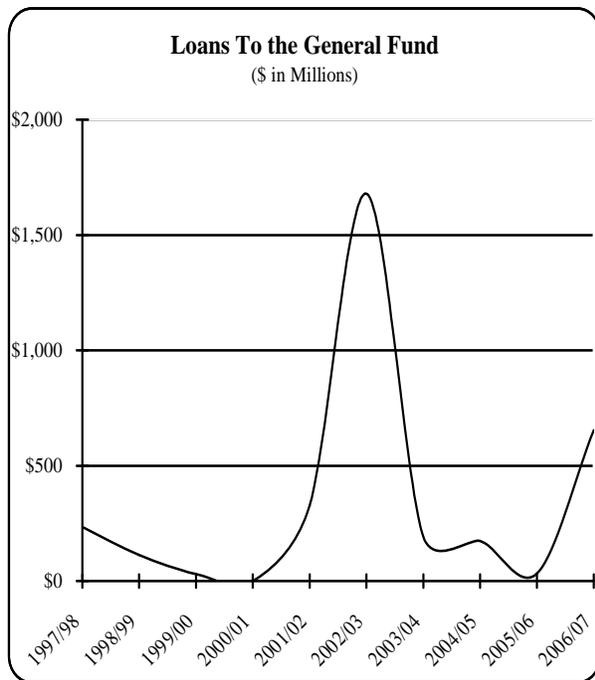
Summary of Investments and Earnings

Fiscal Years Ending June 30

1998 through 2007

(\$ in Thousands)

Loans to General Fund				Total Investments			
Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)	Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)
1997-98	\$234,052	\$13,327	5.69	1997-98	\$29,344,512	\$1,672,382	5.70
1998-99	112,895	6,099	5.40	1998-99	33,451,088	1,787,764	5.34
1999-00	30,428	1,670	5.49	1999-00	35,029,034	1,999,483	5.71
2000-01	-	-	-	2000-01	43,840,421	2,676,158	6.10
2001-02	328,171	9,102	2.77	2001-02	49,827,077	1,716,545	3.45
2002-03	1,678,666	35,380	2.11	2002-03	52,636,648	1,132,930	2.15
2003-04	192,039	2,950	1.54	2003-04	54,581,850	836,072	1.53
2004-05	173,949	3,078	1.77	2004-05	53,860,487	1,215,116	2.26
2005-06	33,274	1,189	3.57	2005-06	55,714,817	2,157,845	3.87
2006-07	654,425	34,033	5.20	2006-07	58,147,441	2,977,625	5.12



Source: State Treasurer's Office, Investment Division

Financial Community Coverage

(The following firms conducted investment transactions with the State Treasurer's Office during the 2006-07 Fiscal Year.)

