



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 11, Issue 111

Q3 2012

AZ Deposits \$450 Million in Savings Account

For the first time since June 2009, the State of Arizona has set aside reserve money in a savings account to cushion future General Fund budget shortfalls. \$450 million has been deposited in the Budget Stabilization Fund as prescribed by the Arizona Legislature and Governor.

Arizona's Budget Stabilization Fund was enacted by the Arizona Legislature in 1990 to set aside revenue during times of strong economic growth to be spent during periods of weak growth or recession. In 2008 the fund had a balance of more than \$700 million before it was drained in fiscal years 2008 and 2009.

"Arizona has worked hard to get its financial house in order," said State Treasurer Doug Ducey. "In 2011 our state budget was described as being the most structurally broken of any other state on a per capita basis. Our 2012 and 2013 budgets have been balanced, and we're setting money aside for 2014 and 2015. We simply can't allow Arizona to dig itself into a hole again. I applaud the Governor and Legislature for the tough decisions they made to get us back on track."

The National Conference of State Legislatures recently reported that 21 of 29 states projecting positive cash flow planned to put portions of it into reserves. As the economy has slowly picked up, Arizona revenues outpaced projections in FY 2012 resulting in an estimated \$339 million General Fund ending balance. The state's monthly average operating cash balance also increased 58 percent to \$1.3 billion, which translates to \$485 million more on average each day over FY 2011.

"This is the responsible way every family and small business has to budget," added Ducey. "You cannot spend more than you generate, and it's always nice to have a little bit socked away for an emergency. This fiscally responsible strategy will help us avoid the same dramatic reductions that were the result of poor long-term planning in the past the next time we find ourselves in a recession."

The \$450 million Budget Stabilization Fund has been invested in fixed income securities along with more than \$4 billion of state agency funds managed by the Office of the Arizona State Treasurer. As a free transparency service to Arizona taxpayers you can access detailed information on all revenue and expenditures at

www.AZCheckbook.com.



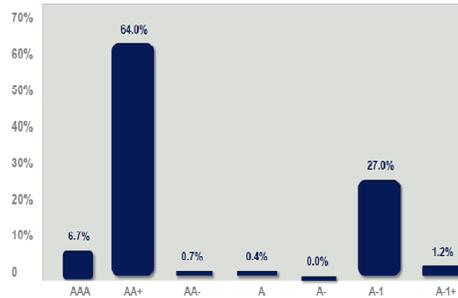
LGIP Pool 5: Short-term fund

AT A GLANCE

- \$1.22 Billion in assets with Net Asset Value at \$1.000 as of 6/30/2012.
- Diversified investments weighted to highly rated Commercial Paper first, Repurchase Agreements second and Agencies/Treasuries third.
- Focus this quarter will be on increasing maturities on products like commercial paper beyond 30 days.
- Continues to maintain the highest rating of AAAF/SI+.
- Weighted Average Maturity is 26 days.

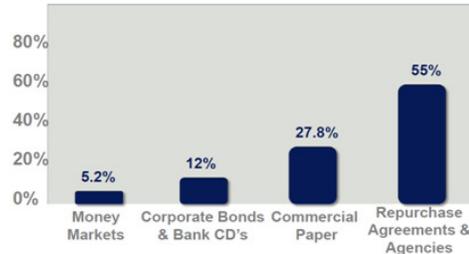
Safety

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



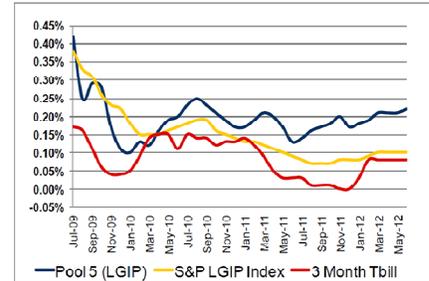
Liquidity

Weighted Average Maturity: 26 days on 6/30/2012
 DURATION: 100% from 0-1 yrs
 ASSET MIX:



Yield

.19% FYTD .09% FYTD (S&P LGIP Index)

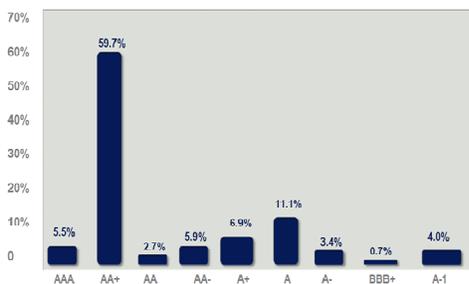


Pool 5 YTD Net Yield has beaten its benchmark by 10 basis points

LGIP Pool 500: Medium-term fund

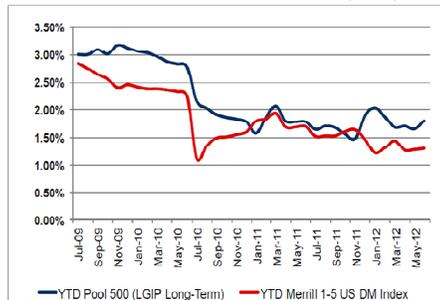
Safety

AA Weighted Average Rating



Yield

1.74% FYTD 1.43% FYTD (Index)



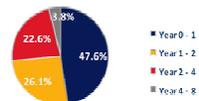
AT A GLANCE

- \$224.6 Million in assets with Floating Net Asset Value at \$1.0429 as of 6/30/2012.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.32 years.
- Keeping the fund short with 73% of the investments maturing under two years.
- Maximum exposure to any credit at 2.5%.
- Weighted Average Rating of all the securities is AA.

