

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 I, Issue III

Q3 2011

New LGIP Product Available: SMAs

Separately Managed Accounts (SMAs) are now being offered in response to a growing number of Local Government Investment Pool (LGIP) client requests seeking more customized investing solutions based on risk tolerance, liquidity needs and duration targets.



The SMAs offer monthly liquidity, require a \$100 Million minimum deposit and will include a pre-meeting with an assigned Portfolio Manager to set up the account and evaluate specific investing needs. Costs will include the Treasurer's Office standard six basis points, plus yearly accounting charges that are the equivalent of two basis points.

To participate or learn more, contact Deputy Treasurer Mark Swenson at (602) 604-7884 or marks@aztreasury.gov.



K-12 Endowment Distribution

The Permanent Land Endowment Trust Fund was established in the Arizona Constitution under Article 10, Section 7. The proceeds of state trust land sales come to the Treasurer's Office to invest in perpetuity.

There are thirteen beneficiaries of the Endowment proceeds with K-12 schools making up about 87% of Endowment funds. Distribution of the proceeds are based on a Constitutional formula which was implemented in 2004.

For FY 2012 the preliminary estimate for K-12 education is a **\$75 Million** distribution, up 365% from the year prior. This will be the highest distribution from the endowment in Arizona's history.

As of June 30, 2011, the total market value of the Endowment is at a record high of \$3.29 Billion, earning a record return of 16.14% this past year. The Endowment's unrealized gains of \$800 Million are also at an all-time high.

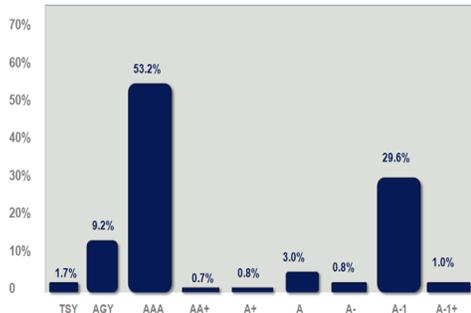
LGIP Pool 5: Short-term fund

AT A GLANCE

- \$1.46 Billion in assets with Net Asset Value at \$1.00 as of 6/30/2011.
- Diversified short-term fund similar to a prime money market fund.
- Goal is to keep daily liquidity in the 10% to 30% range.
- Continues to maintain the highest rating from S&P: AAAF/SI+.
- Even with a possible U.S. Government downgrade by S&P, Pool 5 should still maintain our AAAF/SI+ rating.
- Weighted Average Maturity is 27 days.

Safety

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

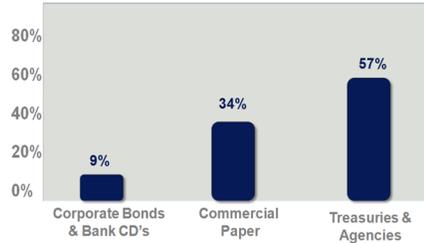


Liquidity

Weighted Average Maturity: 27 days on 6/30/2011

DURATION: 100% from 0-1 yrs

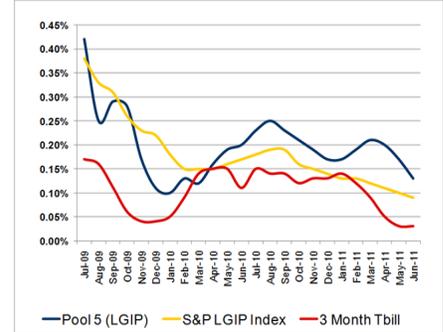
ASSET MIX:



Yield

.20% YTD

.14% YTD (S&P LGIP Index)

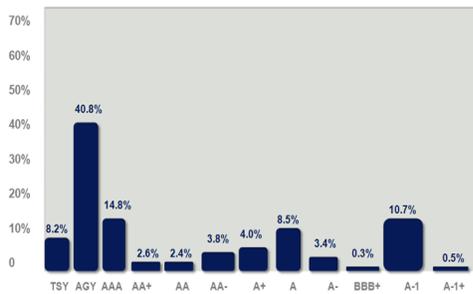


Pool 5 YTD has beaten its benchmark by 6 basis points (net of fees)

LGIP Pool 500: Medium-term fund

Safety

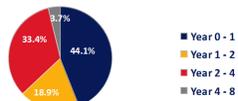
AAA Weighted Average Rating



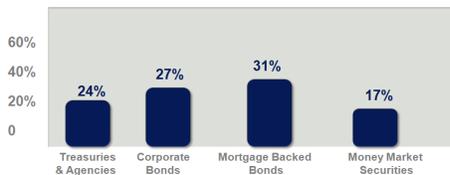
Liquidity

Effective Duration: 1.5 years on 6/30/2011

DURATION:



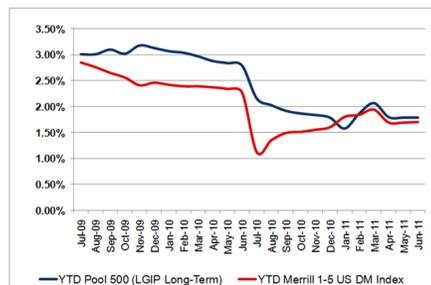
ASSET MIX:



Yield

1.79% YTD

1.70% YTD (Index)



Pool 500 YTD has beaten its benchmark by 9 basis points

AT A GLANCE

- \$210.9 Million in assets with Floating Net Asset Value at \$1.0349 as of 6/30/2011.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.5 years.
- Keeping the fund short with close to half of the investments maturing under one year.
- Maximum exposure to any credit at 2.5%.
- 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 \$1.0001 as of 6/30/2011.
- Invested in highly liquid, low-risk securities that are backed by the full faith and credit of the U.S. Government.
- The Office is monitoring events in regards to a possible downgrade or default with the U.S. Government. Pool 7 will remain liquid; we have no treasuries maturing during the first three weeks of August.
- Weighted Average Maturity is 47 days.