1st Century Bank, N.A.	Five Star Bank	Pacific Western National Bank
ABN Amro Capital Markets/ La Salle Financial Services, Inc.	Ford Motor Credit Company	PFF Bank & Trust
America California Bank	Fortis Bank NV SA	Preferred Bank
American Express Credit Corporation	Fullerton Community Bank, FSB	Premier America Credit Union
American River Bank	General Electric Capital Corporation	Premier Valley Bank
Banc of America Securities, LLC	General Motors Acceptance Corporation	Provident Credit Union
Banco Popular North America	Golden 1 Credit Union, The	Provident Savings Bank
Bank of East Asia (USA), N.A., The	Goldman, Sachs & Company	Rabobank Nederland, NV
Bank of Ireland	Great Pacific Securities, Inc.	River City Bank
Bank of Montreal	Greater Bay Bank, N.A.	Robert Van Securities, Inc.
Bank of Sacramento	Greenwich Capital Markets, Inc.	Royal Bank of Scotland Plc.
Bank of the Sierra	Hanmi Bank	Saehan Bank
Bank of the West	Heritage Community Credit Union	SAFE Credit Union
Barclays Capital, Inc.	HSBC Finance	San Joaquin Bank
Bear Stearns and Company, Inc.	ICAP Corporates, LLC	San Luis Trust Bank
BGC Brokers, Inc.	Independence Bank	Santa Clara County FCU
BNP Paribas Securities Corporation	J.P. Morgan Securities, Inc.	Scotia Capital Markets (USA), Inc.
Broadway Federal Bank, FSB	Kinecta Federal Credit Union	Service 1st Bank
Cabrera Capital Markets, Inc.	La Jolla Bank, FSB	SG Americas Securities, LLC
Cal State 9 Credit Union	Lehman Brothers	Shinhan Bank America
California Business Bank	Loop Capital Markets, LLC	Signature Securities Group Corporation
Calyon Corporate Investment Bank	Luther Burbank Savings	Societe Generale
Cathay Bank	MAGNA Securities Corporation	State Bank of India (California)
Center Bank	Malaga Bank, FSB	Stockmans Bank
Chinatrust Bank (USA)	Manufacturers Bank	Stone and Youngberg, LLC
CIBC World Markets Corporation	Mechanics Bank, The	Summit State Bank
Citibank NA	Mellon 1st Business Bank, N.A.	Sutter Securities, Inc.
Citigroup Funding Inc.	Merchants National Bank of Sacramento	Tamalpais Bank
Citigroup Global Markets Inc.	Meriwest Credit Union	Toussaint Capital Partners
Citizens Business Bank	Merrill Lynch and Company	Toyota Motor Credit Corporation
Comerica Bank	Mesirow Financial, Inc.	Trans Pacific National Bank
CommerceWest Bank, NA	Metro United Bank	Travis Credit Union
Commercial Capital Bank	Metropolitan Bank	Tri Counties Bank
Commonwealth Business Bank	MFR Securities, Inc.	U.S. Bank, N.A.
Community Bank	Mid-State Bank & Trust	Umpqua Bank
County Bank	Mirae Bank	Union Banc Investment Services
Credit Suisse Securities USA, LLC	Mission Community Bank	Union Bank of California, N.A.
D.A. Davidson and Company	Mizuho Securities USA, Inc.	United Commercial Bank
Diablo Valley Bank	Morgan Keegan and Company, Inc.	United Security Bank
East West Bank	Morgan Stanley	Valley Community Bank
Eastern International Bank	Nara Bank	Valley First Credit Union
El Dorado Savings Bank	Neighborhood National Bank	Vining Sparks
EverTrust Bank	Oak Valley Community Bank	Wachovia Capital Markets, Inc.
Far East National Bank	Oceanic Bank	Washington Mutual Bank, FA
Farmers & Merchants Bk Cen California	Omni Bank, N.A.	Wells Fargo Institutional Securities, LLC
First Bank of Beverly Hills	OneUnited Bank	Wescom Central Credit Union
First California Bank	Operating Engineers Local #3 FCU	Westamerica Bank
First Coastal Bank, N.A.	Orange County Business Bank, N.A.	Williams Capital Group, L.P.
First Future Credit Union	Pacific Capital Bank, N.A.	Wilshire State Bank
First Private Bank and Trust	Pacific City Bank	Xerox Federal Credit Union
First Standard Bank	Pacific Commerce Bank NA	Zions Capital Markets Group
	Pacific State Bank	

Source: State Treasurer's Office, Investment Division

Surplus Money Investment Fund

Program Summary

The Surplus Money Investment Fund (SMIF) consists of the available cash of all special funds which do not have investment authority of their own, and all or a portion of the available cash of special funds having investment authority of their own, but which have elected to be included in the program. Cash balances in excess of needs in any of these participating funds are invested by the Treasurer.

The PMIB determines whether any cash balances of the participating funds exceed current needs and are available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. This determination is performed operationally by the State Controller's Office by means of a continuing review of the cash balances of the participating funds.

As a result of these determinations, the State Controller prepares a document for the PMIB's approval which authorizes the State Controller to increase or decrease the invested balances of the applicable funds.

All of the resources of the SMIF are invested through the PMIA. Prior to the 1967-68 fiscal year, the SMIF was a separate investment program. In 1967, legislation was enacted (Chapter 505, Statutes 1967) which provided that money in the SMIF shall be invested through the PMIA. This legislation further provided that the SMIF would share in the interest earnings of the PMIA based on the ratio that the dollar-day contributions of the SMIF bear to the dollar-day investments of the PMIA.

