

# BOARD OF TREASURY INVESTMENTS

**CALENDAR NOTES**

Next Board Meeting  
October 26, 2006

Next CD Auction  
November 21, 2006

## OPERATING REPORT

### JULY 2006

**Board of Treasury Investments**

1900 Kanawha  
Boulevard East  
Suite E-122  
Charleston WV  
25305  
(304) 340-1578  
www.wvbt.com

**Board of Directors**

John D. Perdue,  
State Treasurer,  
Chairman

Joe Manchin III,  
Governor

Glen B. Gainer III,  
State Auditor

Martin Glasser,  
Esq. Attorney  
Appointed by  
the Governor

Jack Rossi, CPA  
Appointed by  
the Governor

**Executive Staff**

Executive  
Director  
Glenda Probst,  
CPA, CTP

Chief Financial  
Officer  
Kara K. Brewer,  
CPA, MBA

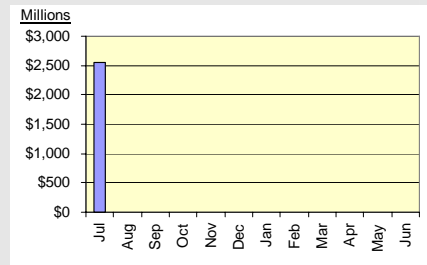
### Total Net Assets Under Management

(Thousands)

**\$2,556,791**

Last Month  
**\$2,481,176**

Beginning of Fiscal Year  
**\$2,481,176**



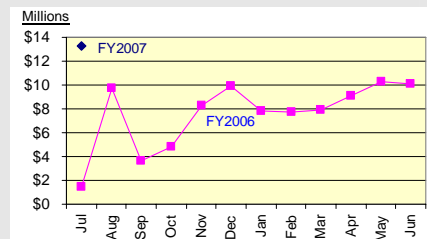
**3.0% Growth This Fiscal Year**

### Total Net Income & Gains

(Thousands)

**This Month \$13,233**

**Fiscal Year \$13,233**

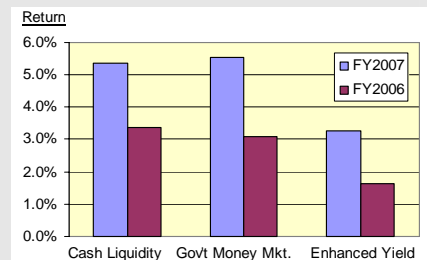


**785.7% Over Last Year**

### Effective Rates of Return

*Time Weighted, Annualized, Net of All Fees*

	July <u>2006</u>	Fiscal Year <u>2007</u>	Fiscal Year <u>2006</u>
<b>Cash Liquidity</b>	5.4%	5.4%	3.4%
<b>Gov't Money Mkt</b>	5.5%	5.5%	3.1%
<b>Enhanced Yield</b>	Fiscal Year <u>2007</u>	Fiscal Year <u>2006</u>	
	3.3%	1.6%	



Returns are annualized fiscal year to date for Cash Liquidity & Gov't Money Mkt; past 12 months for Enhanced Yield

**Returns Exceed Prior Year's**

# WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

## THE ECONOMIC STATE

### JULY 2006

## Economic Growth Slows in July

The U.S. unemployment rate rose to 4.8% in July from 4.6%, the first increase since February. The U.S. economy added 113,000 jobs in July which followed a revised 124,000 increase in June. The economy grew at a 2.5% annual rate in the second quarter, less than half the pace of the prior quarter. Consumer spending rose at a 2.5% annual rate in the second quarter as a slowdown in housing and higher interest rates discouraged spending. Business fixed investment rose at a 2.7% annual rate for the quarter, after rising 13.7% in the first quarter. The CPI rose 0.2% in June, after a 0.4% increase in May. The core CPI, which excludes food and energy, rose more than forecast, rising 0.3% for the fourth straight consecutive month. Consumer prices are up at an annual rate of 4.7% in the first six months of the year while core prices are rising at an annual rate of 3.2%. The Producer Price Index jumped 0.5% in June after a 0.2% rise in May. The core PPI, which excludes food and energy costs, rose 0.2% in June. So far this year, the PPI is rising at a 2.2% annualized rate and core producer prices are increasing at a 3.1% annual rate. The price of crude reached \$78.4/bbl during the month due to supply uncertainties and strong demand. Housing starts fell 5.3% for the month of June as higher mortgage rates discouraged buyers.

The overnight lending rate remained at 5.25% in July. The Fed met on August 8, 2006 and left the rate unchanged, ending the two-year tightening cycle. The Fed raised rates a consecutive seventeen times, the longest stretch of increases in more than 25 years. With the core inflation figures rising, the Fed remains concerned with inflation risks and has not ruled out a hike in September. For the month of July, yields trended lower as the outlook for more Fed tightening diminished as slower economic growth became the center of attention. The 2-year Treasury yield fell 20 bps in July to 4.95% while the 30-year Treasury yield dropped 12 bps to 5.06%, resulting in the spread widening to 11 bps at the end of the month, still historically tight. The 3- and 5-year Treasury yields fell approximately 20 bps in July to 4.92% and 4.90%, respectively. The 10-year Treasury yield dropped 16 bps to 4.98%.

