OFFICE OF THE

ARIZONA STATE TREASURER

HON. DOUG DUCEY
TREASURER

INVESTMENT PHILOSOPHY

SAFETY *before* **LIQUIDITY** *before* **YIELD**

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Inside the Vault

The Arizona State Treasurer's Quarterly Update

Volume 11, Issue 1 Q2 2012

Community Bank Investments Doubled

Total Invested in Local Banks
As of January 1, 2012
$100,000,000

State Treasurer Doug Ducey announced that in 2011 the office doubled its investment in local banks and credit unions through its deposit bid program. There is currently more than $100 million invested with ten Arizona banks, up 100 percent from the year prior.

"Our goal is to protect the tax payer's money and maximize yield," stated Treasurer Ducey. "Local banks and credit unions with competitive rates help us do that while giving the state an opportunity to put tax dollars to work in our own backyard."

Participating banks in the program include Alliance Bank of Arizona, Alerus Financial, Arizona Business Bank, First National Bank of Scottsdale, M&I Bank, Meridian Bank, Metro Phoenix Bank, Pinnacle Bank, Republic Bank of Arizona and West Valley National Bank.

Local institutions are encouraged to quote rates for all maturities they offer on a monthly basis. Additional information regarding the deposit program can be accessed by visiting www.aztreasurer.gov/localBankProgram.html.

Managing State Debt

In December 2011, Treasurer Ducey was invited to present to the House Appropriations Subcommittee on Debt. After providing a brief update on the state's cash flow his message to the Legislature was clear; our state government needs to clean up its' balance sheet and plan for the next financial emergency.

The Arizona Constitution limits the amount of general obligation debt to **$350,000**. According to the Joint Legislative Budget Committee, the total debt for the state is currently **$8.5 million**.

"Our debt is manageable," said Treasurer Ducey. "Just like every family and small business that has a plan to manage their credit cards, the state needs to put together a payment plan. We need to clean up our balance sheet, start paying down existing debt then put money away in a savings account so we don't find ourselves in this same position the next time we face a recession."

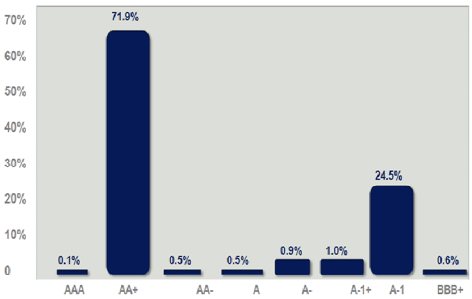
LGIP Pool 5: Short-term fund

AT A GLANCE

- $1.54 Billion in assets with Net Asset Value at $.9999 as of 12/31/2011.
- Diversified short-term fund similar to a prime money market fund.
- Focused on holding commercial paper to 30 days or less.
- Several TLGPs were added to take advantage of increasing LIBOR rates and high ratings.
- Continues to maintain the highest rating of AAAF/S1+ even with the U.S. Government downgrade by S&P.
- Weighted Average Maturity is 22 days.

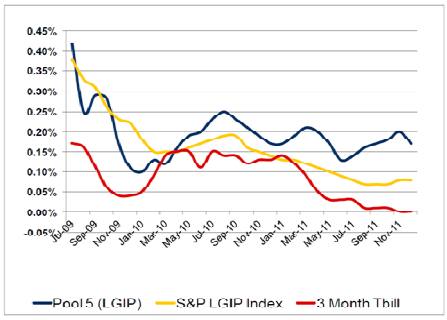
Safety

Continues to receive highest rating from Standard & Poor's: AAAf/S1+



Yield

.17% YTD .08% YTD (S&P LGIP Index)

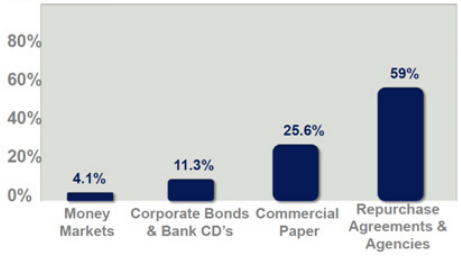


Liquidity

Weighted Average Maturity: 22 days on 12/31/2011

DURATION: 100% from 0-1 yrs

ASSET MIX:

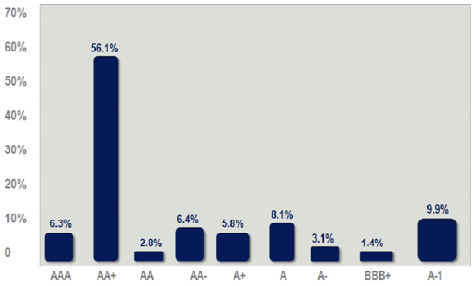


Pool 5 YTD Net Yield has beaten its benchmark by 9 basis points

LGIP Pool 500: Medium-term fund

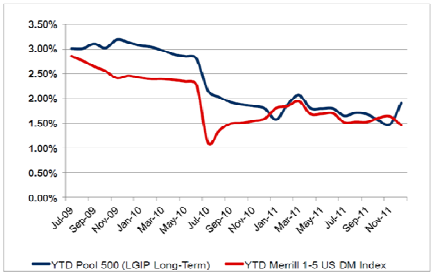
Safety

AA Weighted Average Rating



Yield

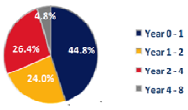
1.67% YTD 1.55% YTD (Index)



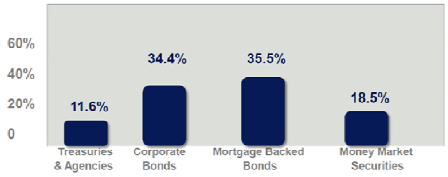
Liquidity

Effective Duration: 1.45 years on 12/31/2011

DURATION:



ASSET MIX:



Pool 500 YTD has beaten its benchmark by 12 basis points

AT A GLANCE

- $219.5 Million in assets with Floating Net Asset Value at $1.038 as of 12/31/2011.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.45 years.
- Keeping the fund short with 44% of the investments maturing under one year.
- Maximum exposure to any credit at 2.5%.
- Weighted Average Rating of all the securities is AA.

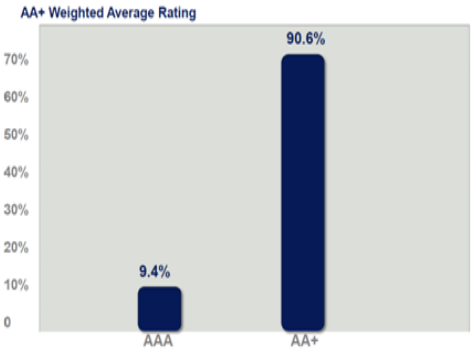
DISCLAIMER: Historical returns are not indicative of future performance. The NAV will float due to fluctuating market
No investment pools offered by the Arizona State Treasurer are insured and returns are not guaranteed.

Pool 7 LGIP-GOV: Short-term fund

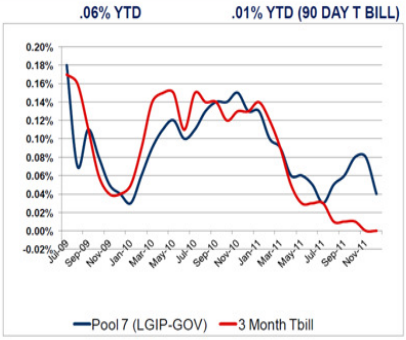
AT A GLANCE

- $1.6 Billion Assets with Net Asset Value at $1.00 as of 12/31/2011.
- Invested in highly liquid, low-risk securities that are backed by the full faith and credit of the U.S. Government.
- Laddering products up to 13 month horizon in light of the Federal Reserve announcement to keep interest rates near zero until mid 2013.
- Weighted Average Maturity is 23 days.

Safety



Yield

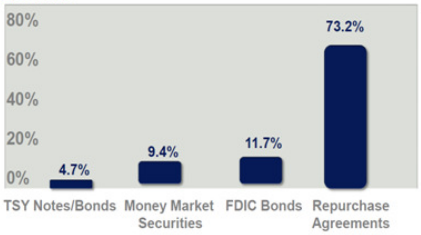


Liquidity

Weighted Average Maturity: 23 days on 12/31/2011

DURATION: 100% from 0-1 yrs

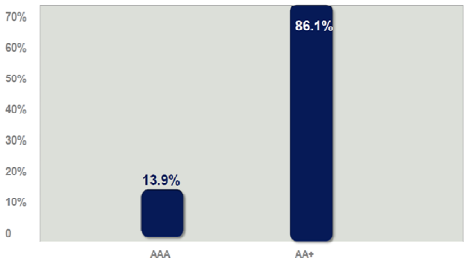
ASSET MIX:



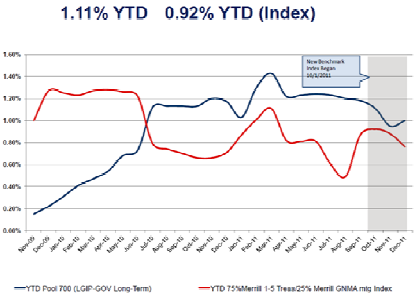
Pool 7 YTD Net Yield has beaten its benchmark by 5 basis points

Pool 700 LGIP-GOV: Medium-term fund

Safety



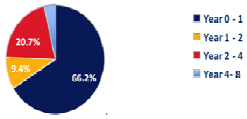
Yield



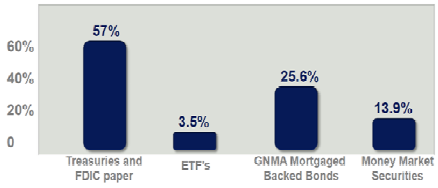
Liquidity

Effective Duration: 1.07 years on 12/31/2011

DURATION:



ASSET MIX:



Pool 700 YTD has beaten its benchmark by 19 basis points

AT A GLANCE

- $145.4 Million in assets with Floating Net Asset Value at $1.014 as of 12/31/2011.
- All securities are backed by the full faith and credit of U.S. Government including Treasuries, FDIC paper and GNMA Mortgages.
- The effective duration is 1.07 years.
- Keeping the fund short with 66% of the investments maturing under one year.
- Weighted Average Rating of all the securities is AA+.

conditions and could result in the loss of money. Pools are susceptible to investment risk and market volatility by design.
THIS IS NOT A PROSPECTUS.

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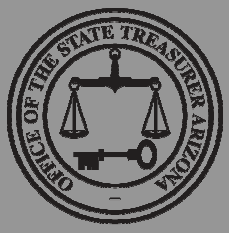

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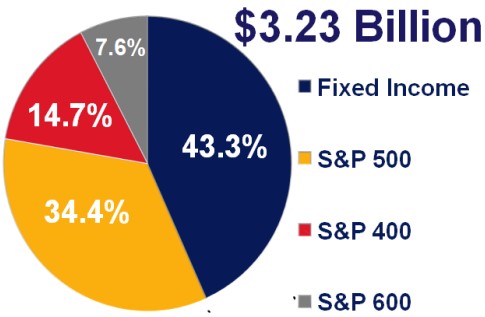
View AZ's Daily Cash Balance at www.AZCheckbook.com

Land Endowment Asset Allocation

(as of December 31, 2011)



State Cash Flow

FY 2012 Q2 Average Monthly Cash Balance:

+65% YOY

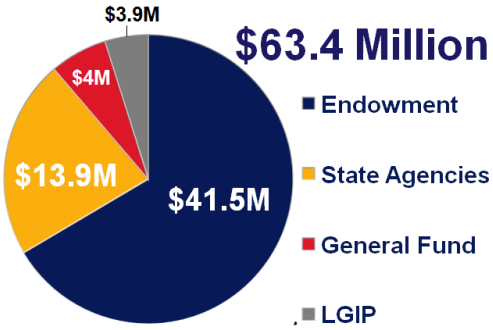
October = $667 M
November = $857 M
December = $978 M

Empowerment Scholarship Account (ESA) Totals

$903,546
Distributed to
118
Active Recipients

(as of January 31, 2012)

FY 2012 YTD Earnings +$35.9 Million YOY



Asset Allocation Study

The Treasurer's Office conducted the first Asset Allocation Study for the Permanent Land Endowment Trust Fund. The findings were presented to the Board of Investment (BOI) in January with additional discussion and recommendations for any proposed changes expected at the February. The entire report can be accessed online at www.aztreasurer.gov/presentations/2012/Asset_Allocation_Review.pdf.

5 Years of Service on the BOI

January 24, 2012 marked the final Board of Investment (BOI) meeting for Alan Maguire, Principal Economist for the Maguire Company. Alan has graciously served on the board since 2007, voluntarily providing an invaluable service to the taxpayers of state. He served as Chief Deputy in the Treasurer's Office from 1983-1987 and as an economic advisor to the Arizona State Senate before joining the board. Thank you, Alan, for your leadership and commitment to Arizona's financial well being.