



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) 542-7800  
toll free (877) 365-8310

info@aztreasury.gov  
www.AZTreasurer.gov



# Inside the Vault

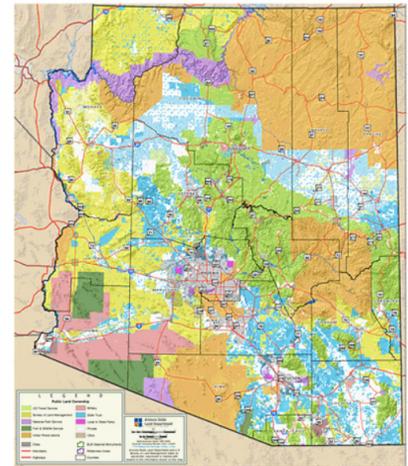
The Arizona State Treasurer's Quarterly Update

Volume III, Issue II

Q2 2013

## AZ's State Land Endowment Tops \$4 Billion

February's closing market value for the Permanent Land Endowment Trust Fund was **\$4,010,564,397**, marking the first time in state history the fund has ended a month above the \$4 billion mark. It took 88.5 years for the endowment to reach its first \$1 billion in August 2000, a little more than 6.5 years to get to \$2 billion in March 2006, and then a little more than 4.5 years to reach the \$3 billion mark in November 2010. It only took 2.25 years to cross the \$4 billion threshold. The unrealized gains for the fund are also at an all-time high of approximately **\$1.238 billion**.



If Arizona's endowment were a college endowment it would be the twenty-first largest in the country.

The estimated market value of the remaining 9 million acres of unsold state trust land exceeds \$70 billion – twice the size of Harvard's endowment.

Through an Act of Congress in 1863 that established the Territory of Arizona and the State Enabling Act of 1910, the federal government granted more than 10 million acres of land to Arizona public institutions. Every time the state sells a piece of state land, those proceeds are deposited into the State Treasurer's Office to be managed into perpetuity. Today state trust land (the light blue shaded areas on the map above) makes up approximately 12 percent of all land in Arizona.

The endowment's asset allocation is 60 percent stocks all passively indexed to the S&P 400, S&P 500 and S&P 600, with the remaining 40 percent invested in fixed income products including high grade corporate bonds and United States Treasury securities.

Earning money for Arizona's public schools is the primary mission of the trust's management. In 2012 the State Treasurer's Office and the Board of Investment completed the first-ever asset allocation study for the fund. The analysis uncovered a critically flawed formula used to distribute earnings to the fund's 13 beneficiaries, with K-12 education receiving more than 90 percent of all proceeds. Prop 118 introduced a simplified formula to ensure more consistent and reliable distributions of earnings. With its passage in November 2012 Arizona voters provided K-12 education an additional \$8.9 million distribution from the endowment in FY 2013 for a total of \$62.4 million. The FY 2014 K-12 distribution will be \$67.7 million, an 8.6% increase over the previous year with the passage of Prop 118.

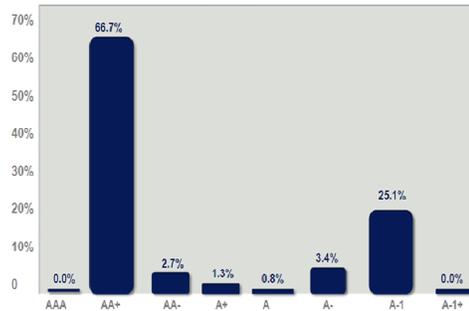
## LGIP Pool 5: Short-term fund

### AT A GLANCE

- \$1.25 Billion in assets with Net Asset Value at \$1.000 as of 3/31/2013.
- Diversified investments weighted to highly rated Commercial Paper, Repurchase Agreements and Agencies/Treasuries.
- Continues to maintain the highest rating of AAA/SI+.
- Weighted Average Maturity is 24 days.
- Short-term rates have been choppy in the past quarter, and will continue to be this quarter, as the market absorbs new cash due to the expiration of federal programs.

