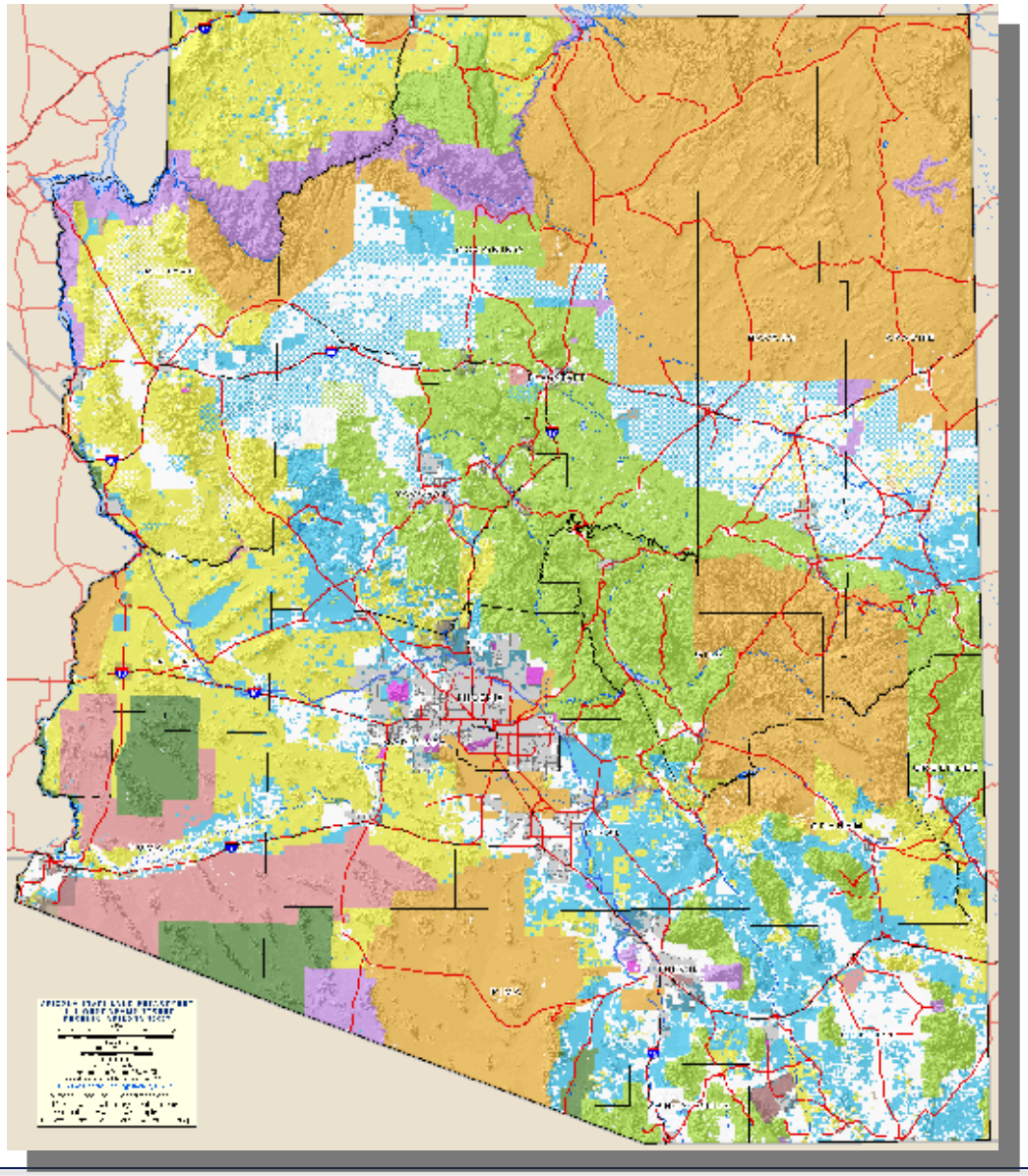
ENDOWMENT PERFORMANCE

As of February 29, 2012

OFFICE OF THE ARIZONA STATE TREASURER

ENDOWMENT TRUST LANDS

- Bureau of Land Management (17%)
- US Forest Service (15%)
- Tribal Reservations (28%)
- Privately-owned land (17%)
- State trust land (13%)