This legislation increased the potential investment earnings for both programs, since their high and low resource periods tend to complement each other. Consequently, under normal market conditions, more long-term, higher yielding securities may be purchased.

Earnings for 2006-07

Gross earnings totaled \$1,561,365,234 for 2006-07. This represents an earning rate of 5.12 percent for this investment program.

SMIF earnings are computed on a dollar-day basis to guarantee equitable distribution among all member funds and apportioned quarterly by the State Controller.

Participation

There were over one thousand special funds and accounts participating in the SMIF as of the last day of the fiscal year—June 30, 2007. Their combined deposits totaled \$30,652,499,000.

Large contributors as of June 30, 2007 were as follows:

Department of Water Resources Electric Power Fund	\$ 2,618,564,000
Unemployment Compensation Disability Fund	\$ 2,452,849,000
Mental Health Services Fund	\$ 1,476,140,000
Public Buildings Construction Fund	\$ 1,186,255,000
California Housing Finance Fund	\$ 1,093,857,000
Special Deposit Fund	\$ 1,063,317,000
Fiscal Recovery Fund	\$ 974,378,000
Motor Vehicles Fund	\$ 688,485,000

The Year in Review

Resources.....	\$30.484 billion per day on average
Earnings.....	\$1.561 billion
Earning Rate.....	5.12 percent

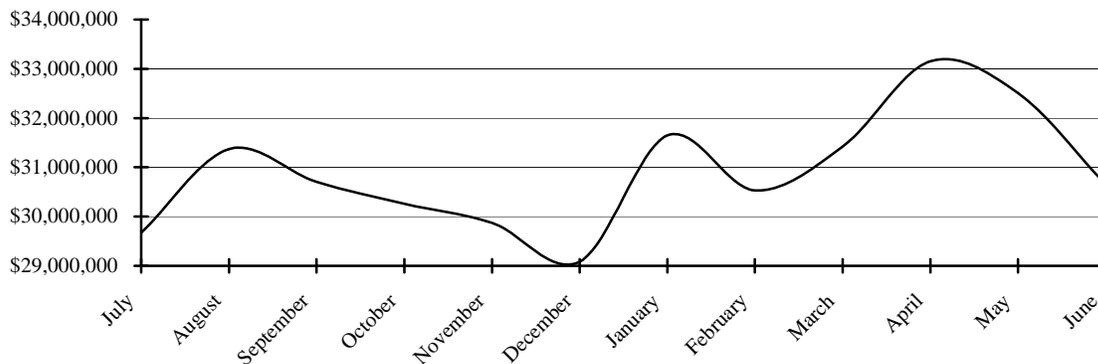
Source: State Treasurer's Office, Investment Division

Monthly deposit balances are shown in the following table:

**Resources of
The Surplus Money Investment Fund
2006-07 Fiscal Year (Month-End Balances)**

Month	Total
July 2006.....	\$29,672,512,000
August.....	31,369,069,500
September.....	30,703,766,000
October.....	30,260,109,000
November.....	29,870,899,000
December.....	29,087,142,000
January 2007.....	31,650,259,000
February.....	30,528,948,000
March.....	31,425,177,000
April.....	33,151,493,000
May.....	32,509,019,000
June.....	30,652,499,000

**Resources of the Surplus Money Investment Fund
2006-07 Fiscal Year (Month-End Balances)**
(\$ in Thousands)



Source: State Controller's Office, *Report of Cash Assets of all Funds in the State Treasury*

Local Agency Investment Fund

Program Summary

The Local Agency Investment Fund (LAIF) was established by Chapter 730, Statutes of 1976. This fund enables local governmental agencies or trustees to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the PMIA.

Each participating agency determines the length of time its money will be on deposit with the State Treasurer with the exception of bond proceeds, which must remain for a minimum of 30 days. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained. Prior to the distribution, the State's reasonable costs of administering this program are deducted from the earnings.

Earnings for 2006-07

Gross earnings for 2006-07 totaled \$870,414,609. This represented a 5.13 percent yield for this investment program.

