



**IDAHO STATE TREASURER'S OFFICE
LGIP & DBF 2ND QUARTER 2011
REVIEW & OUTLOOK**

ECONOMIC HIGHLIGHTS

❖ What has happened:

- ❖ Federal Reserve ended the second round of quantitative easing as planned on June 30th
 - ❖ Rates have continued to fall near the lows seen in October and November 2010
- ❖ Congress has not agreed on the FY2012 budget and Debt Ceiling
 - ❖ Political gridlock between Republicans and Democrats
 - ❖ Treasury Secretary has warned of an August 2nd deadline
- ❖ Continued risk of debt contagion in Europe
 - ❖ Greece has been working with the EU and IMF to avoid defaulting on their debt
- ❖ Risk of inflation has subdued and economic growth has “cooled”
 - ❖ GDP decreased from a 3.1% to 1.9% growth rate at the end of the first quarter
 - ❖ PCE core index was most recently at 1.2%
 - ❖ Federal Reserves desired range is 2 to 3%

ECONOMIC HIGHLIGHTS

❖ What we forecast:

- ❖ Equity markets will continue to show resilience
 - ❖ Continued improvement in earnings from companies
- ❖ Continue to see short term rates remain historically low
- ❖ Congress will meet the August 2nd deadline
 - ❖ Default on debt payments from political gridlock is “NOT” an option
 - ❖ The announcement taking place on the eve of the 2nd
 - ❖ Increased volatility in markets from political gridlock approach the deadline
 - ❖ Present opportunity to take advantage of short term rise in rates
- ❖ Continue to see reduced risk of inflation and a gradual improvement in economic growth
 - ❖ Price of oil has dropped 12%+ from the highs in April
 - ❖ S&P GSCI commodity index has decreased 7.5%+ from the highs in April
 - ❖ Economic growth in GDP will come in below current forecast from Economists of 3.2% growth for the second half of the year