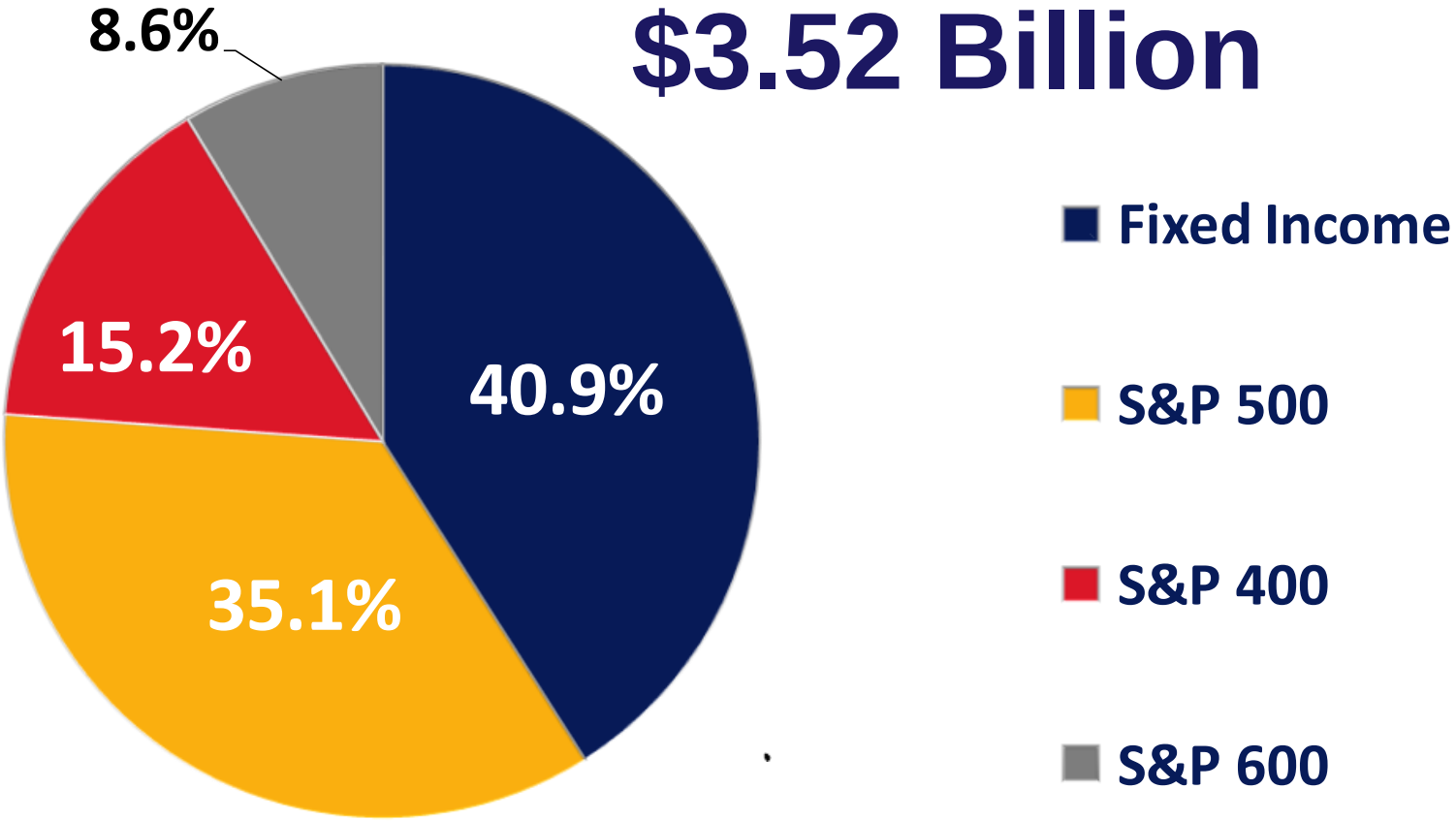
ENDOWMENT ASSET ALLOCATION

In 2011 the fund was updated from 50/50 to a 60/40 stocks to bond allocation:

20-year Projected Returns	Previous Allocation	Current Allocation	Gain
95th percentile (highest value)	9.1	9.9	$2.38 B
75th percentile	7.0	7.5	$1.17 B
50th percentile	5.5	5.8	($240 M)
25th percentile	4.1	4.2	$130 M

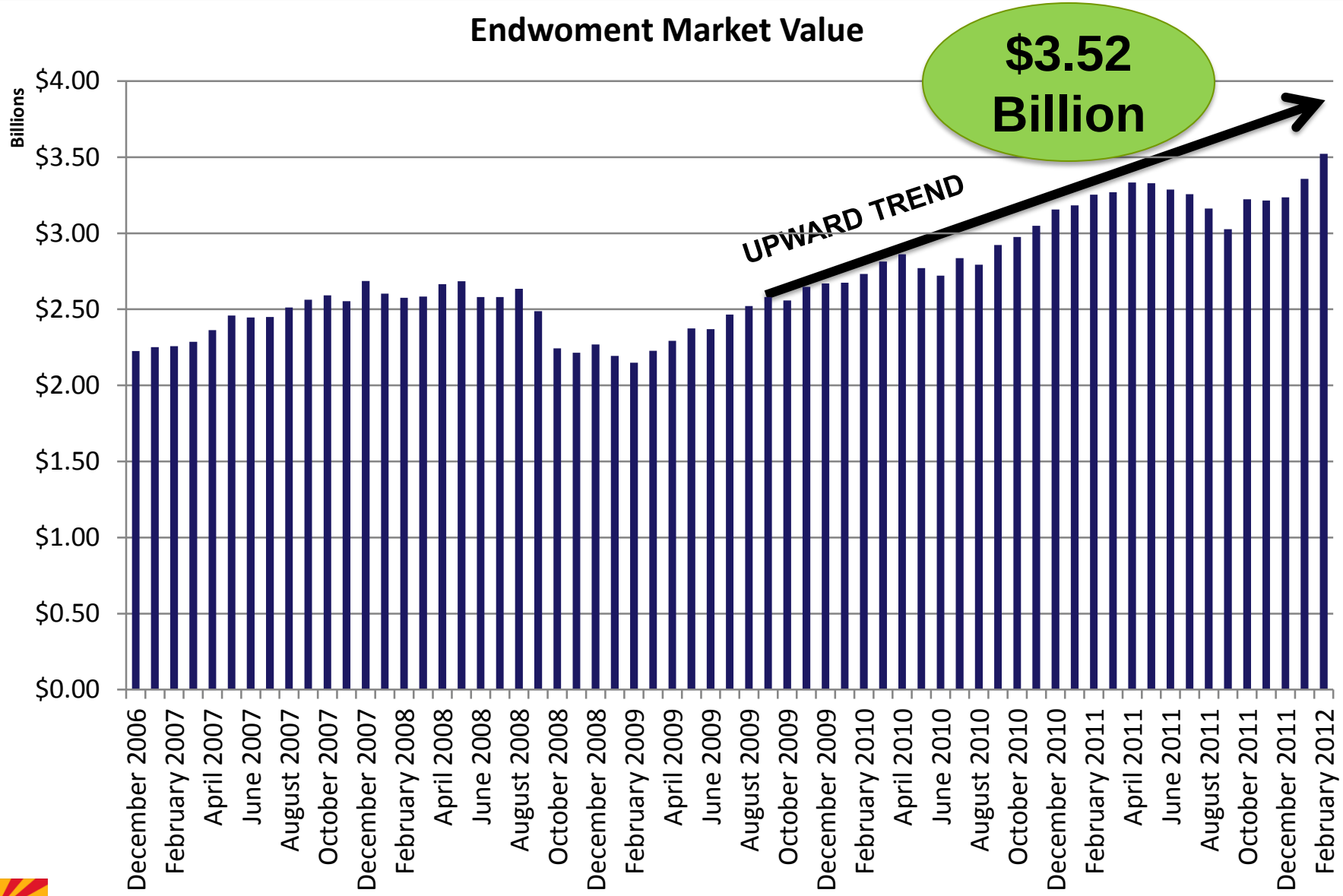
- **Expected Return increased to 6.4% from 6%**
- **Standard Deviation increased to 11% from 9.6%**