### Safety

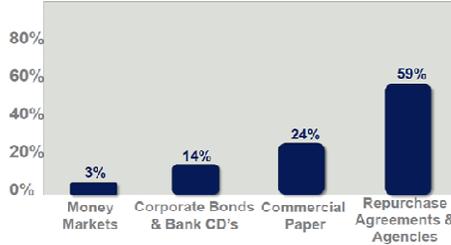
Continues to receive highest rating from Standard & Poor's: AAA/SI+



### Liquidity

Weighted Average Maturity: 24 days on 3/31/2013  
DURATION: 100% from 0-1 yrs

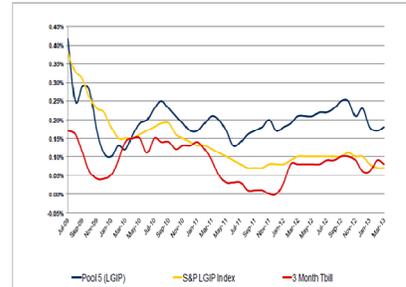
#### ASSET MIX:



### Yield

.21% FYTD

.09% FYTD (S&P LGIP Index)

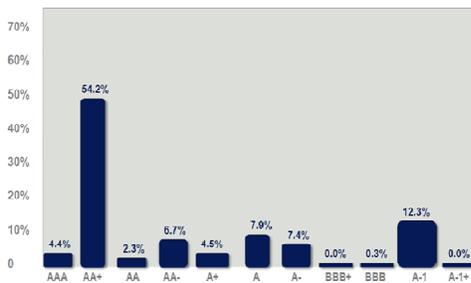


**Pool 5 YTD Net Yield has beaten its benchmark by 12 basis points**

## LGIP Pool 500: Medium-term fund

### Safety

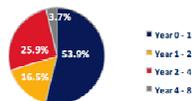
AA Weighted Average Rating



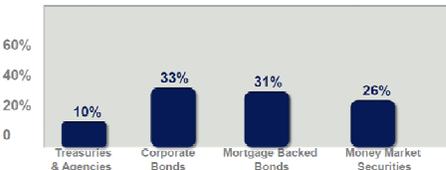
### Liquidity

Effective Duration: 1.32 years on 3/31/2013

DURATION:



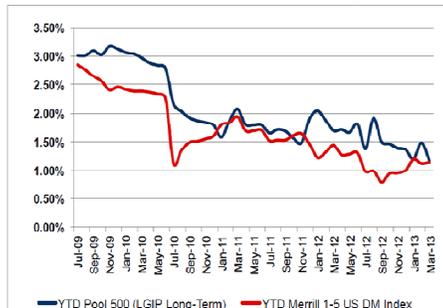
ASSET MIX:



### Yield

1.43% FYTD

1.01% FYTD (Index)



**Pool 500 YTD has beaten its benchmark by 42 basis points**

### AT A GLANCE

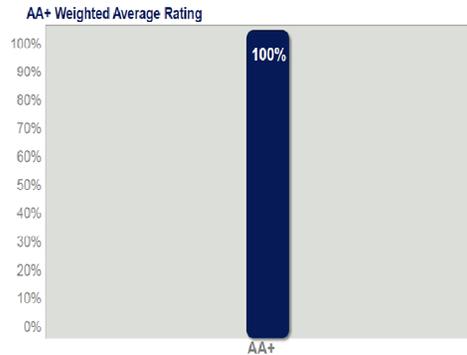
- \$305.7 Million in assets with Floating Net Asset Value at \$1.0408 as of 3/31/2013.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.32 years.
- Keeping the fund short with 70.4% of the investments maturing under two years.
- Maximum exposure to any credit at 2.5%.
- Weighted Average Rating of all the securities is AA.

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

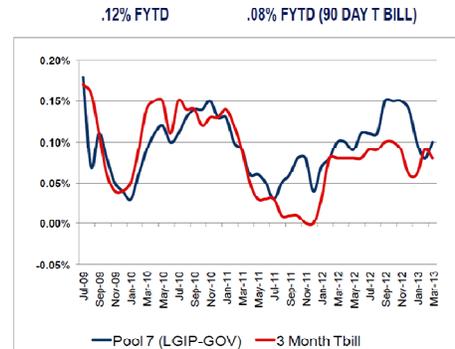
**AT A GLANCE**

- \$1.26 Billion Assets with Net Asset Value at \$1.00 as of 3/31/2013.
- Invested in highly liquid, low-risk securities that are backed by the full faith and credit of the U.S. Government.
- Overall rating is AA+, which reflects the S&P downgrade of U.S. debt.
- Weighted Average Maturity is 40 days.
- We expect rates to decline for the quarter as the federal fiscal issues have caused supply and demand imbalances in the overnight repo markets.

