

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 IV, Issue II

Q2 2014

Public Deposit Pooled Collateral Program

HB 2619 was passed in 2013 by the Legislature and signed by the Governor to create a Pooled Collateral Administrator housed within the State Treasurer's Office. Slated to begin on July 1, 2014, this initiative is modeled after similar programs in other states to better protect taxpayer funds.



The program, funded 100 percent by the participating banks with no additional costs being passed on to the taxpayers, will ensure that all public deposits in Arizona are backed with 102% of eligible collateral as required by law. It will allow banks to save time and money by essentially "rolling-up" all of their public deposits and posting collateral at the summary level instead of holding individualized collateral for each separate public deposit.

Each public entity will continue to bank with the provider of their choice and the Pooled Collateral Administrator will be in charge of monitoring, auditing and reporting on each bank's compliance. It should be noted that the Administrator and the Treasurer's Office WILL NOT be holding the collateral, which will continue to be held by third party escrow agents.

Draft policy and procedures are currently posted online at www.aztreasury.gov. Final policy and procedures will be available at the end of May with program testing commencing in June.



STATE
STREET

Custodial Bank Selected

After a competitive request for proposal (RFP) process, as required every five years by law, the Treasurer's Office selected State Street Bank & Trust in April to serve as our new custodial bank partner. State Street

was selected for providing the best value among all the firms that submitted proposals. Thus far, there has been a smooth transition of investment assets and service. Local Government Investment Pool (LGIP) clients with any questions or comments regarding the transition should contact Dale Stomberg at 602-542-7833 or DaleS@aztreasury.gov.

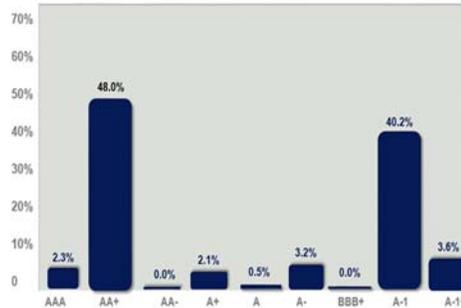
LGIP Pool 5: Short-term fund

AT A GLANCE

- \$1.25 Billion in assets with Net Asset Value at \$1.000 as of 3/31/2014.
- 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 47 days.
- Planning to add more short dated corporate bonds and commercial paper in the next quarter as overnight repo rates continue to be extremely low.

Safety

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

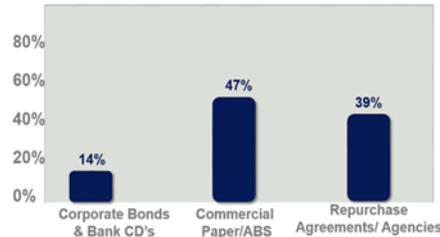


Liquidity

Weighted Average Maturity: 47 days on 3/31/2014

DURATION: 100% from 0-1 yrs

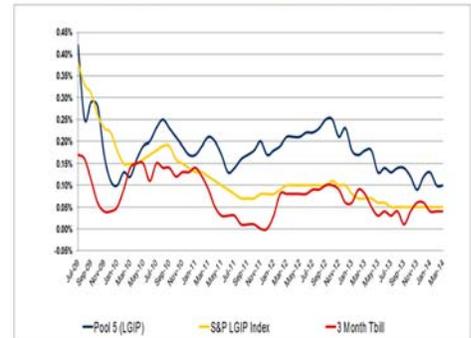
ASSET MIX:



Yield

.12% FYTD

.05% FYTD (S&P LGIP Index)

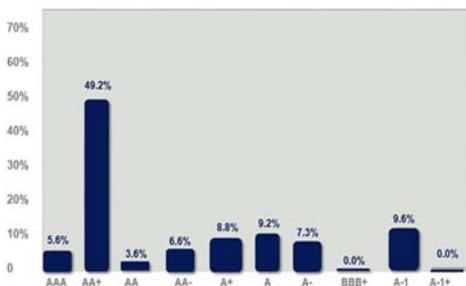


**Pool 5
Yielded 12
Basis Points
FY14 YTD**

LGIP Pool 500: Medium-term fund

Safety

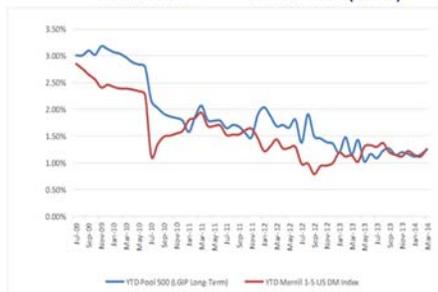
AA Weighted Average Rating



Yield

1.18% FYTD

1.21% FYTD (Index)



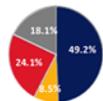
AT A GLANCE

- \$269.5 Million in assets with Floating Net Asset Value at \$1.0289 as of 3/31/2014.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.78 years.
- Keeping the fund short with 57% of the investments with less than two year duration.
- Maximum exposure to any credit at 2.5%.
- Weighted Average Rating of all the securities is AA.

