



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

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Q1 2012

## Community Bank Investments Doubled

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](http://www.aztreasurer.gov/localBankProgram.html).

Total Invested in  
Local Banks

As of January 1, 2012

**\$100,000,000**

## 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 billion**.

"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."

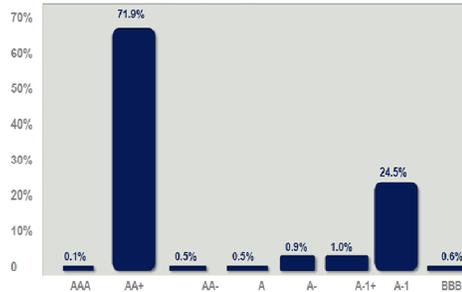
## LGIP Pool 5: Short-term fund

### 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/SI+ 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/SI+

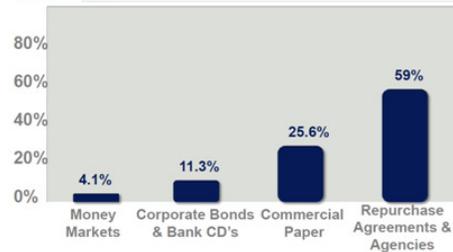


### Liquidity

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

DURATION: 100% from 0-1 yrs

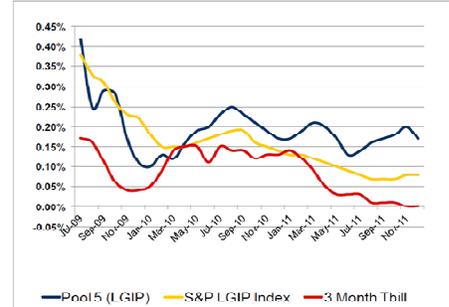
ASSET MIX:



### Yield

.17% YTD

.08% YTD (S&P LGIP Index)

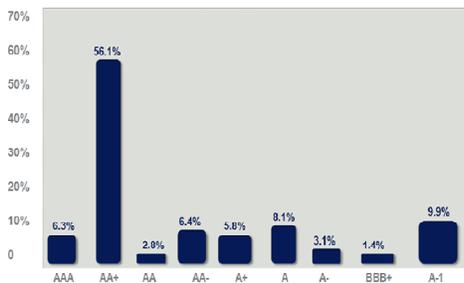


**Pool 5 YTD Net Yield has beaten its benchmark by 9 basis points**

## LGIP Pool 500: Medium-term fund

### Safety

AA Weighted Average Rating



### Yield

1.67% YTD

1.55% YTD (Index)



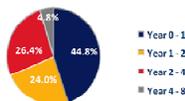
### AT A GLANCE

- \$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.

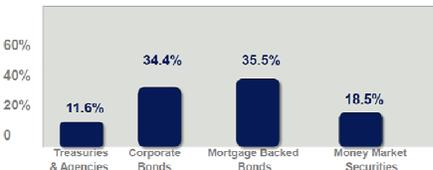
### Liquidity

Effective Duration: 1.45 years on 12/31/2011

DURATION:



ASSET MIX:



**Pool 500 YTD has beaten its benchmark by 12 basis points**

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

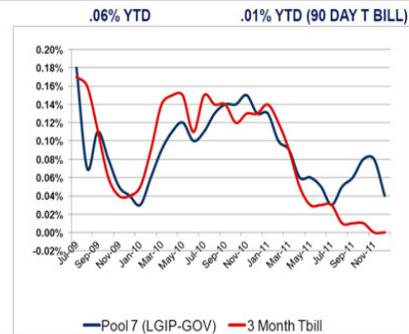
**AT A GLANCE**

- \$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**

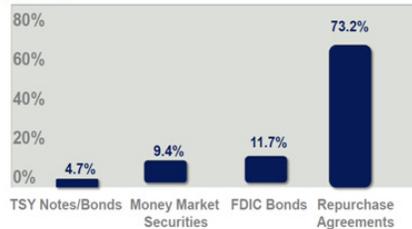


**Liquidity**

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

DURATION: 100% from 0-1 yrs

ASSET MIX:

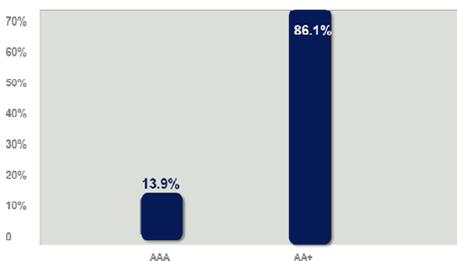


**Pool 7 YTD Net Yield has beaten its benchmark by 5 basis points**

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

**Safety**

AA+ Weighted Average Rating



**Yield**

1.11% YTD      0.92% YTD (Index)



**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+.

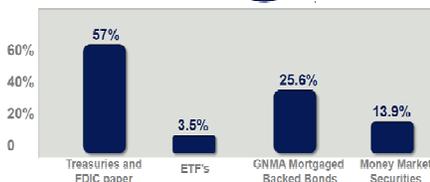
**Liquidity**

Effective Duration: 1.07 years on 12/31/2011

DURATION:



ASSET MIX:



**Pool 700 YTD has beaten its benchmark by 19 basis points**

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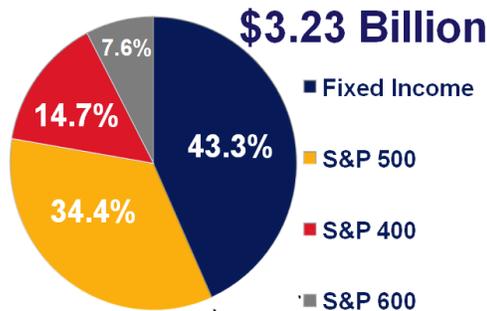
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View AZ's Daily Cash Balance at [www.AZCheckbook.com](http://www.AZCheckbook.com)

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

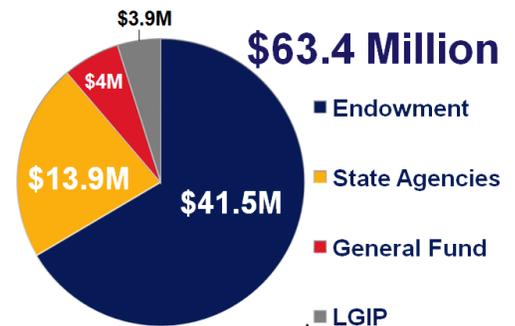
Empowerment Scholarship  
Account (ESA) Totals

**\$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](http://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.