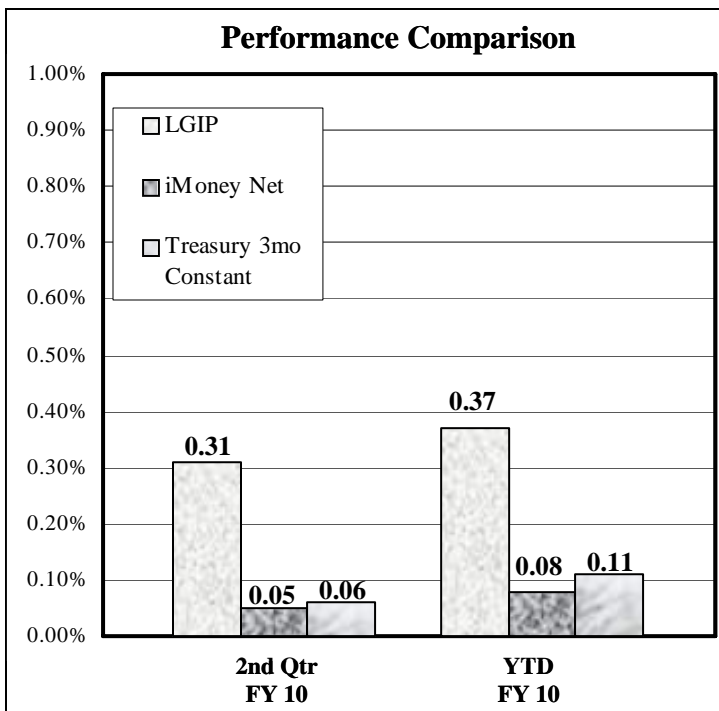




**Participant Newsletter December 31, 2009**

**Investment Guidelines Compliance (12-31-09):**



	<u>Actual</u>	<u>Max.</u>
●Diversification:		
U. S. Treasury/Agency	42%	100%
Repurchase Agreements	28%	50%
Negotiable CDs & BAs	12%	40%
Non-Negotiable CDs	0%	5%
Commercial Paper	10%	35%
Corporate	2%	25%
FDIC Guaranteed	4%	-

●Maturity Limitations:		
Average Days to Maturity		49 days
Average Maturity May Not Exceed		90 days

**Monthly Statistics:**

- Avg NAV: 3,695,787,000
- Active Accounts: 957
- Simple Yield: 0.23%
- Effective Yield: 0.23%

**Quarterly Performance:**

	<u>2nd Qtr</u>	
	<u>FY 10</u>	<u>FYTD 10</u>
●Average Yield:		
LGIP	0.31%	0.37%
Institutional Money Funds*	0.05%	0.08%
Treasury 3-Mo. Constant Maturity	0.06%	0.11%

\* Consist of 646 institutional money market funds totaling \$2,039 billion as reported by iMoneyNet as of 12-31-09.

**News of Interest:**

The release of the December 16 FOMC minutes reminds us that even the Federal Reserve policy board is uncertain about both the timing and direction of its next move. A few FOMC members observed that the committee may need to provide more stimulus by expanding and extending the large scale asset purchase programs. Other FOMC members thought the improving financial market conditions and the economic outlook were grounds for reducing or terminating their holdings of these assets. In other words, all possibilities were discussed and the conclusion was that no changes were warranted at this meeting. While little was changed in terms of FOMC policy, longer term interest rates have moved higher since the meeting. Pushing rates higher is speculation and uncertainty surrounding the Fed's exit strategy from an unprecedented combination of traditional and non-traditional support mechanisms along with concerns about the growing federal budget deficit. The first FOMC meeting of 2010 is January 27.