**Safety**



**Yield**

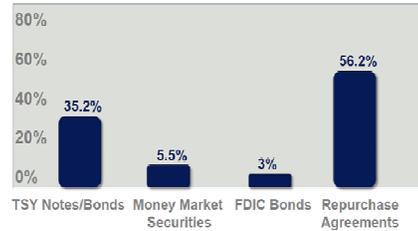


**Liquidity**

Weighted Average Maturity: 40 days on 3/31/2013

DURATION: 100% from 0-1 yrs

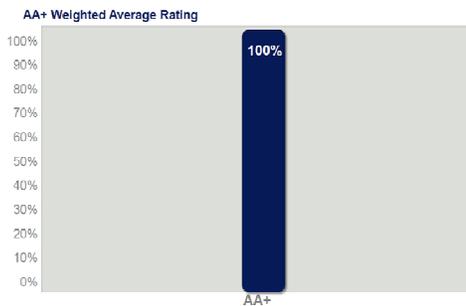
ASSET MIX:



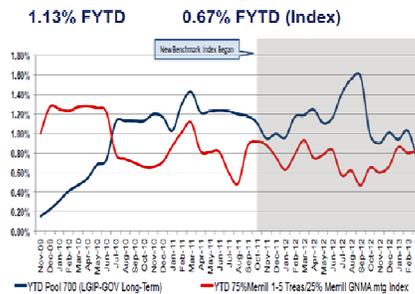
**Pool 7 YTD Net Yield has beaten its benchmark by 4 basis points**

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

**Safety**



**Yield**



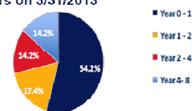
**AT A GLANCE**

- \$244.6 Million in assets with Floating Net Asset Value at \$1.0146 as of 3/31/2013.
- 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 1.49 years.
- Keeping the fund short with 71% of the investments maturing in under two years.
- Weighted Average Rating of all the securities is AA+.

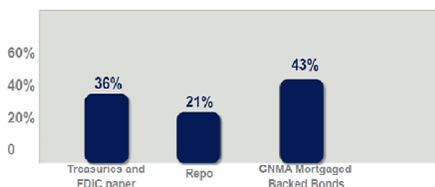
**Liquidity**

Effective Duration: 1.49 years on 3/31/2013

DURATION:



ASSET MIX:



**Pool 700 YTD has beaten its benchmark by 46 basis points**

**OFFICE OF THE**

**ARIZONA  
STATE  
TREASURER**



**INVESTMENT  
PERSONNEL**

Mark Swenson  
Deputy Treasurer  
(602) 542-7877

Carlton Woodruff  
Deputy Treasurer  
Operations  
(602) 542-7875

Patricia Humbert  
Sr. Portfolio Manager  
(602) 542-7841

Tim White  
Sr. Portfolio Manager  
(602) 542-7836

Chris Petkiewicz  
Portfolio Manager  
(602) 542-7839

Dale Stomberg  
LGIP Investment  
Accounting  
(602) 542-7833

Lorraine Jones  
Revenue Distributions  
(602) 542-7818



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

**Senate Bill 1311 Signed By the Governor**

The first goal of the State Treasurer is always safety. As the office continues to look at ways to better diversify the \$4 billion Permanent Land Endowment Trust Fund, investing in Institutional Common Trust Funds could provide tremendous cost savings in management fees, which ultimately means more money is available for the beneficiaries.



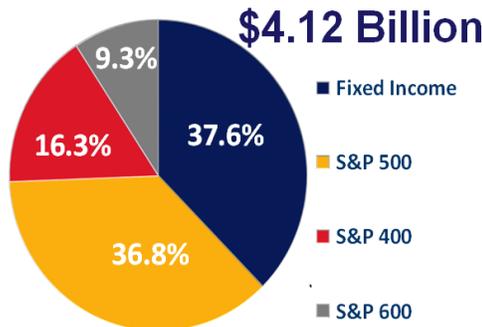
**Example of annual fees for investing \$350 million in United States Treasury Inflation Protected Securities (TIPS):**

|                             |           |
|-----------------------------|-----------|
| Common Trust Fund:          | \$ 35,000 |
| Separately Managed Account: | \$200,000 |
| Mutual Fund:                | \$245,000 |
| Exchange Traded Product:    | \$700,000 |

Working with both Senator Yarbrough and Senator Worsley, Senate Bill 1311 (Public Monies; Investment) passed through the Senate unanimously and cleared the House with a vote of 57-1. It was signed by Governor Brewer on April 4, 2013 and will go into law 90 days after the conclusion of the 51st regular session of the Legislature.

**Land Endowment  
Asset Allocation**

(as of March 31, 2013)



**AZ's Checking Account**

**FY 2013 Q3 Average  
Monthly Cash Balance:**

**+28% YOY**

January = \$1.884 Billion  
February = \$1.898 Billion  
March = \$1.814 Billion

**AZ's Savings Account**

(as of March 31, 2013)

**\$453,116,965**

**Monthly Interest Earned:**

January = \$346,388  
February = \$301,230  
March = \$369,535

**FY 2013 Q2 Earnings**

**\$93,015,747**