LOCAL GOVERNMENT INVESTMENT POOL

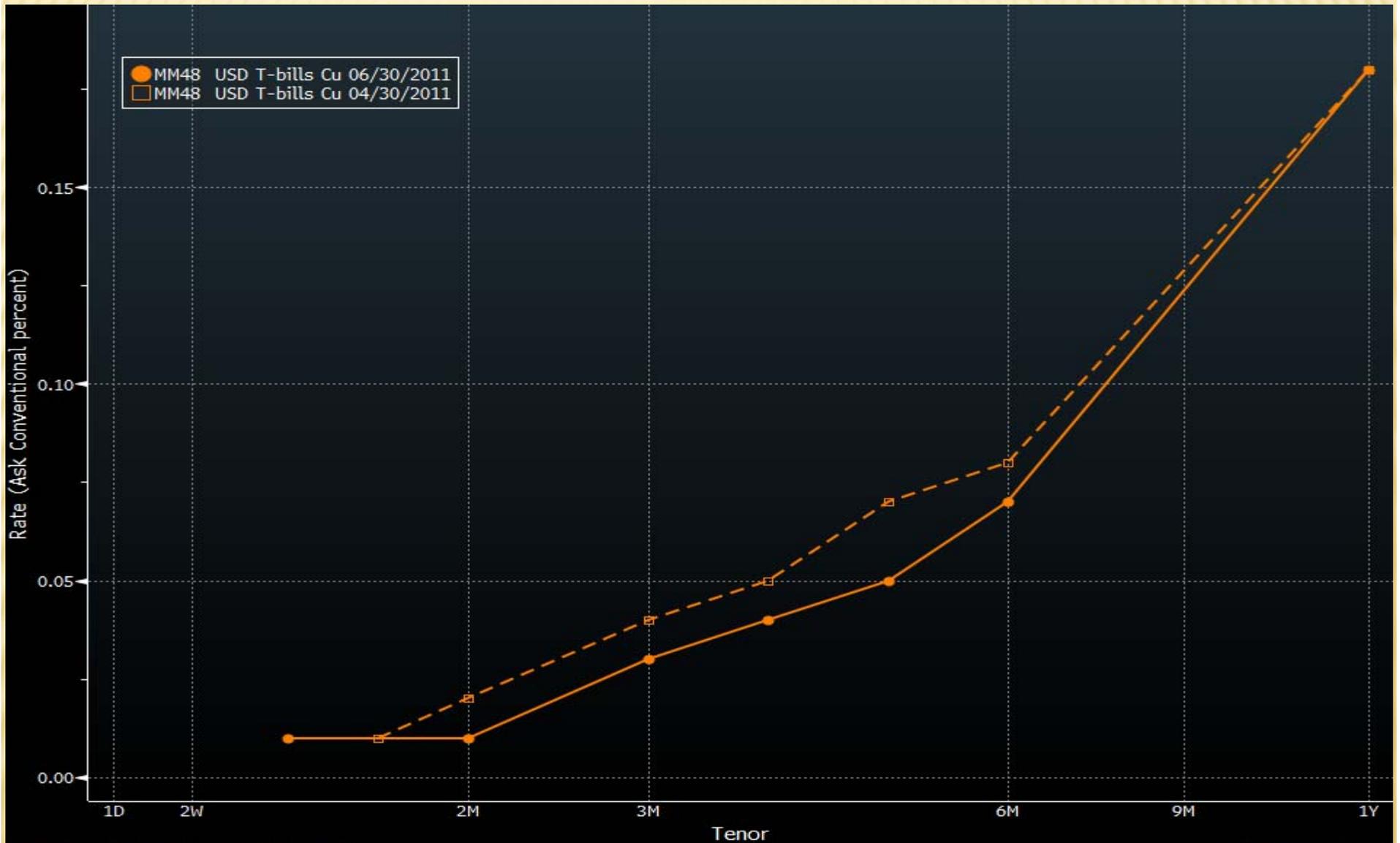
SHORT-TERM INTEREST RATES

- ❖ Change in T-Bill rates over the 1st Quarter
 - ❖ 3-month: -1 bps
 - ❖ 6-month: -1 bps
 - ❖ 1-year: unchanged

- ❖ Current Rates as of 7/25/11:

| Term | T-Bills | Agency Disco's |
|---------|---------|----------------|
| 3-Month | 0.03% | 0.06% |
| 6-Month | 0.07% | 0.11% |
| 1-Year | 0.19% | 0.18% |