Participation

As of June 30, 2007, there were 2,609 participants in the LAIF consisting of 54 counties, 472 cities, 1,740 special districts, 200 trustees and 143 bond accounts. Deposits in the fund averaged \$16.975 billion for the year.

The Year in Review

Resources.....	\$16.98	billion per day on average
Earnings.....	\$870.40	million
Earning Rate.....	5.13	percent
Participation.....	2,609	agencies or accounts at year-end.

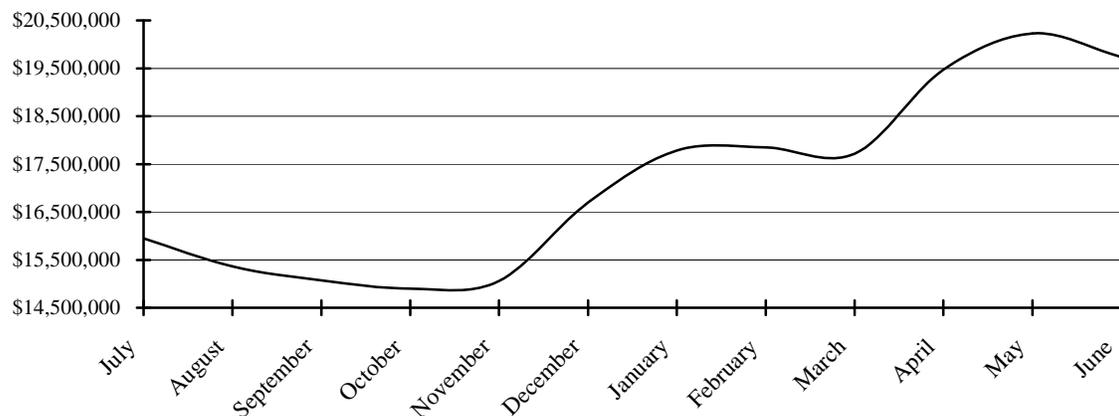
Source: State Treasurer's Office, Investment Division (LAIF)

The following table shows monthly resources of the Local Agency Investment Fund:

**Resources of
The Local Agency Investment Fund
2006-07 Fiscal Year (Month-End Balances)**

Month	Total
July 2006.....	\$15,946,433,309
August.....	15,366,691,351
September.....	15,068,465,880
October.....	14,896,070,109
November.....	15,054,837,107
December.....	16,701,849,641
January 2007.....	17,783,858,713
February.....	17,848,168,288
March.....	17,713,937,612
April.....	19,472,491,352
May.....	20,225,637,418
June.....	19,736,253,304

**Resources of the Local Agency Investment Fund
2006-07 Fiscal Year (Month-End Balances)**
(\$ in Millions)



Source: State Treasurer's Office, Investment Division (LAIF)

Appendices

Appendix A

Pooled Money Investment Account
Summary of Investments and Earnings
(\$ in Thousands)