Ninety-Day T-Bills returned 0.42% in July, underperforming the 0.73% return of 1-3 Year Government Bonds. Year-to-date in 2006, T-bills continued to outperform with a 2.62% return as 1-3 Year Government Bonds earned 1.77%.

### *CD Auction a Resounding Success*

The Board of Treasury Investments held its second CD auction for West Virginia banks on August 15. Sixteen banks submitted 107 bids during the thirty-minute auction. The bids, totaling \$50,600,000, exceeded the \$25,000,000 offered. Action was fast and furious with 14 bids being placed in the last minute.

Bids ranged from the minimum of 5.23% to the high of 5.425% gaining the state an additional \$8,352.26 in interest. The top bidder was Pendleton Community Bank of Franklin.

The auction was observed by a small crowd including Treasurer John D. Perdue, Assistant Treasurer Paul Hill, Joe Ellison from the WV Bankers' Association, Donna Tanner from the WV Association of Community Bankers, Delegate Richard Browning, D-Wyoming, Nancy Kissinger from JPMorgan-Chase and three television stations: WOAY-TV, WVVA-TV and WVSX-TV.

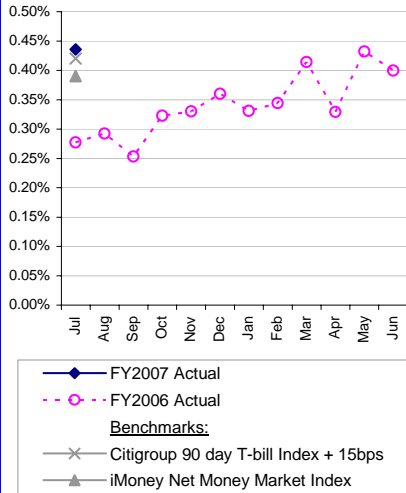
The next CD auction will be held 10:00 AM November 21, 2006.

# West Virginia Board of Treasury Investments

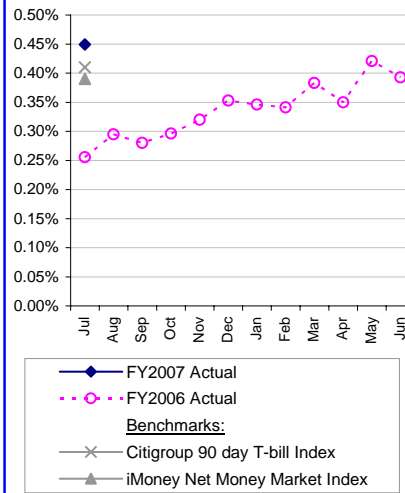
## Financial Highlights as of July 31, 2006

### Monthly Rates of Return for Operating Pools *(Net of Fees)*

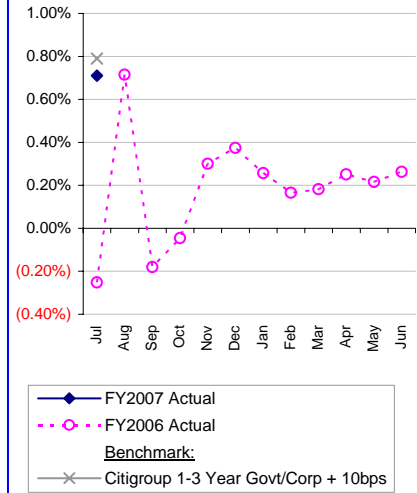
#### Cash Liquidity



#### Gov't Money Market



#### Enhanced Yield



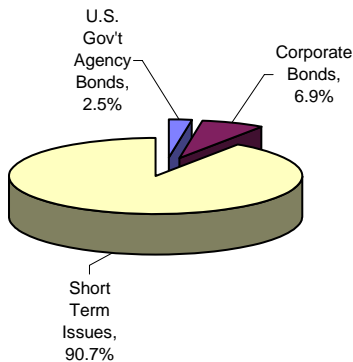
### Summary of Value and Earnings *(In Thousands)*

Pool	Asset Value	July Net Income (Loss)	Fiscal YTD Net Income (Loss)	July Rate of Return	Fiscal YTD Rate of Return	Past 12 Month Rate of Return
Cash Liquidity	\$ 1,783,030	\$ 7,737	\$ 7,737	0.44%	0.44%	4.33%
Gov't Money Market	184,689	769	769	0.45%	0.45%	4.31%
Enhanced Yield	268,420	1,901	1,901	0.71%	0.71%	3.25%
Loss Amortization	148,263	2,320	2,320			
Loans	139,624	400	400			
Participant Accounts	32,765	106	106			
	<u>\$ 2,556,791</u>	<u>\$ 13,233</u>	<u>\$ 13,233</u>			