CHANGE IN T-BILL RATES



CURRENT YIELD CURVES

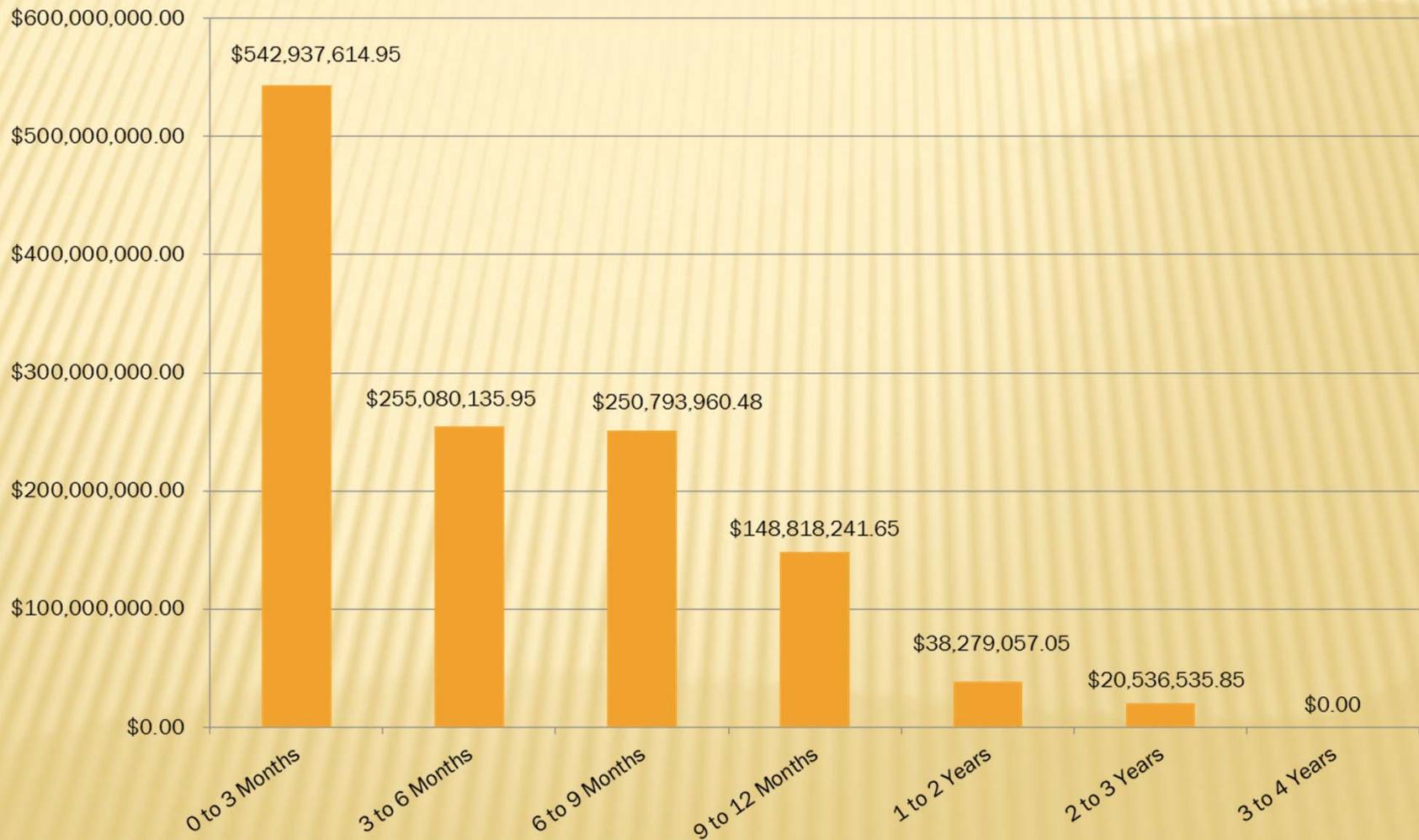


LGIP ATTRIBUTES

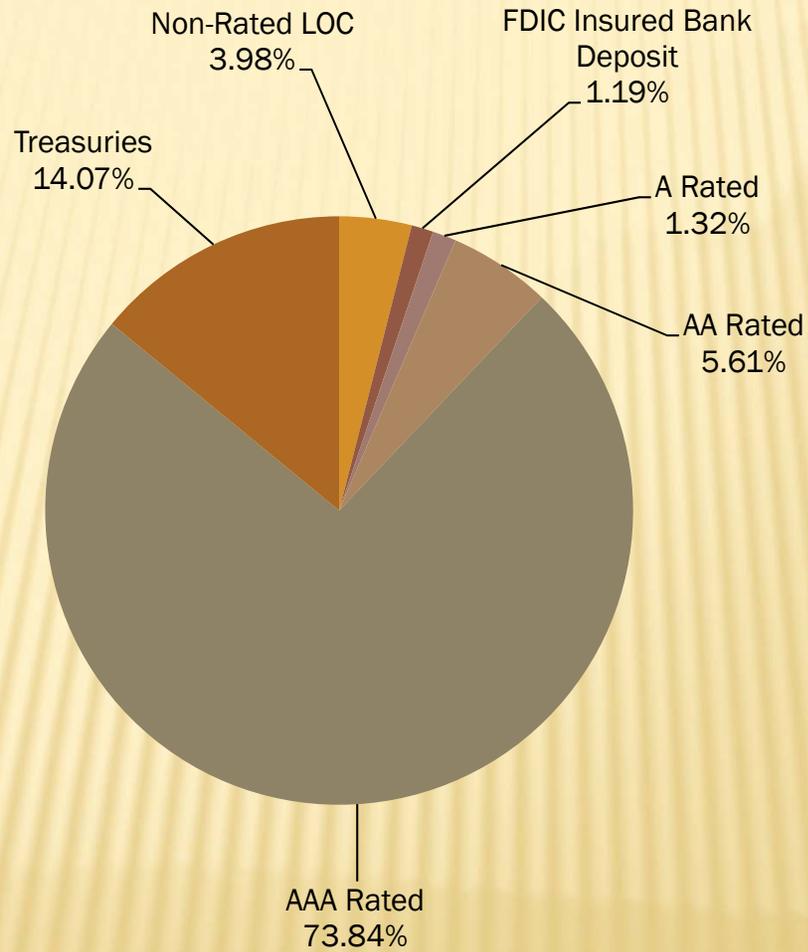
As of June 30th, 2011

| | LGIP | 90 DAY CONSTANT MATURITY |
|---------------------------|--------------------|--------------------------|
| Yield to Maturity | 0.25% | 0.03% |
| Weighted Average Maturity | 122 days | 90 days |
| Effective Duration | 0.33 years | 0.25 years |
| Amortized Book Value | \$1,252,123,338.88 | |
| Market Value | \$1,256,717,688.71 | |
| Net Asset Value | 1.00367 | |