Fiscal Year	Average Investment Portfolio	Earnings	Annual Earnings Rate	Average Earning Rate (Percent)		
			(Percent)	5 Years	10 Years	15 years
1956-57	\$ 393,742	\$ 9,573	2.43			
1957-58	594,306	16,421	2.76			
1958-59	544,868	15,762	2.89			
1959-60	614,835	21,045	3.42			
1960-61	736,204	28,139	3.82	3.23		
1961-62	867,144	26,521	3.06	3.19		
1962-63	910,863	30,548	3.35	3.31		
1963-64	896,535	32,519	3.63	3.46		
1964-65	966,592	38,004	3.93	3.56		
1965-66	1,083,347	47,761	4.41	3.68	3.48	
1966-67	1,057,800	52,540	4.97	4.06	3.62	
1967-68	1,117,717	56,566	5.06	4.40	3.85	
1968-69	1,301,302	78,174	6.01	4.88	4.17	
1969-70	1,216,414	84,781	6.97	5.48	4.52	
1970-71	1,264,894	77,527	6.13	5.83	4.75	4.32
1971-72	1,397,494	68,350	4.89	5.81	4.93	4.35
1972-73	2,254,401	125,116	5.55	5.91	5.15	4.54
1973-74	2,594,629	232,780	8.97	6.50	5.69	4.94
1974-75	2,749,431	238,298	8.67	6.84	6.16	5.29
1975-76	3,209,143	204,303	6.37	6.89	6.36	5.46
1976-77	4,460,487	261,657	5.87	7.08	6.45	5.65
1977-78	6,843,940	458,625	6.70	7.31	6.61	5.87
1978-79	8,123,266	692,417	8.52	7.22	6.86	6.20
1979-80	8,285,941	873,469	10.54	7.60	7.22	6.64
1980-81	7,298,693	786,877	10.78	8.48	7.69	7.07
1981-82	5,234,524	631,968	12.07	9.72	8.40	7.54
1982-83	5,254,589	549,229	10.45	10.47	8.89	7.90
1983-84	7,094,849	738,462	10.41	10.85	9.04	8.19
1984-85	11,903,660	1,275,503	10.72	10.89	9.24	8.44
1985-86	15,438,406	1,401,990	9.08	10.55	9.51	8.64
1986-87	19,167,196	1,425,047	7.43	9.62	9.67	8.81
1987-88	17,628,558	1,388,074	7.87	9.10	9.79	8.96
1988-89	17,496,405	1,516,767	8.67	8.75	9.80	8.94
1989-90	19,558,775	1,692,905	8.66	8.34	9.61	8.94
1990-91	20,754,895	1,663,140	8.01	8.13	9.34	9.05
1991-92	21,456,433	1,329,476	6.20	7.88	8.75	9.07
1992-93	23,051,543	1,085,126	4.71	7.25	8.18	8.94
1993-94	25,433,078	1,115,660	4.39	6.39	7.57	8.67
1994-95	26,802,123	1,482,574	5.53	5.77	7.05	8.33
1995-96	26,623,196	1,519,020	5.71	5.31	6.72	7.99
1996-97	28,264,069	1,582,443	5.60	5.19	6.53	7.56
1997-98	29,344,512	1,672,382	5.70	5.38	6.32	7.25
1998-99	33,451,088	1,787,765	5.34	5.58	5.98	6.91
1999-00	35,029,034	1,999,483	5.71	5.61	5.69	6.57

Appendix A (Continued)

Fiscal Year	Average Investment Portfolio	Earnings	Annual	Average Earning Rate (Percent)		
			Earnings Rate (Percent)	5 Years	10 Years	15 years
2000-01	\$ 43,840,421	\$ 2,676,158	6.10	5.69	5.50	6.38
2001-02	49,827,077	1,716,545	3.45	5.27	5.22	6.11
2002-03	52,636,648	1,132,930	2.15	4.55	4.97	5.73
2003-04	54,581,850	836,072	1.53	3.79	4.68	5.25
2004-05	53,860,487	1,215,116	2.26	3.10	4.36	4.83
2005-06	55,714,817	2,157,845	3.87	2.65	4.17	4.55
2006-07	58,147,441	2,977,625	5.12	2.99	4.12	4.48

Source: The average investment portfolio, earnings and annual earnings rate were taken from the published *Annual Report of the PMIB* for each fiscal year. Please see the following note.

NOTE TO PMIA SUMMARY OF INVESTMENTS AND EARNINGS TABLE

The PMIB was established as an agency of State government by Chapter 1703, Statutes of 1955, and became operational in April 1956. The first full year for the PMIA was 1956-57. In 1957-58, the SMIF and the Condemnation Deposits Fund (CDF) were placed under the administration of the PMIB. Separate investment portfolios were managed for these two funds for a number of years. SMIF operated this way until 1967-68, when legislation allowed this fund to be invested as a part of the PMIA. The CDF continued as a separate investment portfolio until 1975, when it was combined with the PMIA. In order to make data for the early years in the table comparable to the later years (1975-76 and after), the average daily investment and the annual earnings for both SMIF and CDF were combined with those for the PMIA. The earning rates for these early years were computed using these combined figures.

