

**LOCAL INVESTMENT ADVISORY BOARD
915 Capitol Mall, Room 110
Sacramento, CA 95814**

**Minutes
May 21, 2008**

Patricia Wynne, Local Investment Advisory Board (LIAB) Executive Secretary Chairing for Treasurer Lockyer called the LIAB meeting to order at 1:40 p.m. on Wednesday, May 21, 2008.

AGENDA ITEM 1: Roll Call

Present: Patricia Wynne for Bill Lockyer, Treasurer
Russ Branson, LIAB member
Martin Krieger, LIAB member
Beth Renge, LIAB member
Leslie Wells, LIAB member

Staff: Dan Dowell, Director of Investments
Christine Solich Assistant Director of Investments
Pam Milliron, LAIF Administrator
Diann Theis, Treasury Program Officer

The Chair declared a quorum at 1:40 p.m.

AGENDA ITEM 2.A: Approval of the October 10, 2007, Minutes

The minutes for the October 10, 2007, meeting of the LIAB were approved as submitted with a motion by Ms. Renge and seconded by Mr. Wells. The motion passed unanimously.

AGENDA ITEM NO. 3.A: Evaluation of the 2007 Annual LAIF Conference

Pam Milliron presented the overview of the 2007 Annual Local Agency Investment Fund (LAIF) Conference which was held on Thursday, October 11, 2007, at the Sacramento Convention Center in Downtown Sacramento. There was a post conference tour on Friday, October 12, 2007, at 7:00 a.m. at the State Treasurer's Office. The Conference program featured John Chen, Senior Economist for Lehman Brothers who provided an economic outlook. Dan Dowell, Director of Investments and Chris Solich, Assistant

Director of Investments with the State Treasurer's Office presented an overview of LAIF and PMIA operations and the program's goals and objectives. State Treasurer, Bill Lockyer was the luncheon's keynote speaker. The afternoon sessions included Maryanne O'Malley from the Legislative Analyst Office who provided an overview of the State's budget and its impact on local governments and a panel discussion on various topics with LIAB board members along with Laura Parisi CMTA Legislative Committee Chair. There were 143 participants representing 73 local agencies. Of these attendees 59 attended for the first time. The post conference tour was attended by 26 people.

AGENDA ITEM NO. 3.B: Planning of the 2008 Annual LAIF Conference

Pam Milliron reported on the planning of the 2008 Annual LAIF Conference. It will be held at the Sacramento Convention Center on Wednesday, October 22, 2008, from 9:00 a.m. to 3:30 p.m. The post conference tour will be held Thursday, October 23, 2008, at 7:00 a.m. at the State Treasurer's Office. The conference will feature Maria Fiorini Ramirez, President and CEO of MFR Securities Inc. who will provide an economic outlook. The investment staff will give an overview of LAIF operations and PMIA goals and objectives. Treasurer Lockyer will be the luncheon's keynote speaker and Maryann O'Malley has been invited from the Legislative Analyst's Office to present an update on the State's budget and its impact on local governments. Ms. Milliron asked the board members if there are any topics or issues that they would like to see at this year's conference.

Martin Krieger – Recommended that Investments 101 would be a good subject because of the first time participants.

Mr. Branson -Recommended a session on credit analysis and the due diligence process.

Mr. Wells – Recommended a discussion of portfolio diversification given the issues with Fannie Mae and Freddie Mac.

AGENDA ITEM 4: Overview LAIF Operations and PMIA Performance

PMIA Performance

Christine Solich reported:

- Pooled Money Investment Account (PMIA) was at an all time high of \$73.8 billion.
- LAIF has had significant growth and is up to \$25.7 billion dollars.
- LAIF deposits were up by \$5 billion in this calendar year alone.
- The daily rate was 3.05%.
- The quarter to date was 3.27%.
- The year to date was 4.53%.
- The average life of the portfolio was 199 days.
- The Fed Fund's rate was at 2.00% as of April 30, 2008.

The Investment Division continues to monitor credit and activities of financial institutions, sub prime exposure and write downs which are in the billions of dollars.

Dan Dowell reported on how events in the market had affected the PMIA portfolio. He described actions taken by the management team such as:

- Updating the PMIA Disclosure Statement monthly (from quarterly) and revising it to include holdings in short-term asset-backed commercial paper to address the increasing number of questions received.
- Limiting investments in asset-backed commercial paper and Yankee CDs and continuing to conduct rigorous due diligence on issuers.
- Increasing treasury and federal agency holdings – currently about 40% of the portfolio.
- With respect to liquidity, funded large disbursement with treasury bills and notes.
- Will invest in the year-bill again when re-introduced in June of this year.
- Added floating rate agencies when LIBOR was attractive.
- Focus on providing liquidity in the portfolio for fiscal year end needs.

Mr. Dowell shared an article with the group “Back to Basics for Local Government Pools” by Standard and Poor’s Senior Director, Peter Rizzo. He quoted the second paragraph of the article “Falling interest rates, combined with a long run of positive investment returns and a low default rate, made short-term investors so complacent that they slowly shifted away from safety and focused more on yield. Now their focus has returned to where it should be, with safety first, liquidity second, and yield a more distant third.”

Mr. Dowell felt the overall article was a great report and very timely. He stated Mr. Rizzo was a presenter recently at the Government Investment Officers Conference in Las Vegas where he also addressed questions from the audience regarding the risk of investing in an unrated portfolio such as LAIF. Mr. Rizzo indicated that it was important to look at the portfolio, its parameters and the management running it. Though it does not rate the PMIA, Standard and Poor’s conducts ongoing due diligence on the PMIA and its management in determining suitability for investment of the state’s Economic Recovery Bond Debt Service collected from sales tax.

LAIF Operations

Pam Milliron reported:

- December 31, 2007 the quarterly apportionment rate was 4.96% with administrative costs of .17% of earnings.
- March 31, 2008 quarterly apportionment rate was 4.18% with administrative costs of .18% of earnings.
- As of April 30, 2008, there were 2,649 participants in LAIF.
- LAIF is approximately 36% of the total PMIA with a current balance of \$25,735,377,936.70.
- LAIF monthly statements are available online.

AGENDA ITEM 5: Public Comment

There was no public comment for this meeting.

AGENDA ITEM 6: Other Business

AGENDA ITEM 7: Adjournment

There being no further business; the meeting was adjourned at 2:35 p.m.