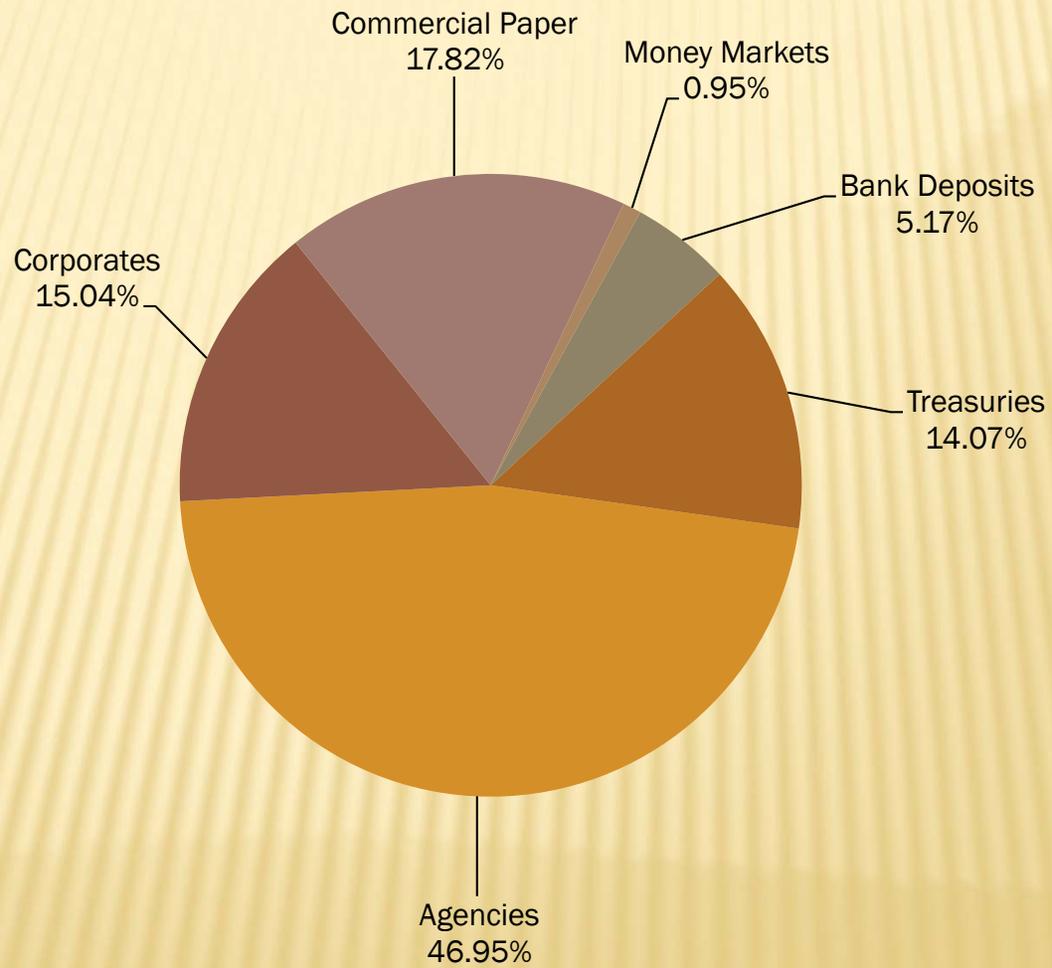
LGIP DURATION DISTRIBUTION



LGIP QUALITY DISTRIBUTION



LGIP SECTOR DISTRIBUTION



PORTFOLIO STRATEGY

- ❖ Continue to use government only money market funds
 - ❖ See continued stress in Europe as European Union members continue to figure out a “successful” plan to avoid a default by Greece
- ❖ Continue to purchase overnight commercial paper
 - ❖ Investing in approved companies as they issue O/N CP
- ❖ Continue to add Treasury notes and FDIC insured corporates out to April and May 2012
 - ❖ Earning a higher spread lending securities out overnight than on Agencies
 - ❖ Continue to believe the Fed will raise rates sooner rather than later
 - ❖ Investors have moved expectations out to late 2012 based on Fed Funds futures
- ❖ Maintain weighted average maturity around 120 days
- ❖ Maintain 5% in cash to meet unanticipated distributions
 - ❖ Excess cash above 5% will be invested in O/N CP