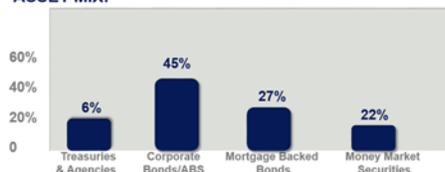
Liquidity

Effective Duration: 1.78 years on 3/31/2014

DURATION:



ASSET MIX:



**Pool 500
Yielded 118
Basis Points
FY14 YTD**

Pool 7 LGIP-GOV: Short-term fund

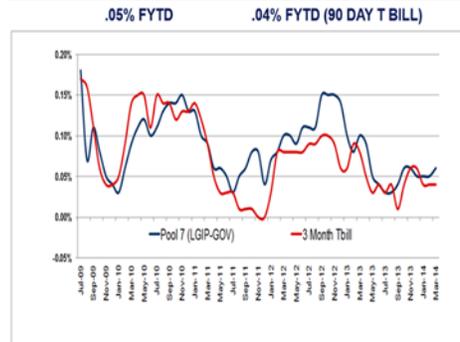
AT A GLANCE

- \$967.5 Million in assets with Net Asset Value at \$1.00 as of 3/31/2014.
- 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 rating of U.S. debt.
- Weighted Average Maturity is 39 days.
- Planning to purchase new Treasury floaters to add yield and ladder Treasury/repo and other full faith credit products up to a 13-month horizon.

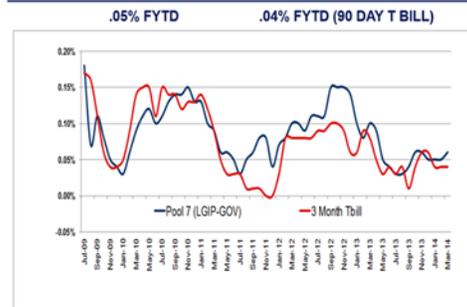
Safety



Yield



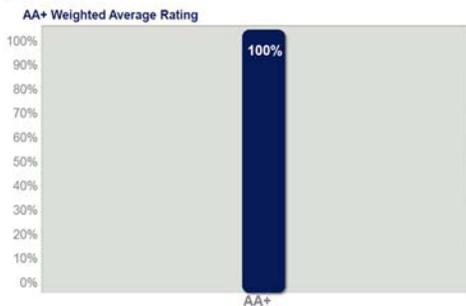
Yield



**Pool 7
Yielded 5
Basis Points
FY14 YTD**

Pool 700 LGIP-GOV: Medium-term fund

Safety



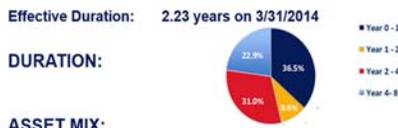
Yield



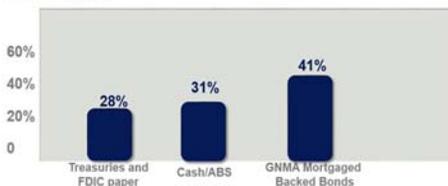
AT A GLANCE

- \$185.9 Million in assets with Floating Net Asset Value at \$0.9999 as of 3/31/2014.
- 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 2.23 years.
- Keeping the fund short with 46.1% of the investments with less than two year duration.
- Weighted Average Rating of all the securities is AA+.

Liquidity



ASSET MIX:



**Pool 700
Yielded 90
Basis Points
FY14 YTD**

OFFICE OF THE

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

Insitutional Investor Features AZ's Endowment

Arizona's **\$4.72 Billion** Permanent Land Endowment Trust Fund was featured in the May 2014 issue of Institutional Investor's *Foundation & Endowment Money Management* publication. The article highlights the addition of the the small-cap equity fund.

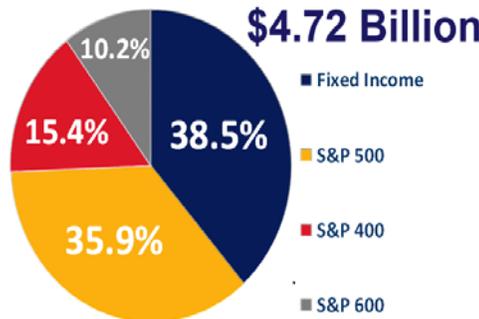
"When I took office in January 2011, the assets were split evenly at 50% in equities and 50% in fixed income," explains Treasurer Ducey. "This was a very conservative allocation. I recognized there was an opportunity to maximize additional returns on behalf of Arizona taxpayers, and the fund's beneficiaries, by adding the small-cap S&P 600 investments."

That investment change was made in February 2011 and has since yeilded **16.58%**. Through March 2014 the fund's overall performance stands at **13.43%** for the year with three-year returns at **10.32%**, and five-year returns at **13.16%**.



Land Endowment
Asset Allocation

(as of March 31, 2014)



AZ's Savings Account
Budget Stabilization Fund

\$454,138,667

Market Value as of
March 31, 2014

AZ's Checking Account

FY 2014 Q3 Average
Monthly Cash Balance:

+21% YOY

January = \$2.233 Billion
February = \$2.426 Billion
March = \$2.106 Billion

FY 2014 Q3 Earnings
\$98,352,795