ENDOWMENT ASSET ALLOCATION

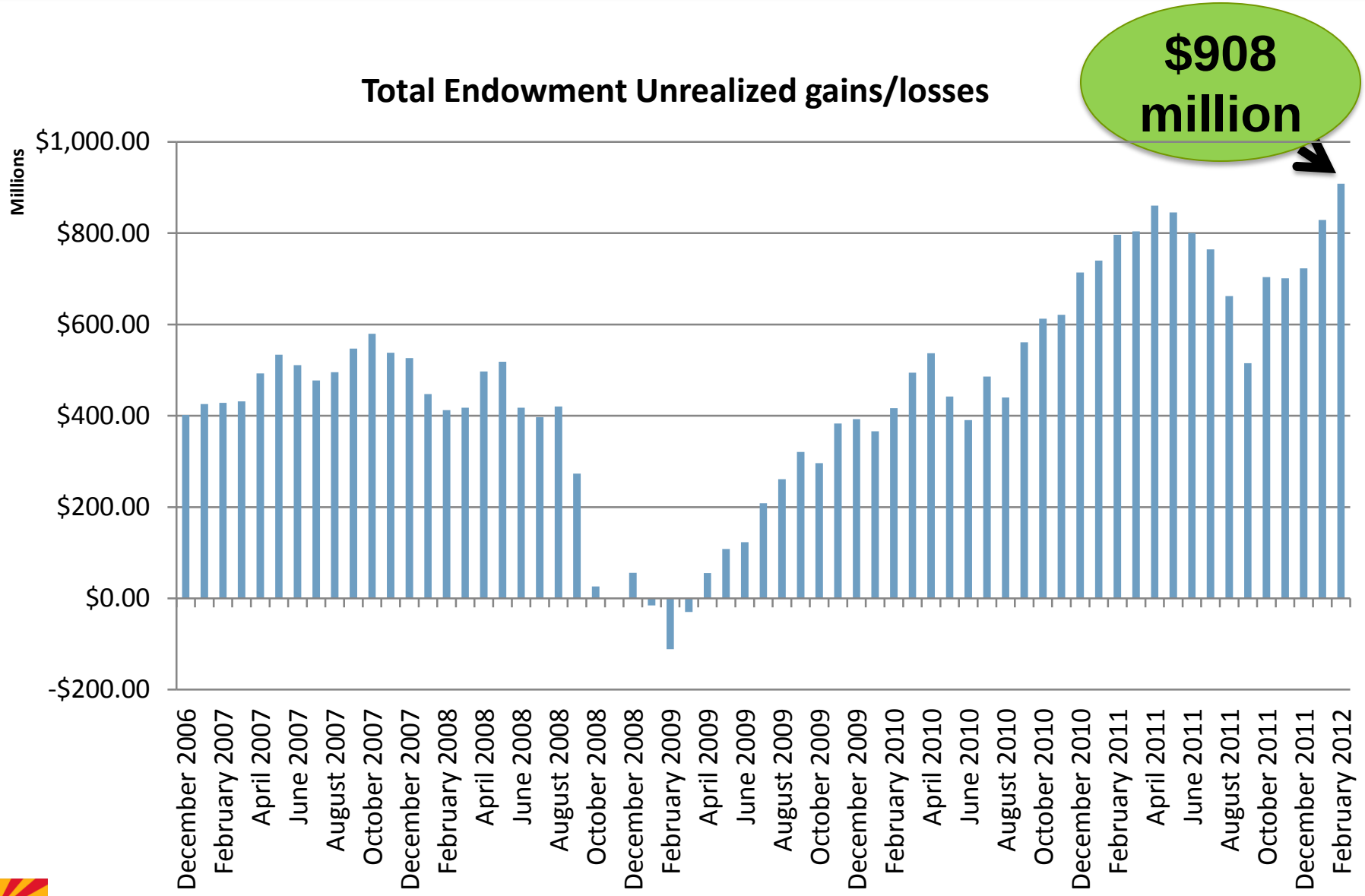


As of 2/29/2012

ENDOWMENT MARKET VALUE



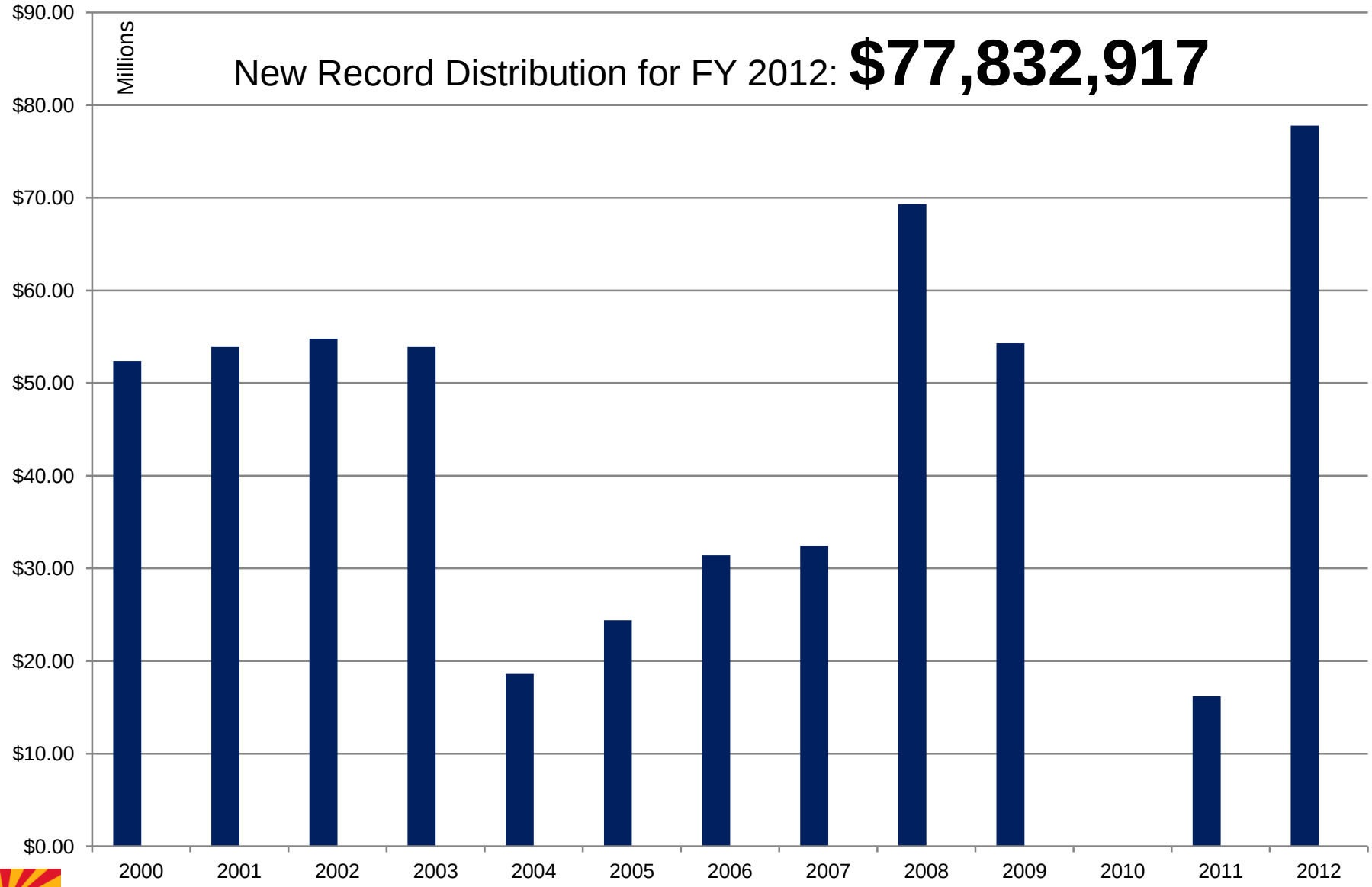
ENDOWMENT UNREALIZED GAINS



ENDOWMENT DISTRIBUTION

OFFICE OF THE ARIZONA STATE TREASURER

K-12 DISTRIBUTIONS



ASSET ALLOCATION STUDY

OFFICE OF THE ARIZONA STATE TREASURER

REVIEW PROCESS

- Highlights the risk and return tradeoffs of different investment policy options
- Evaluates various approaches based on the practices of similar funds