The first week of 2010 was a welcome contrast to the events of a year ago when the economy was in a virtual freefall and policymakers were scrambling to control deteriorating financial conditions. Today, the economy, especially manufacturing, is starting to expand and the recovery process appears to be inching forward. GDP growth for the fourth quarter of 2009 is expected to be between 4% and 5%, with approximately half of this push coming from inventory rebuilding. GDP growth projections for 2010 are much more a question as forecasts range from under 2% to 3.5%. More worrisome for 2010 is the pace of consumer spending. The revival of

consumer spending is a necessary component for renewed job growth. Better economic growth has so far failed to generate gains in employment beyond a few “leading sectors” such as temporary help and structurally growing areas such as health care. Job growth is needed in order for the sustainable “multiplier” effect created when rising employment boosts incomes and fuels spending. Employment, a lagging indicator, should show some signs of improvement by the second half of 2010.

The December payroll report was a disappointment. Non-farm payrolls fell by 85,000 in December and the unemployment rate was unchanged at 10%. Temporary employment, a leading indicator of overall employment, increased 47,000 in December and has risen for five consecutive months. Ironically, a revision in the November payroll report showed that payrolls actually increased 4,000 that month, the first monthly increase in almost two years. Layoff announcements, according to the Challenger data, dropped over 10% in December, which was the fifth consecutive monthly decline and the lowest report level since December 2007. The market saw the report as pushing the odds of a Fed rate hike further into the future.

The two most important drivers cited for 2010 interest rates are economic growth and FOMC policy. Short-term yields have been anchored by very low overnight rates controlled by the Fed. History indicates that it is unlikely to see this rate rising until the FOMC sees the unemployment rate improving. Relative to this point interest rate projections need to be divided into rates that the Fed or FOMC controls and rates that the market controls. Most economists are forecasting that the Fed controlled short-term rates will not increase until late 2010 or early 2011. The exceptions to this forecast are projecting a federal funds rate of around 1.25% by year-end. The Fed will most likely slowly remove other stimulus throughout 2010 before resorting to rate increases. Using the ten-year Treasury rate as a proxy for market controlled rates, the line-up is flipped with most economists expecting significant increases and a steepening yield curve. The two notable extremes are Morgan Stanley’s projection for ten-year Treasury notes to reach 5.50% during 2010 and Goldman Sachs calling for the yield on the same security to fall as low as 3% during this period. The reasons given by Morgan Stanley in support of their projections are unprecedented savings shortfalls, a revival in private investment and credit demands, a less accommodative Fed, uncertainty about inflation and concerns about the sustainability of US fiscal policy. Goldman indicates that continued sluggish final demand and disinflation are the main reasons for their lower projections. Although highly expansionary fiscal and monetary policies have been put in place, inflation is not expected to be a problem in 2010 as the large and growing output gap is currently around 8% of GDP and could require a number of years of above-trend growth to eliminate.

Although the federal funds rate continues at historically low levels set by FOMC policy, 2010 may experience increased interest rate volatility over 2009 levels. Throughout 2009 it was a given that the Fed would keep the federal funds target rate in the 0.00%-0.25% range. During 2010 it is anticipated that the Fed will begin to remove some of its quantitative easing programs that were designed to lower interest rates. When the Fed begins the process of draining reserves, it is anticipated short-term rates should immediately increase and the effective funds rate will be pushed toward the 25 basis point target from the current average of 11-13 basis points. In addition to the questions related to the timing and mechanics of their exit strategy, the markets are also facing a number of proposed new regulations encompassing everything from increased bank regulation, new money fund risk-limiting operational requirements, to changes in the triparty repo market. These regulations have the potential to affect the demand for and supply of different fixed income security asset classes and structures. Uncertainty creates volatility and volatility can provide opportunities in portfolio management.

The supply/demand imbalances have persisted in the short-term markets. T-Bills continue to pay down and agency discount note issuance has decreased. This has increased the demand for other high quality credits thus lowering their yields. As evidenced by our asset allocation, we are part of the trend of increasing an allocation to high quality short-term bank credits as a means of improving our risk-adjusted returns. At the end of December our allocation was 74% government sponsored or guaranteed with the remainder in high quality bank or corporate credit. We are ever mindful of our responsibility to you in accordance with our investment guidelines of safety, liquidity and then yield. We look forward to serving you through both the opportunities and challenges of 2010.