DIVERSIFIED BOND FUND

Intermediate-Term Interest Rates

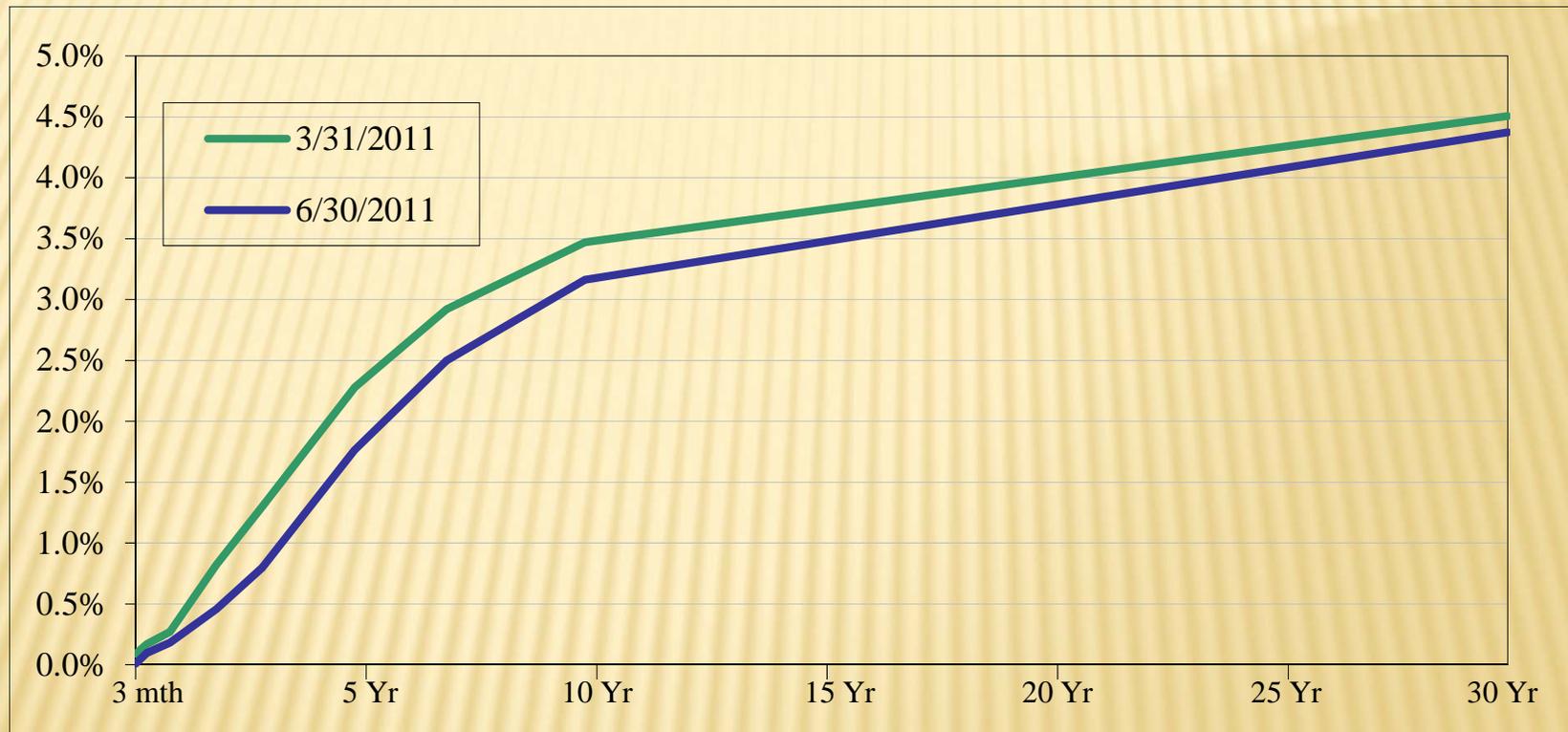
❖ Change in rates over the 2nd Quarter

- 3 year: -50 bps
- 5 year: -52 bps
- 10 year: -31 bps

❖ Current Rates as of July 25, 2011

| Term | Treasuries | Agencies |
|--------|------------|----------|
| 3 Year | 0.68% | 0.88% |
| 5 Year | 1.57% | 1.88% |
| 7 Year | 2.30% | 2.50% |