Appendix B

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-77	5.77			
Feb-77	5.66			
Mar-77	5.66		5.68	
Apr-77	5.65			
May-77	5.76			
Jun-77	5.85	5.87	5.78	5.79
Jul-77	5.93			
Aug-77	6.05			
Sep-77	6.09		5.84	
Oct-77	6.39			
Nov-77	6.61			
Dec-77	6.73		6.45	6.18
Jan-78	6.92			
Feb-78	7.05			
Mar-78	7.14		6.97	
Apr-78	7.27			
May-78	7.39			
Jun-78	7.57	6.70	7.35	7.17
Jul-78	7.65			
Aug-78	7.82			
Sep-78	7.87		7.86	
Oct-78	8.11			
Nov-78	8.29			
Dec-78	8.77		8.32	8.09
Jan-79	8.78			
Feb-79	8.90			
Mar-79	8.82		8.81	
Apr-79	9.08			
May-79	9.05			
Jun-79	9.22	8.52	9.10	8.98
Jul-79	9.20			
Aug-79	9.53			
Sep-79	9.26		9.26	
Oct-79	9.81			
Nov-79	10.22			
Dec-79	10.22		10.06	9.66

Appendix B (Continued)

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-80	10.98			
Feb-80	11.25			
Mar-80	11.49		11.11	
Apr-80	11.48			
May-80	12.02			
Jun-80	11.80	10.54	11.54	11.38
Jul-80	10.21			
Aug-80	9.87			
Sep-80	9.95		10.01	
Oct-80	10.06			
Nov-80	10.43			
Dec-80	10.96		10.47	10.21
Jan-81	10.99			
Feb-81	11.69			
Mar-81	11.13		11.23	
Apr-81	11.48			
May-81	12.18			
Jun-81	11.44	10.78	11.68	11.69
Jul-81	12.35			
Aug-81	12.84			
Sep-81	12.06		12.40	
Oct-81	12.40			
Nov-81	11.89			
Dec-81	11.48		11.91	12.19
Jan-82	11.68			
Feb-82	12.04			
Mar-82	11.84		11.82	
Apr-82	11.77			
May-82	12.27			
Jun-82	11.99	12.07	11.99	11.93
Jul-82	12.24			
Aug-82	11.91			
Sep-82	11.15		11.74	
Oct-82	11.11			
Nov-82	10.70			
Dec-82	10.40		10.71	11.26

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-83	10.25			
Feb-83	9.89			
Mar-83	9.69		9.87	
Apr-83	9.87			
May-83	9.53			
Jun-83	9.60	10.45	9.64	9.98
Jul-83	9.88			
Aug-83	10.08			
Sep-83	10.20		10.04	
Oct-83	10.18			
Nov-83	10.16			
Dec-83	10.23		10.18	10.15
Jan-84	10.31			
Feb-84	10.28			
Mar-84	10.38		10.32	
Apr-84	10.59			
May-84	10.84			
Jun-84	11.12	10.41	10.88	10.63
Jul-84	11.36			
Aug-84	11.56			
Sep-84	11.60		11.53	
Oct-84	11.68			
Nov-84	11.47			
Dec-84	11.02		11.41	11.44
Jan-85	10.58			
Feb-85	10.29			
Mar-85	10.12		10.32	
Apr-85	10.03			
May-85	10.18			
Jun-85	9.74	10.72	9.98	10.19
Jul-85	9.66			
Aug-85	9.42			
Sep-85	9.57		9.54	
Oct-85	9.48			
Nov-85	9.49			
Dec-85	9.37		9.43	9.50

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-86	9.25			
Feb-86	9.09			
Mar-86	8.96		9.09	
Apr-86	8.62			
May-86	8.37			
Jun-86	8.23	9.08	8.39	8.70
Jul-86	8.14			
Aug-86	7.84			
Sep-86	7.51		7.81	
Oct-86	7.59			
Nov-86	7.43			
Dec-86	7.44		7.48	7.65
Jan-87	7.37			
Feb-87	7.16			
Mar-87	7.21		7.24	
Apr-87	7.04			
May-87	7.29			
Jun-87	7.29	7.44	7.21	7.23
Jul-87	7.46			
Aug-87	7.56			
Sep-87	7.71		7.54	
Oct-87	7.83			
Nov-87	8.12			
Dec-87	8.07		7.97	7.80
Jan-88	8.08			
Feb-88	8.05			
Mar-88	7.95		8.01	
Apr-88	7.94			
May-88	7.82			
Jun-88	7.93	7.87	7.87	7.95
Jul-88	8.09			
Aug-88	8.25			
Sep-88	8.34		8.20	
Oct-88	8.40			
Nov-88	8.47			
Dec-88	8.56		8.45	8.34