- Allows the Board of Investment to make more informed decisions

CURRENT DISTRIBUTION FORMULA

FY 2008 AVG. TOTAL RETURN
+
FY 2009 AVG. TOTAL RETURN
+
FY 2010 AVG. TOTAL RETURN
+
FY 2011 AVG. TOTAL RETURN
+
FY 2012 AVG. TOTAL RETURN

× 20%

−

FY 2008 AVG. TOTAL INFLATION
+
FY 2009 AVG. TOTAL INFLATION
+
FY 2010 AVG. TOTAL INFLATION
+
FY 2011 AVG. TOTAL INFLATION
+
FY 2012 AVG. TOTAL INFLATION

× 20%

×

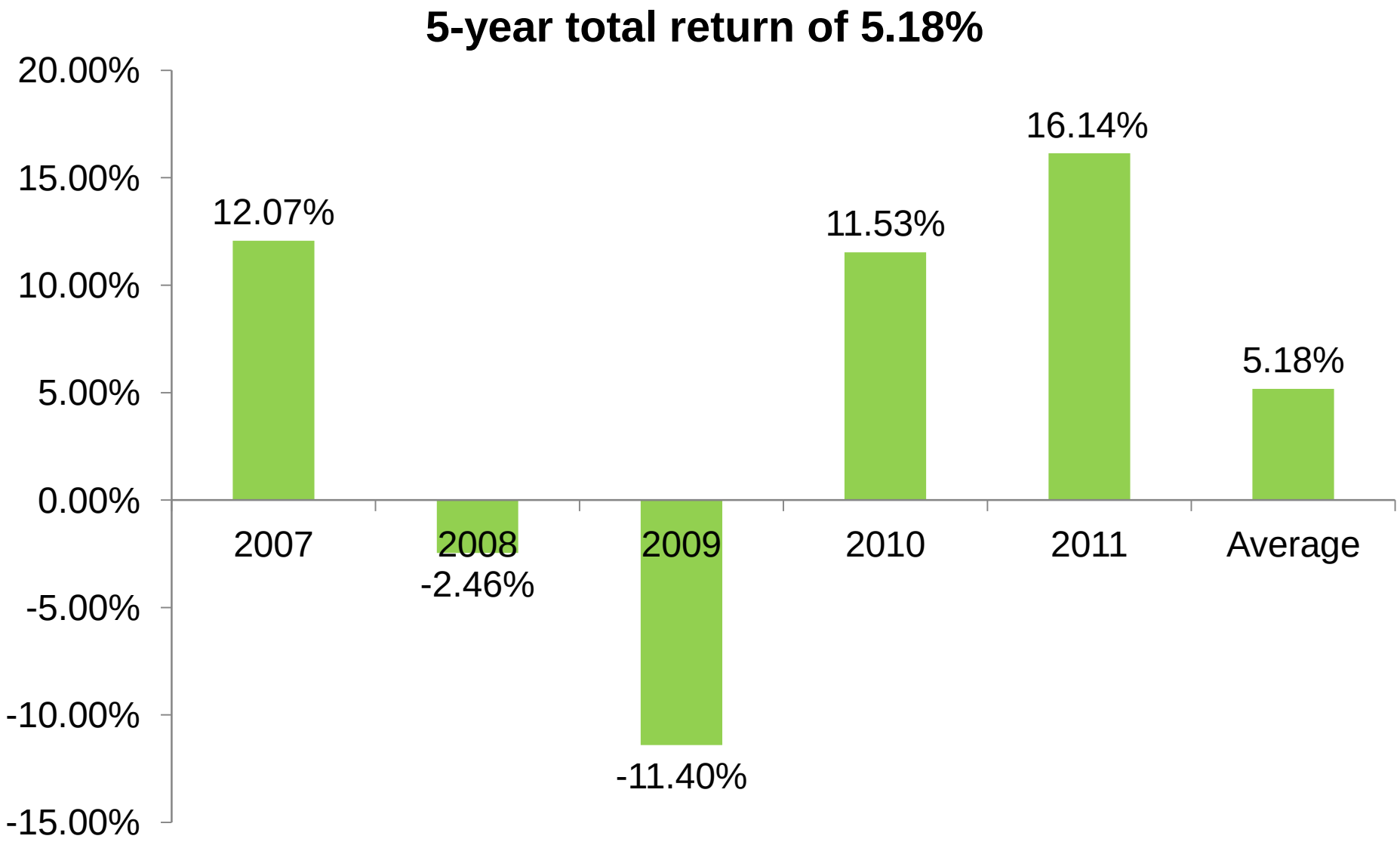
FY 2008 MARKET VALUE
+
FY 2009 MARKET VALUE
+
FY 2010 MARKET VALUE
+
FY 2011 MARKET VALUE
+
FY 2012 MARKET VALUE

