



HON. DOUG DUCEY  
TREASURER

INVESTMENT  
PHILOSOPHY

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



Treasurer Doug Ducey  
Arizona State Capitol  
1700 W. Washington St.  
Phoenix, AZ 85007

(602) 604-7800  
toll free (877) 365-8310

info@aztreasury.gov  
www.AZTreasurer.gov



# Inside the Vault

The Arizona State Treasurer's Quarterly Update

Volume I, Issue II

Q2 2011

## Endowment Asset Allocation

As of March 31, 2011, the market value for the Permanent Land Endowment was at an all-time high of **\$3,268,996,000** - a 15% increase over Q1 2010.

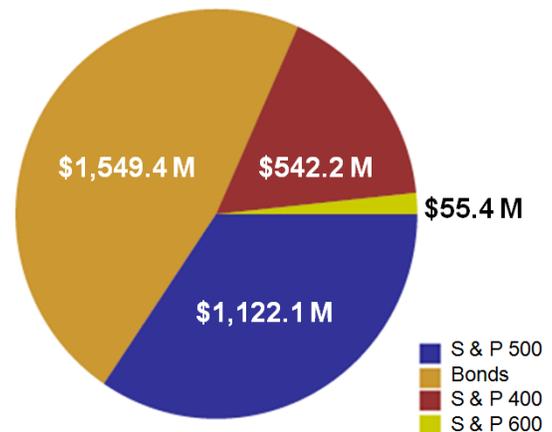
From 1912 through 1999, the Endowment could only invest in bonds, per the Arizona Constitution.

In 1998 voters changed the Constitution to allow up to 60% of the proceeds of land sales to be invested in U.S. public equities.

By March 2003, the Endowment had reached a 50/50 allocation of stocks and bonds, at which point the Board of Investment chose not to continue its phased buy-in approach to reach the voter-approved 60% threshold.

In February 2011 the Board of Investment reevaluated the opportunity and approved moving to a 60% allocation to equities; including a 10% allocation to small-cap stocks passively indexed to the Standard & Poor's 600. This change will occur over a 12 month time frame with the 60/40 split being achieved by February 2012.

The Treasurer's Office began the first buy-in at the beginning of March 2011 and ended the month with an asset allocation of 52.6% in stocks and 47.4% in bonds.



## Arizona's Economic Road to Recovery

Richard Stavneak, Staff Director of the Arizona Joint Legislative Budget Committee (JLBC), provided insight on the State's current revenue and budget status during May's Quarterly Meeting & Conference Call.

Although there are positive indications that Arizona's recovery has begun - positive revenue growth for four straight quarters and retail sales increases - rapid growth is unlikely and the road will still be long.

The complete analysis can be found in the "News" section of [www.AZTreasurer.gov](http://www.AZTreasurer.gov) under the "Presentations" heading.

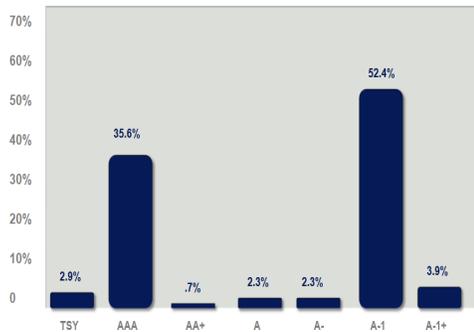
## LGIP Pool 5: Short-term fund

### AT A GLANCE

- \$1.4 billion in assets with Net Asset Value at .9998 as of 3/31/2011.
- Diversified investments weighted to highly rated commercial paper first, repurchase agreements second, and agency/treasuries third.
- Goal is to emphasize securities with 90 day or less maturities and keep daily liquidity in the 10% to 30% range.
- Continues to maintain the highest rating from S&P: AAAF/SI+.
- Weighted Average Maturity is 39 days.

### Pool 5: Safety

Continues to receive highest rating from Standard & Poor's: AAAF/SI+

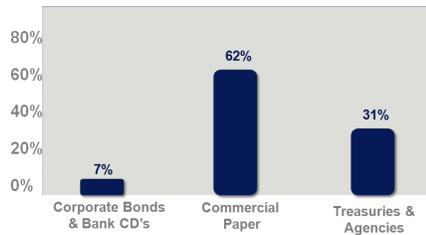


### Pool 5: Liquidity

Weighted Average Maturity: 39 days on 3/31/2011

DURATION: 100% from 0-1 yrs

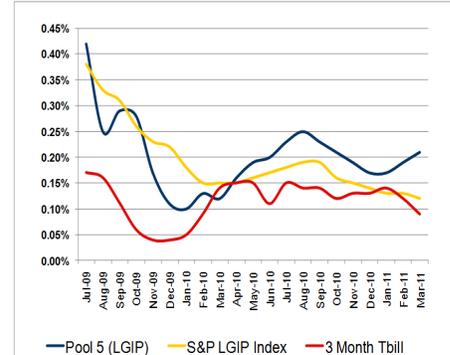
ASSET MIX:



### Pool 5: Yield

.21% YTD

.16% YTD (S&P LGIP Index)

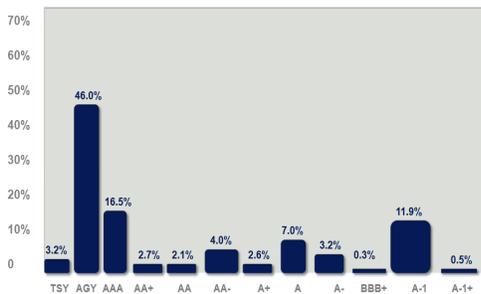


**Pool 5 has beaten its benchmark by 5 basis points (net of fees)**

## LGIP Pool 500: Medium-term fund

### Pool 500: Safety

AAA Weighted Average Rating



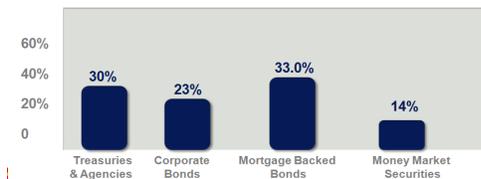
### Pool 500: Liquidity

Effective Duration: 1.77 years on 3/31/2011

DURATION:



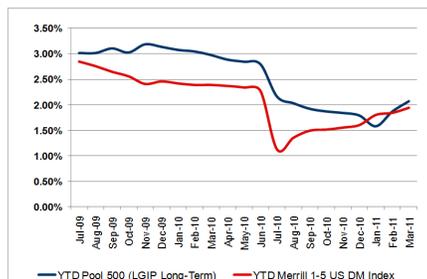
ASSET MIX:



### Pool 500: Yield

1.81% YTD

1.68% YTD (Index)



**Pool 500 has beaten its benchmark by 13 basis points**

### AT A GLANCE

- \$208.6 million in assets with Floating Net Asset Value at \$1.0286 as of 3/31/2011.
- Diversified fund containing treasuries, agencies, corporate bonds and mortgages.
- The effective duration is 1.77 years.
- Keeping the fund short with close to half of the investments maturing under one year.
- Maximum exposure to any credit at 2.5%.
- The weighted average rating of all the securities is AAA.

## Pool 7 LGIP-GOV: Short-term fund

### AT A GLANCE

- \$1.8 billion Assets with Net Asset Value at \$1.00 as of 3/31/2011.
- Pool 7 is invested in highly liquid, low-risk securities that are backed by the full faith and credit of the U.S. Government.
- With recent disruptions in the repurchase agreement market and declining yields, Pool 7 has begun laddering out investments with up to a 13 month horizon.
- Weighted Average Maturity is 39 days.

### Pool 7: Safety

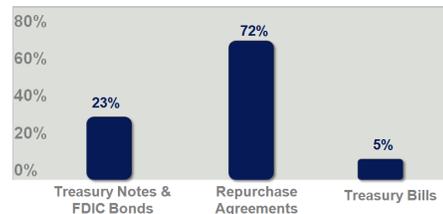


### Pool 7: Liquidity

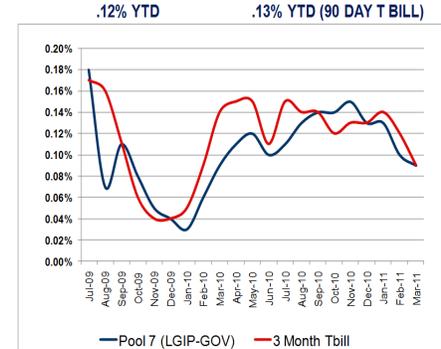
Weighted Average Maturity: 39 days on 3/31/2011

DURATION: 100% from 0-1 yrs

ASSET MIX:



### Pool 7: Yield

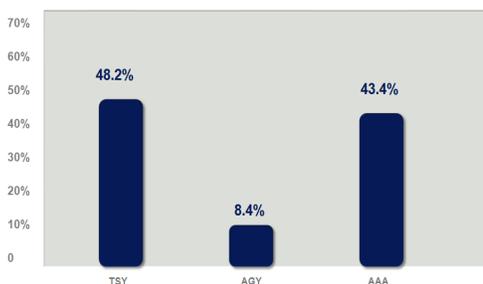


**Pool 7  
net yield is  
12 basis points  
YTD**

## Pool 700 LGIP-GOV: Medium-term fund

### Pool 700: Safety

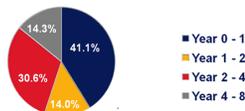
AAA Weighted Average Rating



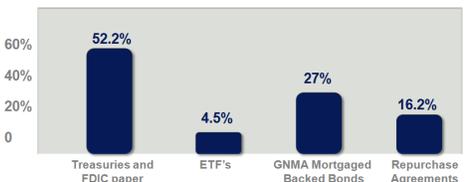
### Pool 700: Liquidity

Effective Duration: 1.85 years on 3/31/2011

DURATION:

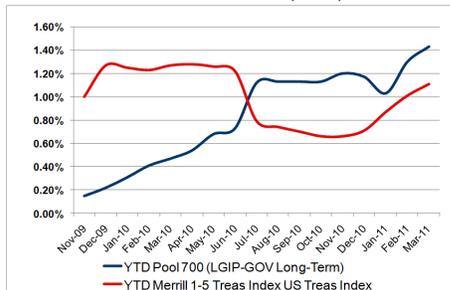


ASSET MIX:



### Pool 700: Yield

1.20% YTD | 0.81% YTD (Index)



**Pool 700  
has beaten its  
benchmark by  
39 basis points**

### AT A GLANCE

- \$110.5 million in assets with Floating Net Asset Value at \$1.0026 as of 3/31/2011.
- All securities are backed by the full faith and credit of U.S. Government including Treasuries, FDIC paper and GNMA mortgage
- The effective duration is 1.85 years.
- Keeping the fund short with 40% of the investments maturing under one year.
- The weighted average rating of all the securities is AAA.

OFFICE OF THE  
ARIZONA  
STATE  
TREASURER



INVESTMENT  
PERSONNEL

Mark Swenson  
Deputy Treasurer  
(602) 604-7884

Carlton Woodruff  
Deputy Treasurer  
Operations  
(602) 604-7816

Patricia Humbert  
Sr. Portfolio Manager  
(602) 604-7841

Tim White  
Sr. Portfolio Manager  
(602) 604-7837

Chris Petkiewicz  
Portfolio Manager  
(602) 604-7839

Dale Stomberg  
LGIP Investment  
Accounting  
(602) 604-7830

Lorraine Jones  
Revenue Distributions  
(602) 604-7818



View AZ's Daily Cash Balance at [www.AZCheckbook.com](http://www.AZCheckbook.com)

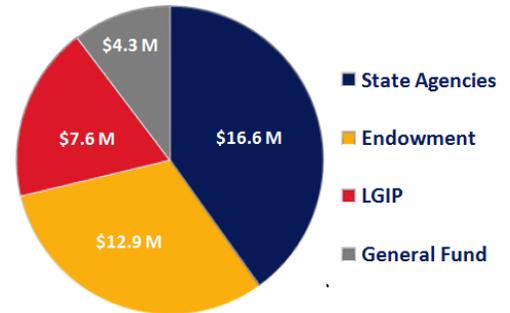
Treasurer's  
Website Updated



With the help of the Arizona Government Information Technology Agency (GITA) and Carol Coleman, the Treasurer's Office webmaster, [www.AZTreasury.gov](http://www.AZTreasury.gov) was re-launched with an exciting new look and several new features.

Please send feedback to [info@aztreasury.gov](mailto:info@aztreasury.gov) and make sure to take advantage of the "search" function that will allow you to find documents, pages or reports from any page throughout the entire site.

FY 2011 YTD Earnings =  
\$41.6 Million



State Cash Flow

In April 2011, for the first time since July 2010, Arizona's operating cash balance averaged over

**\$1 Billion**

Investing in Arizona's Local Banking Community

On March 24, 2011, Arizona State Treasurer Doug Ducey announced the continuation of a program launched in 2010 designed to invest in Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) products at Arizona banks and credit unions through a monthly bid process.

Each month, the Treasurer's Office will entertain bids from local banks and credit unions for the placement of up to \$250,000 in cash per institution for either one-month, three-month, six-month, one-year, two-year or five-year products that are fully insured with the FDIC or the NCUSIF.

"Investing a portion of Arizona taxpayer dollars in local banks can have a very positive economic impact," said Treasurer Ducey. "We currently have more than \$50 million invested with eight Arizona banks, and look forward to expanding our relationship with those banks and others."