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-89	8.70			
Feb-89	8.77			
Mar-89	8.87		8.76	
Apr-89	8.99			
May-89	9.23			
Jun-89	9.20	8.67	9.13	8.97
Jul-89	9.06			
Aug-89	8.83			
Sep-89	8.80		8.87	
Oct-89	8.77			
Nov-89	8.69			
Dec-89	8.65		8.68	8.78
Jan-90	8.57			
Feb-90	8.54			
Mar-90	8.51		8.52	
Apr-90	8.50			
May-90	8.53			
Jun-90	8.54	8.66	8.50	8.52
Jul-90	8.52			
Aug-90	8.38			
Sep-90	8.33		8.39	
Oct-90	8.32			
Nov-90	8.27			
Dec-90	8.28		8.27	8.34
Jan-91	8.16			
Feb-91	8.00			
Mar-91	7.78		7.97	
Apr-91	7.67			
May-91	7.37			
Jun-91	7.17	8.01	7.38	7.67
Jul-91	7.10			
Aug-91	7.07			
Sep-91	6.86		7.00	
Oct-91	6.72			
Nov-91	6.59			
Dec-91	6.32		6.52	6.74

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-92	6.12			
Feb-92	5.86			
Mar-92	5.68		5.87	
Apr-92	5.69			
May-92	5.38			
Jun-92	5.32	6.20	5.45	5.65
Jul-92	5.24			
Aug-92	4.96			
Sep-92	4.76		4.97	
Oct-92	4.73			
Nov-92	4.66			
Dec-92	4.65		4.67	4.82
Jan-93	4.68			
Feb-93	4.65			
Mar-93	4.62		4.64	
Apr-93	4.61			
May-93	4.43			
Jun-93	4.55	4.71	4.51	4.61
Jul-93	4.44			
Aug-93	4.47			
Sep-93	4.43		4.44	
Oct-93	4.38			
Nov-93	4.37			
Dec-93	4.38		4.36	4.39
Jan-94	4.36			
Feb-94	4.18			
Mar-94	4.25		4.25	
Apr-94	4.33			
May-94	4.43			
Jun-94	4.62	4.39	4.45	4.36
Jul-94	4.82			
Aug-94	4.99			
Sep-94	5.11		4.96	
Oct-94	5.24			
Nov-94	5.38			
Dec-94	5.53		5.37	5.15

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-95	5.61			
Feb-95	5.78			
Mar-95	5.93		5.76	
Apr-95	5.96			
May-95	6.01			
Jun-95	6.00	5.53	5.98	5.87
Jul-95	5.97			
Aug-95	5.91			
Sep-95	5.83		5.89	
Oct-95	5.78			
Nov-95	5.81			
Dec-95	5.75		5.76	5.83
Jan-96	5.70			
Feb-96	5.64			
Mar-96	5.56		5.62	
Apr-96	5.54			
May-96	5.50			
Jun-96	5.55	5.71	5.52	5.56
Jul-96	5.59			
Aug-96	5.57			
Sep-96	5.60		5.57	
Oct-96	5.60			
Nov-96	5.60			
Dec-96	5.57		5.58	5.57
Jan-97	5.58			
Feb-97	5.58			
Mar-97	5.58		5.56	
Apr-97	5.61			
May-97	5.63			
Jun-97	5.67	5.59	5.63	5.59
Jul-97	5.68			
Aug-97	5.69			
Sep-97	5.71		5.68	
Oct-97	5.71			
Nov-97	5.72			
Dec-97	5.74		5.71	5.69