× 20%

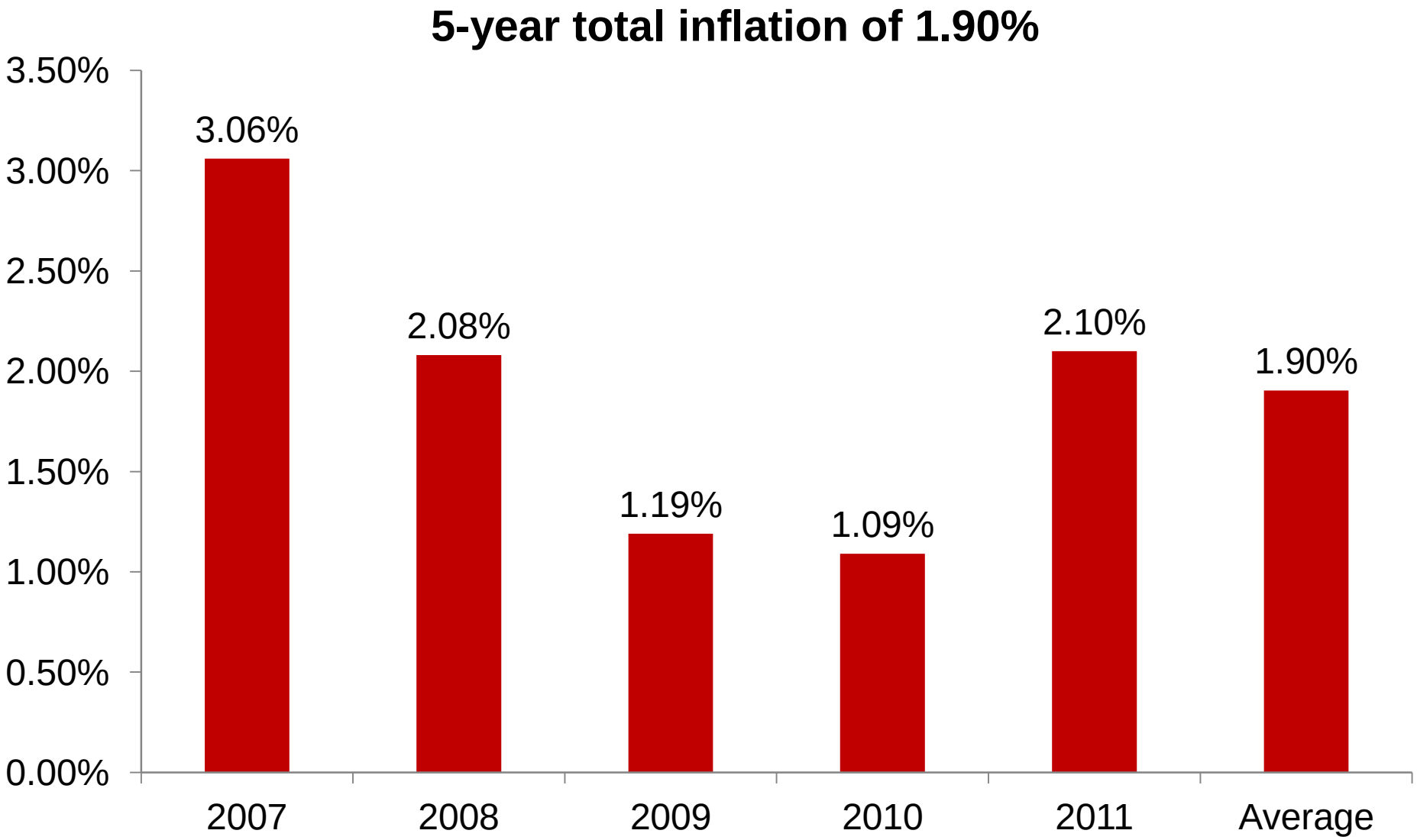
=

ANNUAL DISTRIBUTION

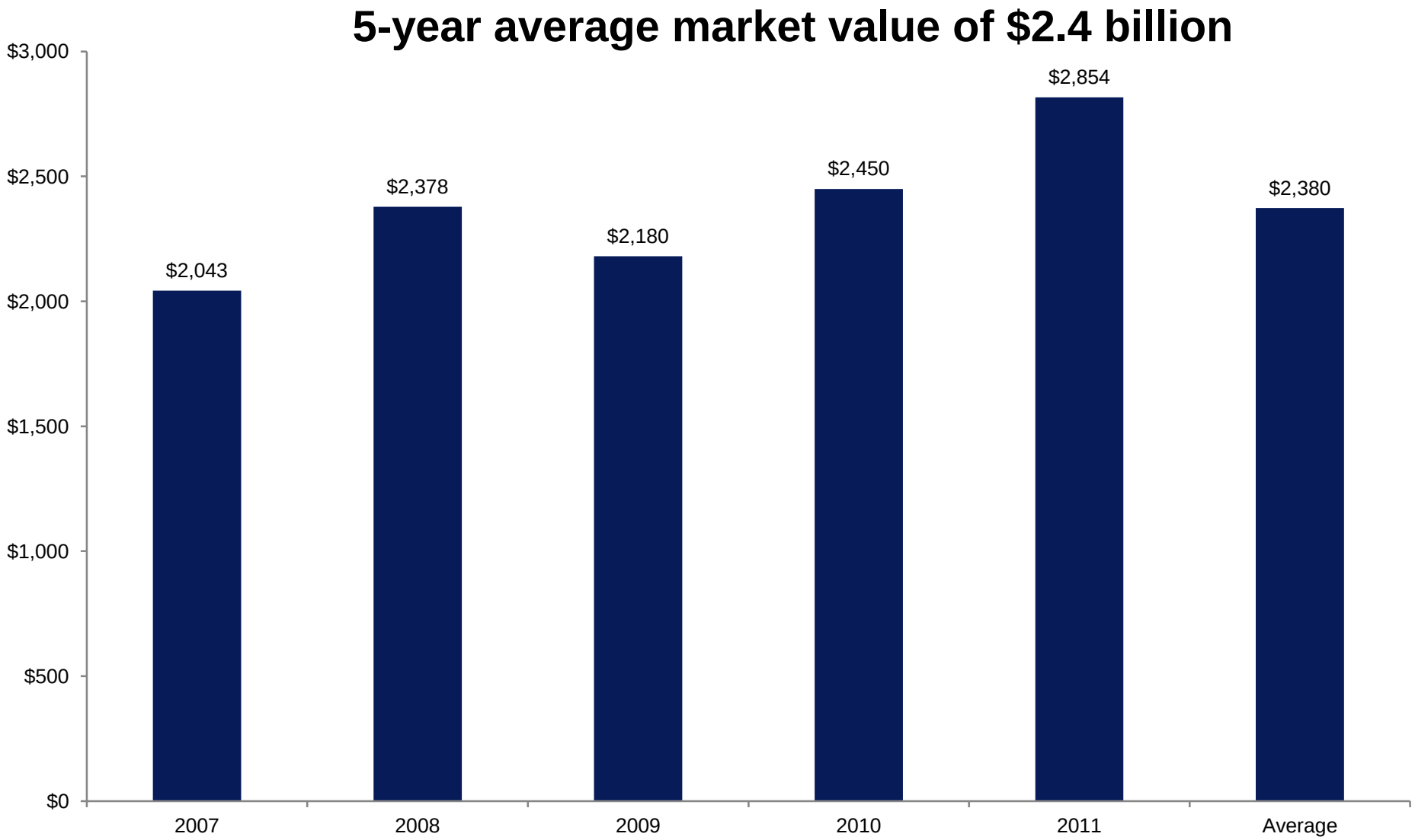
HOW THE FORMULA WORKS