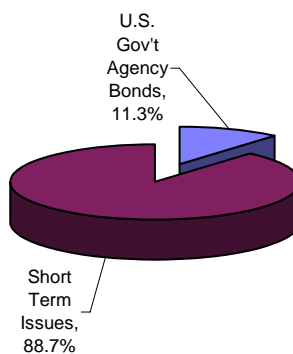
*(Rates of return are net of fees and are presented only for pooled accounts.)*

### Securities by Type for Operating Pools *(Percentage of Asset Value)*

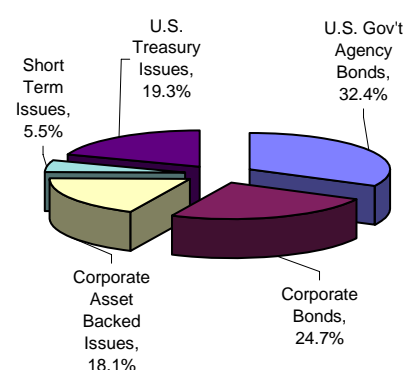
#### Cash Liquidity Pool



#### Gov't Money Market Pool



#### Enhanced Yield Pool



**WEST VIRGINIA BOARD OF TREASURY INVESTMENTS**  
**SCHEDULE OF NET ASSETS, OPERATIONS & CHANGES IN NET ASSETS –**  
**UNAUDITED**

**JULY 31, 2006**

*(IN THOUSANDS)*

	<b>Cash Liquidity</b>	<b>Government Money Market</b>	<b>Enhanced Yield</b>	<b>Other Pools</b>	<b>Participant Directed Accounts</b>
<b>Assets</b>					
Investments:					
At amortized cost	\$ 1,779,947	\$ 189,517		\$ 139,185	\$ 28,369
At fair value	-	-	\$ 284,439	148,263	4,187
Collateral for securities loaned	264,863	46,985	101,488	-	-
Other assets	3,233	176	8,407	445	210
<b>Total assets</b>	<b>2,048,043</b>	<b>236,678</b>	<b>394,334</b>	<b>287,893</b>	<b>32,766</b>
<b>Liabilities</b>					
Payable for securities loaned	264,863	46,985	101,488	-	-
Other liabilities	150	5,004	24,426	6	1
<b>Total liabilities</b>	<b>265,013</b>	<b>51,989</b>	<b>125,914</b>	<b>6</b>	<b>1</b>
<b>Net Assets</b>	<b>\$ 1,783,030</b>	<b>\$ 184,689</b>	<b>\$ 268,420</b>	<b>\$ 287,887</b>	<b>\$ 32,765</b>
<b>Investment income</b>					
Interest and dividends	\$ 2,868	\$ 303	\$ 947	\$ 406	\$ 93
Securities lending income	801	184	475	-	-
Net accretion (amortization)	4,954	475	46	518	(10)
Provision for uncollectible loans	-	-	-	-	-
<b>Total investment income</b>	<b>8,623</b>	<b>962</b>	<b>1,468</b>	<b>924</b>	<b>83</b>
<b>Expenses</b>					
Fees	177	18	31	6	1
Securities lending borrower rebates	709	175	468	-	-
<b>Total expenses</b>	<b>886</b>	<b>193</b>	<b>499</b>	<b>6</b>	<b>1</b>
<b>Net investment income</b>	<b>7,737</b>	<b>769</b>	<b>969</b>	<b>918</b>	<b>82</b>
Net realized gain (loss)					
from investments	-	-	(146)	-	-
Net increase (decrease)					
in fair value of investments	-	-	1,078	1,802	24
<b>Net gain (loss) from investments</b>	<b>-</b>	<b>-</b>	<b>932</b>	<b>1,802</b>	<b>24</b>
<b>Net increase (decrease) in net assets from operations</b>	<b>7,737</b>	<b>769</b>	<b>1,901</b>	<b>2,720</b>	<b>106</b>
<b>Distributions to participants</b>	<b>7,747</b>	<b>769</b>	<b>969</b>	<b>400</b>	<b>-</b>
<b>Participant activity</b>					
Purchases, reinvestment of units and contributions	722,678	17,818	943	400	2,555
Redemptions and withdrawals	659,260	10,437	-	308	1,552
<b>Net increase (decrease) in net assets from participant activity</b>	<b>63,418</b>	<b>7,381</b>	<b>943</b>	<b>92</b>	<b>1,003</b>
Increase (decrease) in net assets	63,408	7,381	1,875	2,412	1,109
Net assets at beginning of period	1,719,622	177,308	266,545	285,475	31,656
<b>Net assets at end of period</b>	<b>\$ 1,783,030</b>	<b>\$ 184,689</b>	<b>\$ 268,420</b>	<b>\$ 287,887</b>	<b>\$ 32,765</b>