Liquidity

Effective Duration: 1.32 years on 6/30/2012

DURATION:



ASSET MIX:



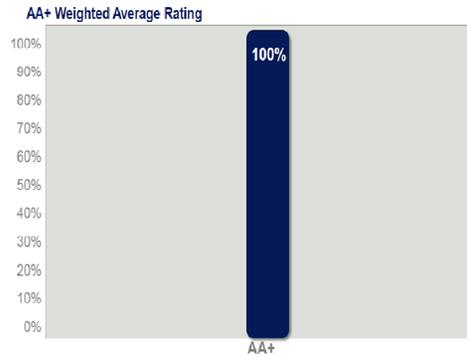
Pool 500 YTD has beaten its benchmark by 31 basis points

Pool 7 LGIP-GOV: Short-term fund

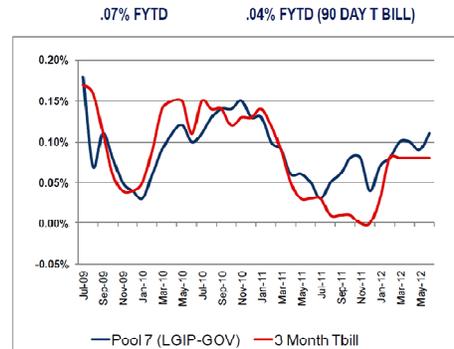
AT A GLANCE

- \$1.56 Billion Assets with Net Asset Value at \$1.00 as of 6/30/2012.
- Invested in highly liquid, low-risk securities that are backed by the full faith and credit of the U.S. Government.
- Increasing duration and laddering maturities as opportunities arise.
- Watching closely if the Federal Reserve will reduce the rate it pays on excess reserves banks hold at the Fed from the current 25 basis points.
- Weighted Average Maturity is 29 days.

Safety



Yield

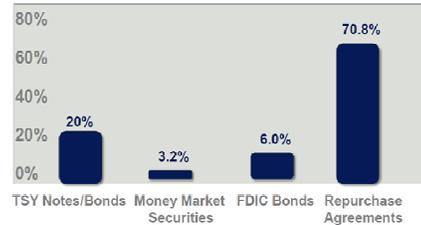


Liquidity

Weighted Average Maturity: 29 days on 6/30/2012

DURATION: 100% from 0-1 yrs

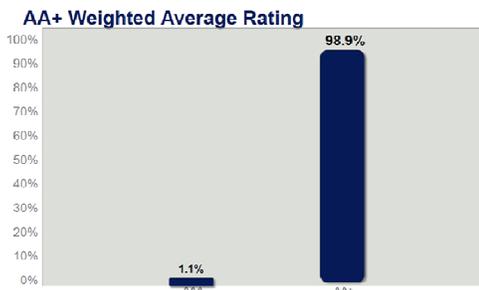
ASSET MIX:



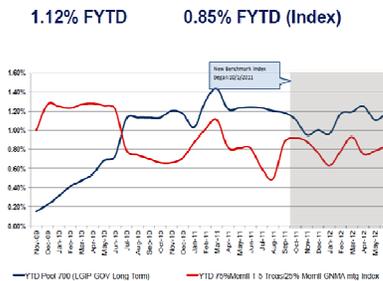
Pool 7 YTD Net Yield has beaten its benchmark by 3 basis points

Pool 700 LGIP-GOV: Medium-term fund

Safety



Yield



AT A GLANCE

- \$169.3 Million in assets with Floating Net Asset Value at \$1.0167 as of 6/30/2012.
- 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 .93 years.
- Keeping the fund short with 64% of the investments maturing in under a year.
- Weighted Average Rating of all the securities is AA+.

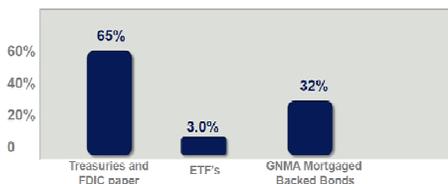
Liquidity

Effective Duration: .93 years on 6/30/2012

DURATION:



ASSET MIX:



Pool 700 YTD has beaten its benchmark by 27 basis points

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

External Investment
Management Partner

The Treasurer's Office determined that it would be prudent to provide an extra safeguard over Arizona's investments. The goal of supplementing the office's existing internal investment managers is to provide contingency planning and

leverage synergies on credit research and risk management practices

The External Investment Management RFP was issued and 26 firms responded. A five-member evaluation team reviewed and scored each portfolio. Four finalists were asked to develop mock portfolios and sample reports to present during in-person interviews.

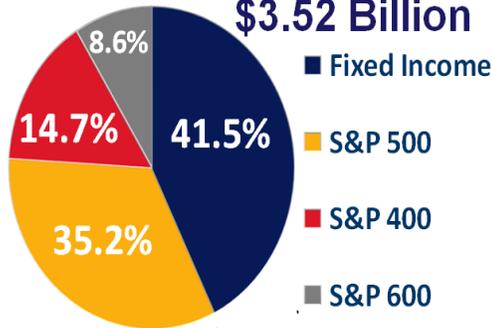
After reviewing final offers, the evaluation committee selected U.S. Bancorp Asset Management. The committee recommended, and the Board of Investment approved, an initial \$100 million allocation for diversified short-term fixed income securities in State Agency Pool 3.



Land Endowment
Asset Allocation

(as of June 30, 2012)

\$3.52 Billion



Phone Number Change

Please note that as of July 30, 2012 the Treasurer's Office phone number will change to:

602-542-7800

Please also note the updated Investment Personnel extensions listed in the column to your left.

AZ's Checking Account

FY 2012 Q4 Average
Monthly Cash Balance:

+58% YOY

April = \$1.724 Billion

May = \$2.035 Billion

June = \$2.331 Billion

FY 2012 Earnings
+\$78.2 Million YOY