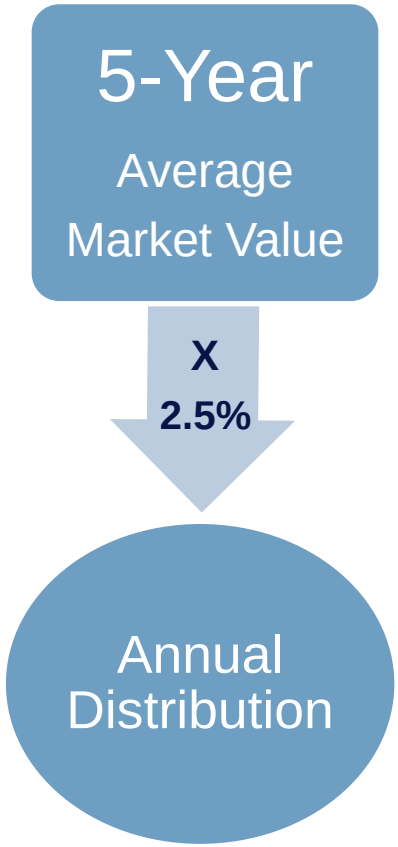
HOW THE FORMULA WORKS



HOW THE FORMULA WORKS

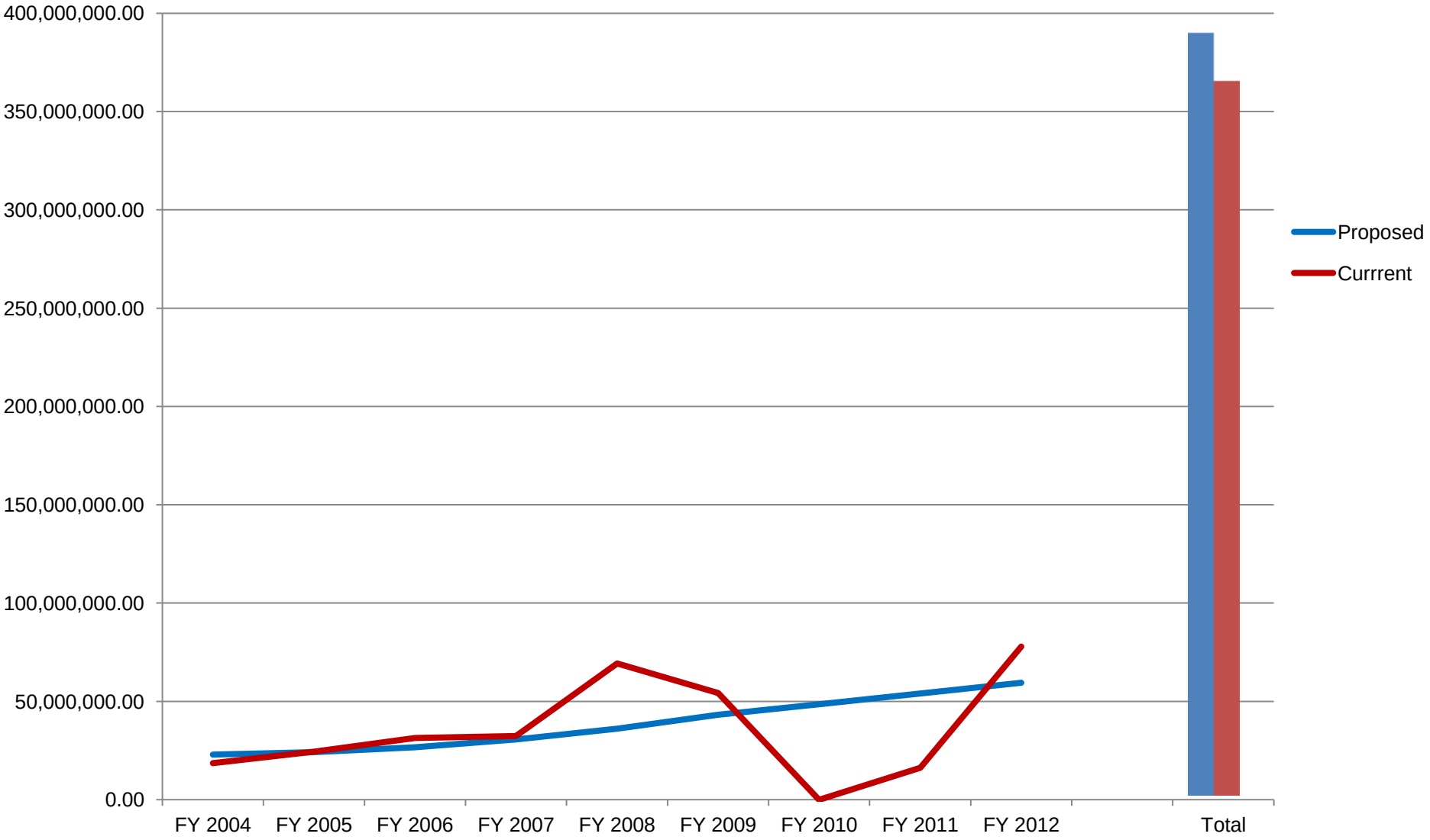


SMOOTHER, CONSISTENT DISTRIBUTIONS