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-98	5.74			
Feb-98	5.72			
Mar-98	5.68		5.70	
Apr-98	5.67			
May-98	5.67			
Jun-98	5.67	5.70	5.66	5.67
Jul-98	5.65			
Aug-98	5.65			
Sep-98	5.64		5.64	
Oct-98	5.56			
Nov-98	5.49			
Dec-98	5.37		5.46	5.55
Jan-99	5.26			
Feb-99	5.21			
Mar-99	5.14		5.19	
Apr-99	5.12			
May-99	5.09			
Jun-99	5.09	5.34	5.08	5.13
Jul-99	5.18			
Aug-99	5.22			
Sep-99	5.27		5.21	
Oct-99	5.39			
Nov-99	5.48			
Dec-99	5.64		5.49	5.34
Jan-00	5.76			
Feb-00	5.82			
Mar-00	5.85		5.80	
Apr-00	6.01			
May-00	6.19			
Jun-00	6.35	5.71	6.18	5.99
Jul-00	6.44			
Aug-00	6.50			
Sep-00	6.50		6.47	
Oct-00	6.52			
Nov-00	6.54			
Dec-00	6.53		6.52	6.49

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF Semi-Annual
Jan-01	6.37			
Feb-01	6.17			
Mar-01	5.98		6.16	
Apr-01	5.76			
May-01	5.33			
Jun-01	4.96	6.10	5.32	5.73
Jul-01	4.63			
Aug-01	4.50			
Sep-01	4.29		4.47	
Oct-01	3.78			
Nov-01	3.53			
Dec-01	3.26		3.52	3.99
Jan-02	3.07			
Feb-02	2.97			
Mar-02	2.86		2.96	
Apr-02	2.84			
May-02	2.74			
Jun-02	2.69	3.45	2.75	2.85
Jul-02	2.71			
Aug-02	2.59			
Sep-02	2.60		2.63	
Oct-02	2.49			
Nov-02	2.30			
Dec-02	2.20		2.31	2.47
Jan-03	2.10			
Feb-03	1.94			
Mar-03	1.90		1.98	
Apr-03	1.86			
May-03	1.77			
Jun-03	1.70	2.15	1.77	1.86
Jul-03	1.65			
Aug-03	1.63			
Sep-03	1.64		1.63	
Oct-03	1.60			
Nov-03	1.57			
Dec-03	1.55		1.56	1.59

Appendix B (Continued)

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF * Quarterly
Jan-04	1.53			
Feb-04	1.44			
Mar-04	1.47		1.47	1.47
Apr-04	1.45			
May-04	1.43			
Jun-04	1.47	1.53	1.44	1.44
Jul-04	1.60			
Aug-04	1.67			
Sep-04	1.77		1.67	1.67
Oct-04	1.89			
Nov-04	2.00			
Dec-04	2.13		2.00	2.00
Jan-05	2.26			
Feb-05	2.37			
Mar-05	2.54		2.38	2.37
Apr-05	2.72			
May-05	2.86			
Jun-05	2.97	2.26	2.85	2.85
Jul-05	3.08			
Aug-05	3.18			
Sep-05	3.32		3.18	3.18
Oct-05	3.46			
Nov-05	3.64			
Dec-05	3.81		3.63	3.63
Jan-06	3.96			
Feb-06	4.04			
Mar-06	4.14		4.03	4.03
Apr-06	4.31			
May-06	4.56			
Jun-06	4.70	3.87	4.53	4.53
Jul-06	4.85			
Aug-06	4.95			
Sep-06	5.02		4.93	4.93
Oct-06	5.10			
Nov-06	5.13			
Dec-06	5.13		5.11	5.11

Appendix B (Continued)

HISTORICAL PMIA YIELDS

(Yield in Percent per Year)

Date	Monthly Average	Annual Average	Allocation Rate	
			LAIF Quarterly	SMIF * Quarterly
Jan-07	5.16			
Feb-07	5.18			
Mar-07	5.21		5.17	5.17
Apr-07	5.22			
May-07	5.25			
Jun-07	5.25	5.12	5.23	5.23

*Effective January 1, 2004, SMIF earnings are allocated quarterly.

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