YIELD CURVE

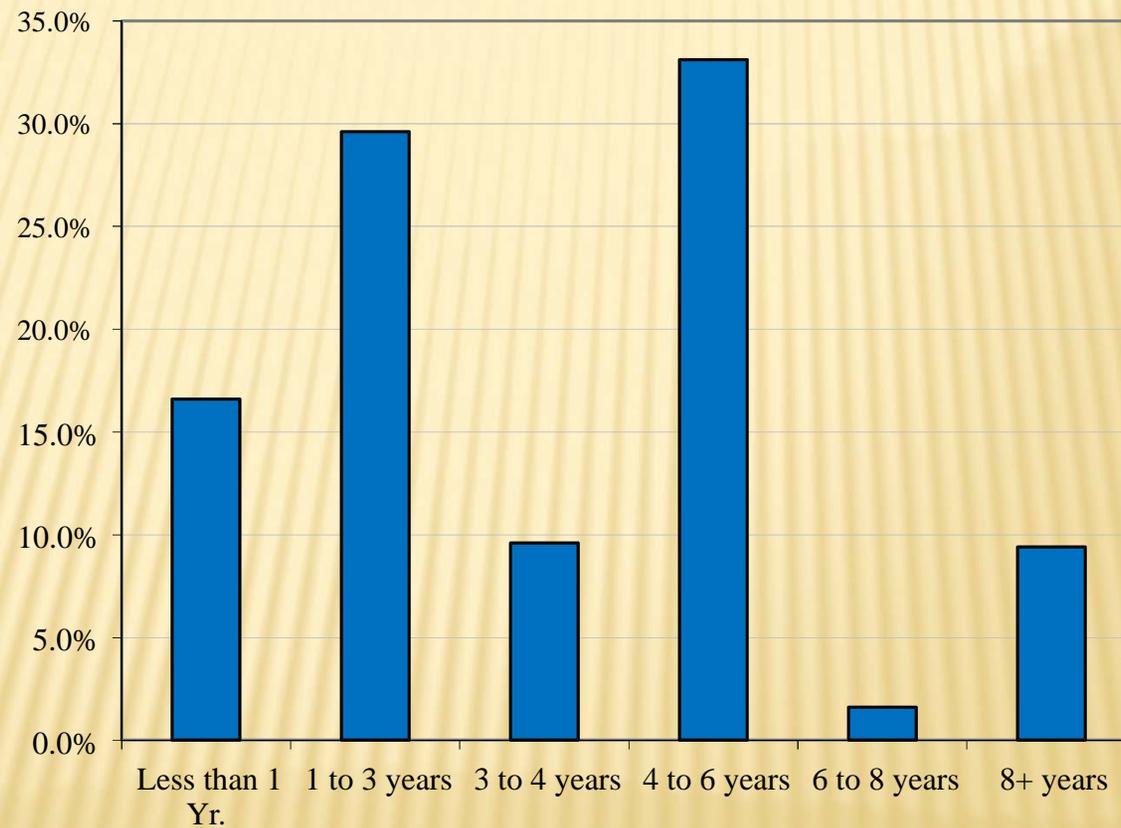


Diversified Bond Fund

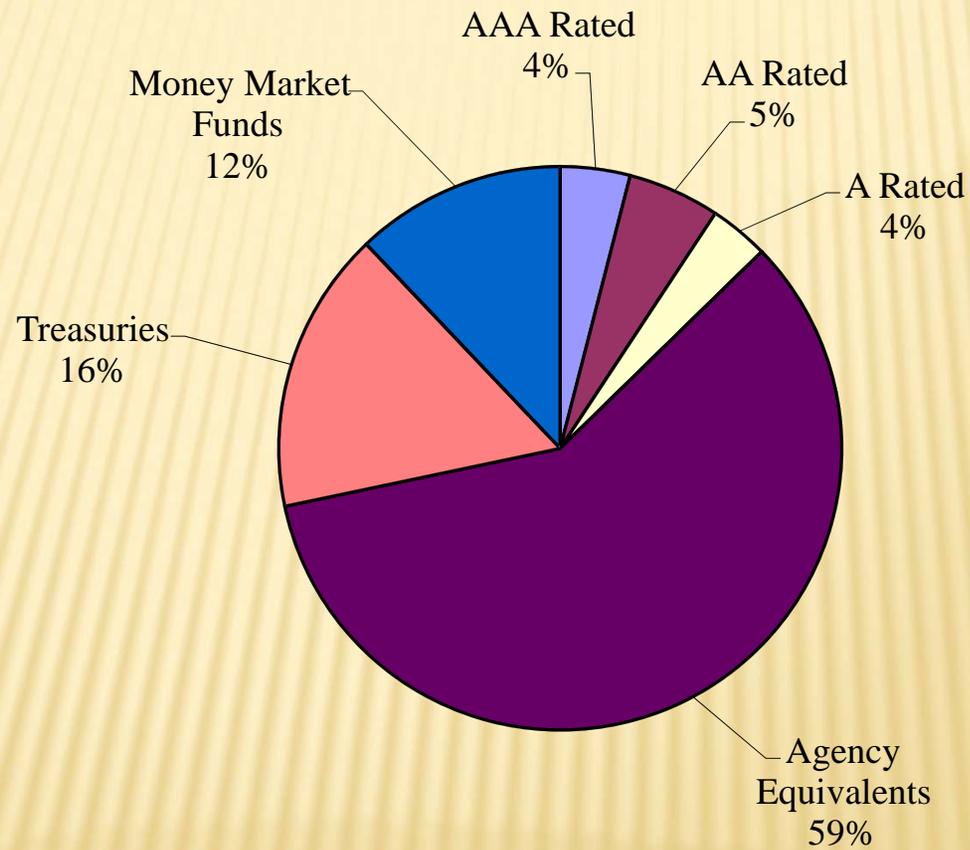
As of June 30th, 2011

| | DBF | Barclay's Cap. Int. Agg. A Or Better Index |
|---------------------------|------------------|--|
| Yield to Maturity | 2.3% | 2.3% |
| Weighted Average Maturity | 4.5 years | 4.7 years |
| Effective Duration | 3.6 years | 3.9 years |
| Amortized Book Value | \$484,930,369.36 | |
| Market Value | \$502,132,210.32 | |
| | | |
| | | |