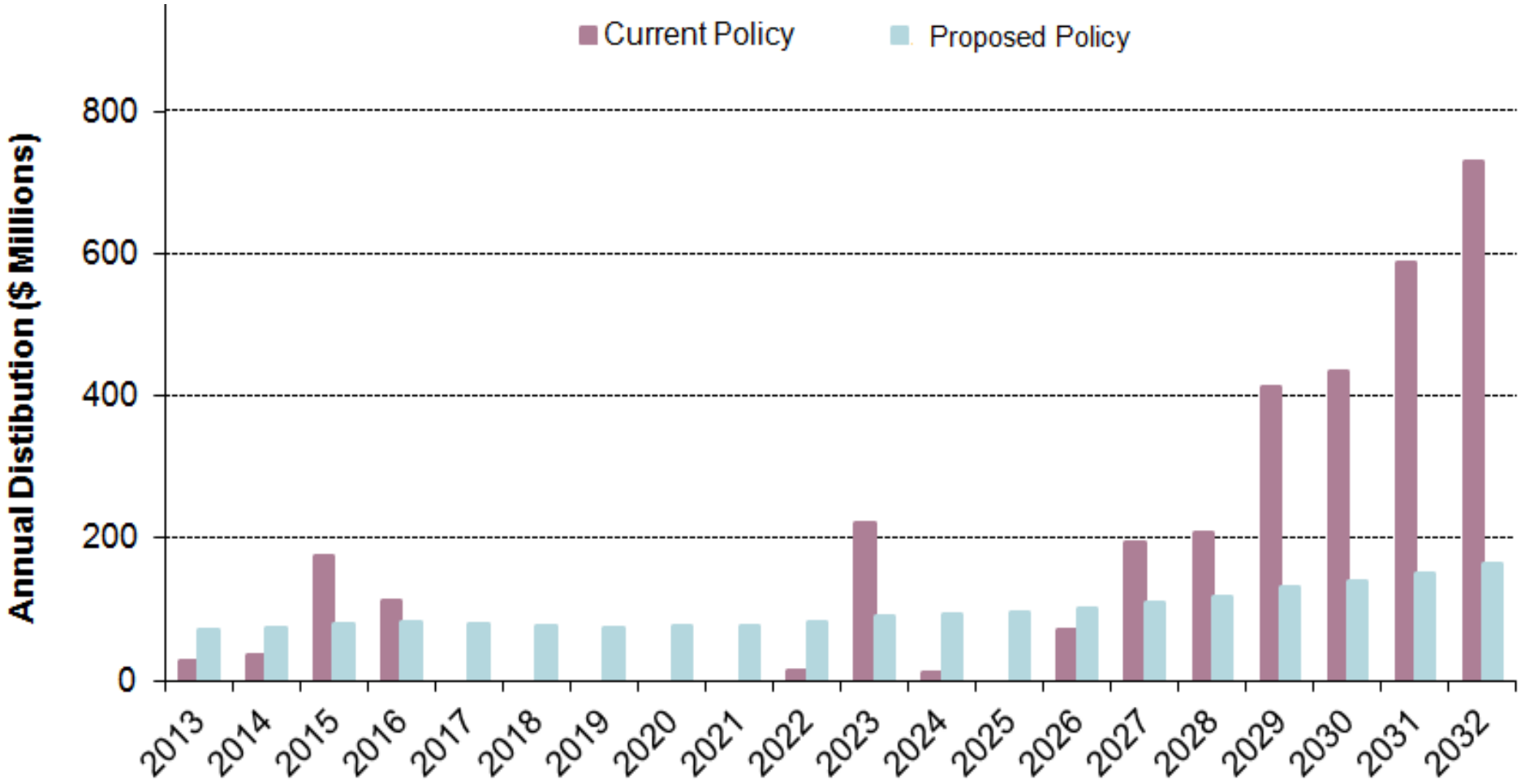


Takes 2.5% of the average monthly market value from each of the previous five years