Safety

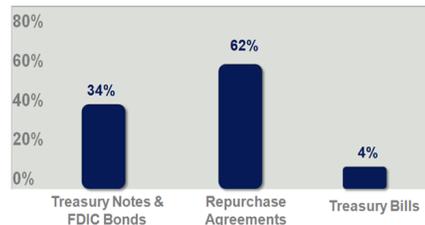


Liquidity

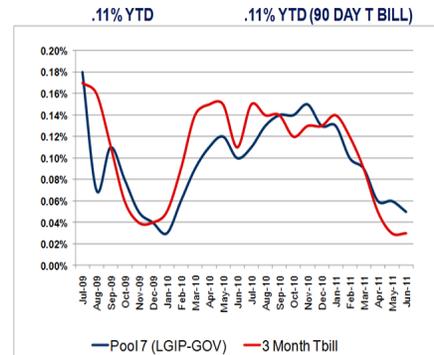
Weighted Average Maturity: 47 days on 6/30/2011

DURATION: 100% from 0-1 yrs

ASSET MIX:



Yield

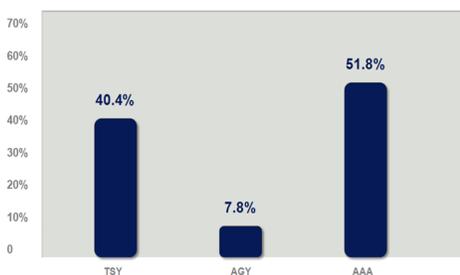


**Pool 7 YTD
Net yield is
11 basis points
(the same as the
benchmark 90-day T-Bill)**

Pool 700 LGIP-GOV: Medium-term fund

Safety

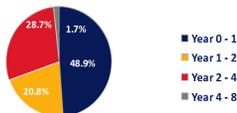
AAA Weighted Average Rating



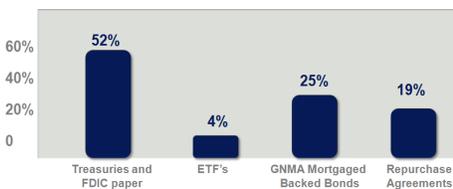
Liquidity

Effective Duration: 1.42 years on 6/31/2011

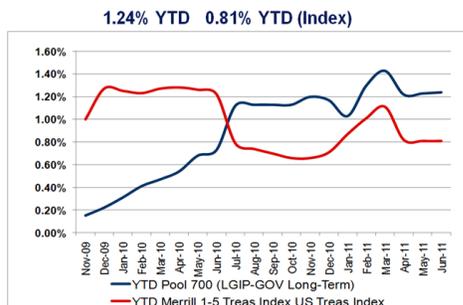
DURATION:



ASSET MIX:



Yield



**Pool 700 YTD
has beaten its
benchmark by
43 basis points**

AT A GLANCE

- \$120.7 Million in assets with Floating Net Asset Value at \$1.0100 as of 6/30/2011.
- 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 1.42 years.
- Keeping the fund short with 49% of the investments maturing under one year.
- Weighted Average Rating of all the securities is AAA.

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

Servicing Bank and Merchant Card Processing Contracts

In April 2011 the Treasurer's Office created a six-member, multi-agency evaluation committee to begin reviewing proposals for the state's servicing bank and merchant card services contracts.

JPMorgan Chase Bank, Bank of America and Wells Fargo Bank submitted proposals for both the servicing bank and merchant card processing contracts. U.S. Bank and Bank of Arizona submitted solely for the merchant card processing contract.



The evaluation focused on three aspects:

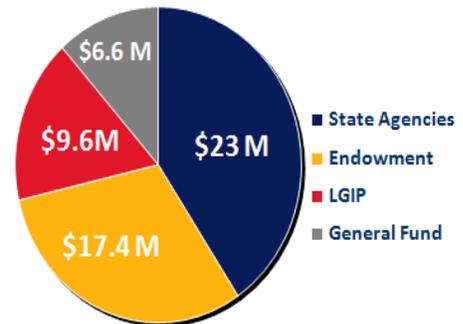
1. Ensure all responding organizations are qualified pursuant to A.R.S. 35-315(A).
2. Evaluate the responsiveness of the proposals based on the requirements specified in the bid document.
3. Determine the highest value to the state based on four specified categories including cost, conformance to scope, method of approach and experience.

Bank of America received the highest scores from the evaluation committee in all four categories for both contracts. The Board of Investment reviewed and approved the results in June 2011, therefore the three-year contracts with two, one-year extension options will become effective January 1, 2012.

**YOY Average Cash Balance
+ \$1.1 Billion**

The Arizona State Treasurer's Office average operating cash balance increased from
- \$316 Million
in FY 2010 to
+ \$828 Million
in FY 2011

**FY 2011 YTD Earnings =
\$56.6 Million**



Take Control of Your Financial Future

According to the Federal Reserve, Americans carry more than **\$2.4 Trillion** in consumer debt - that works out to be nearly \$7,800 in debt for every man, woman and child that lives in the United States.

The Treasurer's Office is committed to ongoing financial education for all Arizonans during every stage of life. Educators, parents and students can visit www.aztreasurer.gov/financial

[Literacy.html](#) to access a number of free educational resources including personal finance articles, games, lesson plans, and more.