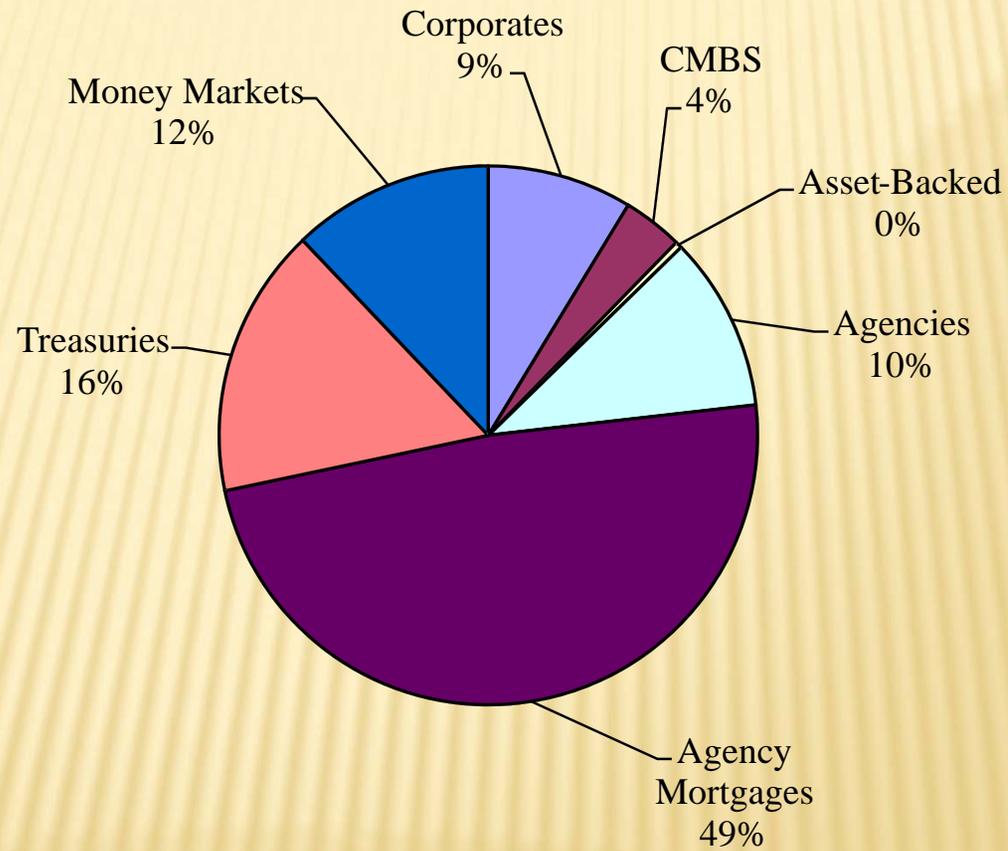
DBF DURATION DISTRIBUTION



DBF QUALITY DISTRIBUTION



DBF SECTOR DISTRIBUTION



PORTFOLIO STRATEGY

- ❖ Maintain relatively “conservative” stance
- ❖ Look for relative value opportunities (Example: Agency Mortgages, Corporates, Commercial Mortgage-backed)
- ❖ Maintain conservative quality position while underweighting Treasuries
- ❖ Particular focus on government and fed actions
- ❖ Minimize cash position while maintaining relative “short” duration

CONTACT US ANYTIME

Shawn Nydegger

Idaho State Treasurer's Office

(208) 332-2989

shawn.nydegger@sto.idaho.gov

Paul Stewart

Idaho State Treasurer's Office

(208) 332-2938

paul.stewart@sto.idaho.gov

John McCune

Capitol Investment Advisors

(208) 388-4221

jmccune@dadco.com