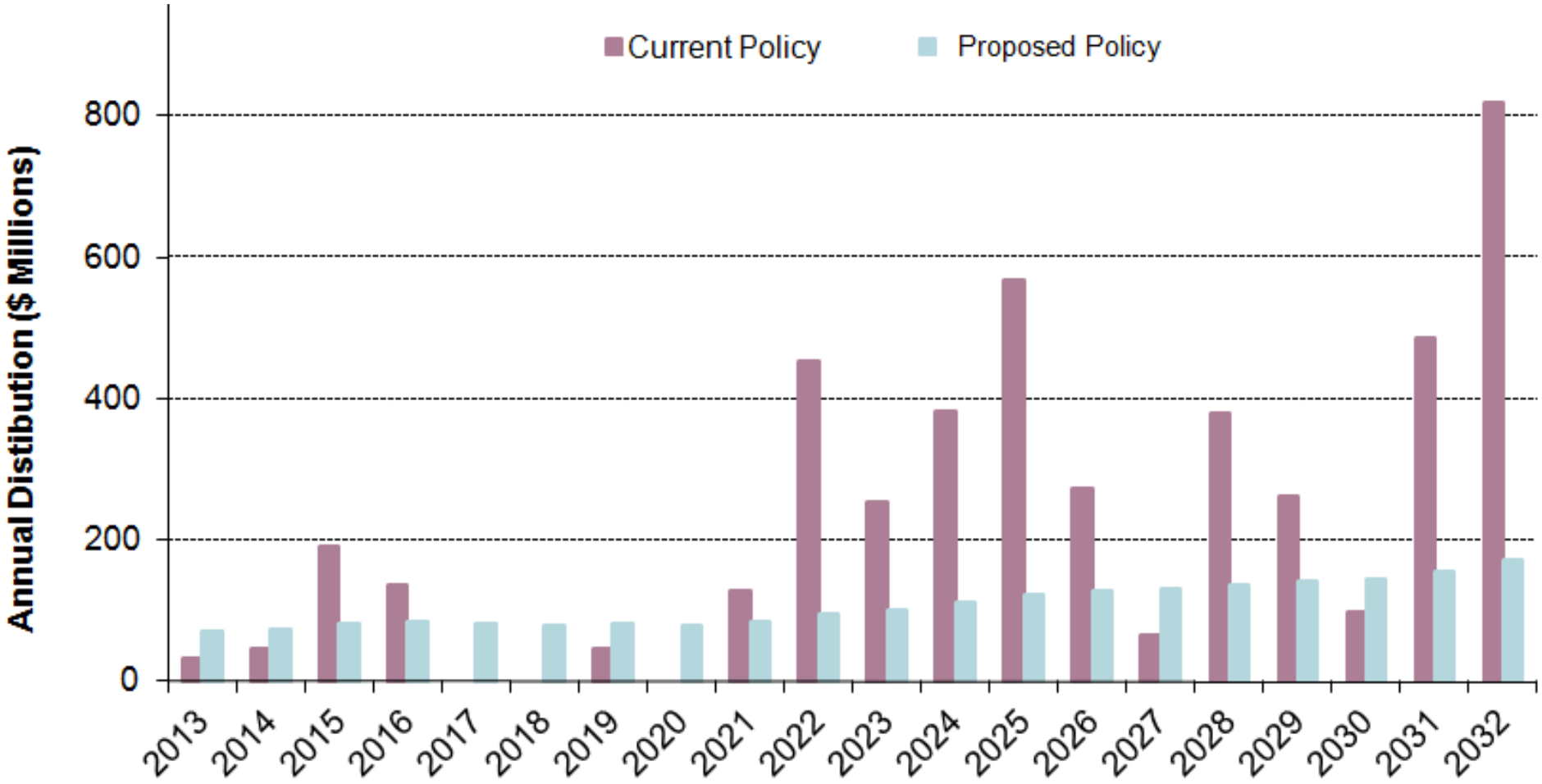
K-12 DISTRIBUTIONS



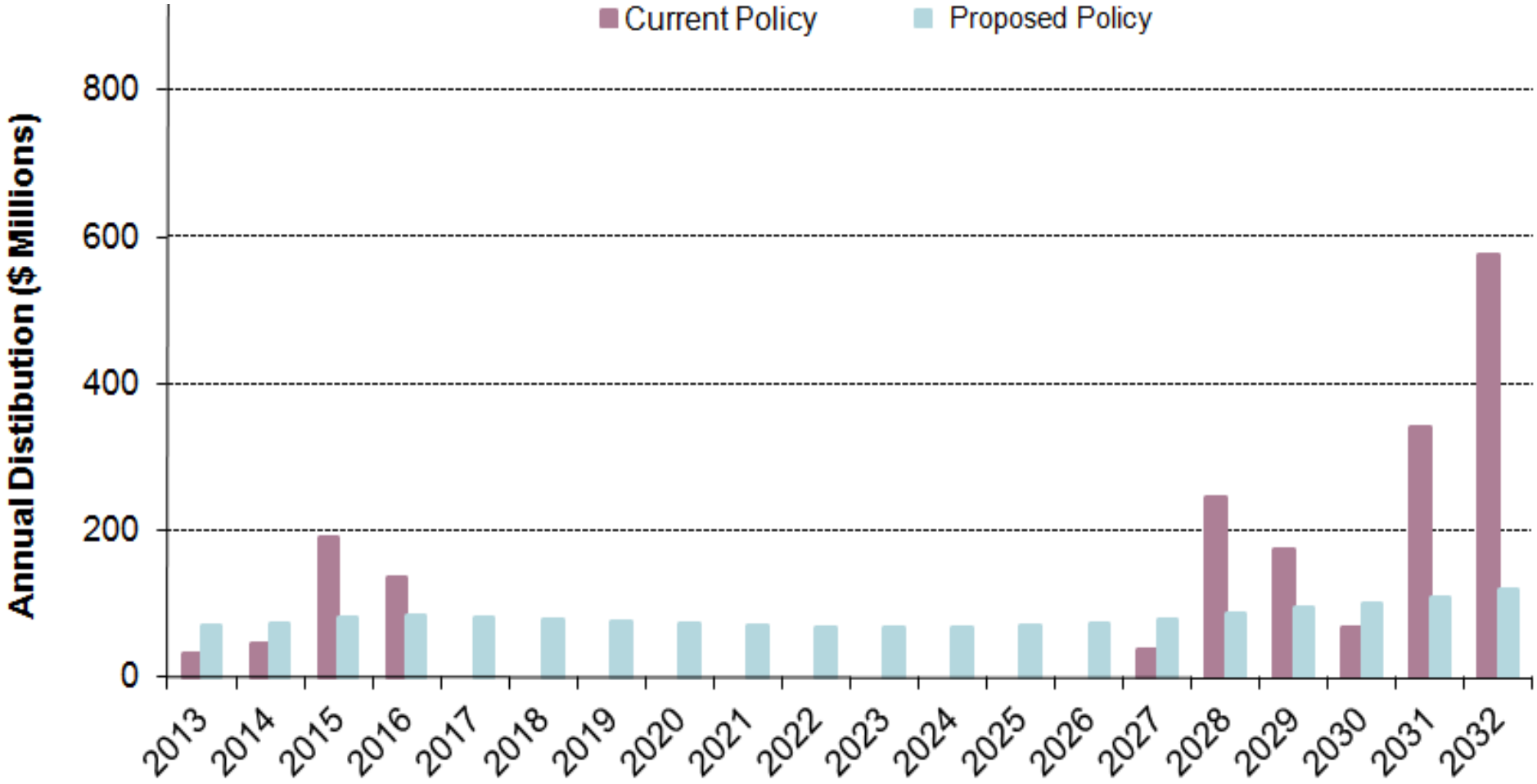
MODERATE


Current Policy
Proposed Policy
Annual Distibution ($ Millions)
800
600
400
200
0
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032

OPTIMISTIC


Current Policy
Proposed Policy
Annual Distibution ($ Millions)
800
600
400
200
0
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032

PESSIMISTIC



QUESTIONS?