



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 III

Q3 2014

Investment Earnings Top \$130 Million

As Arizona's thirteenth month accounting of state funds concludes for fiscal year 2014, the State Treasurer's Office released the following results for the **\$13.17 billion** in total taxpayer assets under management:



- Despite another year of near zero interest rates, **\$130,283,112** in earnings were distributed to all participants. That breaks down to \$73 million for the Endowment Trust Fund (with \$67.8 million benefiting K-12 public education), \$35 million for State Agencies, \$15.2 million for the General Fund, and \$7.1 million for Local Government Investment Pool participants.
- Arizona's Permanent Land Endowment Trust fund ended FY 2014 with a market value at an all-time record high of **\$4,868,539,602**, up more than **\$719 million** over FY 2013.
- The unrealized gains in the Endowment also hit an all-time high of **\$1.94 billion** for FY 2014, up **41.7 percent** over FY 2013.
- Arizona's total available operating cash ended FY 2014 with a balance of **\$2.76 billion** and a monthly average of **\$2.07 billion** for the year, up **15.4 percent** over FY 2013.
- The Budget Stabilization Fund ended FY 2014 with a balance of **\$455,333,903**.

"Safety is always the top priority when investing public dollars," said State Treasurer Doug Ducey. "Lower risk usually translates into lower returns. I'm extremely proud that our team has managed to deliver significant results while continuing to protect those dollars first and foremost. I'm also grateful for the guidance our Board of Investment provides on a monthly basis as we continue to navigate through the daily challenges of always unpredictable markets."

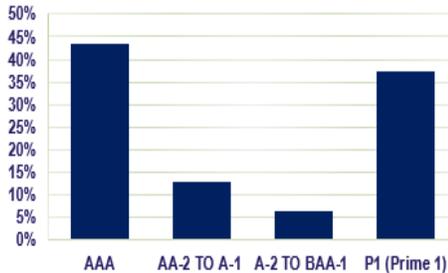
As noted in the May 2014 issue of *Institutional Investor's Foundation & Endowment Money Management*, the most notable growth and returns have been realized in the Permanent Land Endowment Trust Fund. Treasurer Ducey's first investment change after taking office in January 2011 was to increase the Endowment's asset allocation in the equity market by adding the S&P 600 small-cap portfolio. Aided by a steadily growing stock market that investment has yielded **15.96 percent** to date, helping the Endowment fund grow **50 percent** from a market value of \$3.2 billion in February 2011 to more than **\$4.8 billion** today.

LGIP Pool 5: Short-term fund

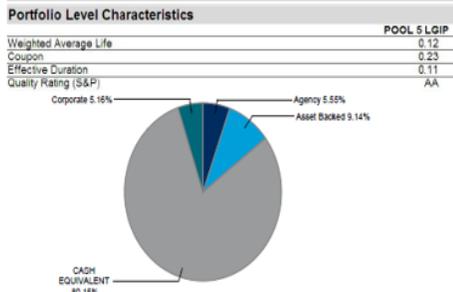
AT A GLANCE

- \$1.1 Billion in assets with Net Asset Value at \$1.000 as of 6/30/2014.
- Diversified investments weighted to highly rated Commercial Paper, Repurchase Agreements and Agencies/Treasuries.
- Continues to maintain the highest rating of AAAF/SI+.
- Weighted Average Maturity is 59 days.
- Very liquid with 80% of assets maturing within 30 days and 100% of the duration inside of one year.
- Outperformed the S&P LGIP Index by 4 basis points.

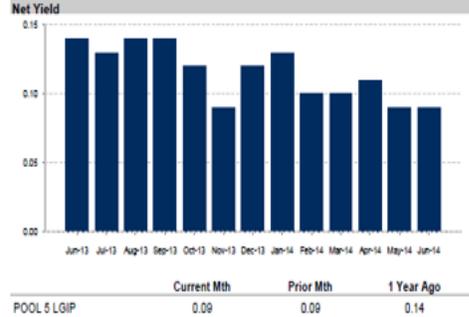
SAFETY: Distribution of Holdings (Moody's Ratings)



LIQUIDITY: 80% of Assets Mature Within 90 Days



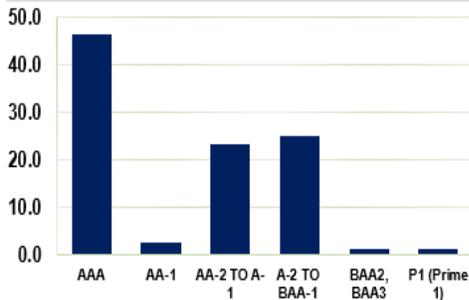
YIELD: .09% (June 2014)



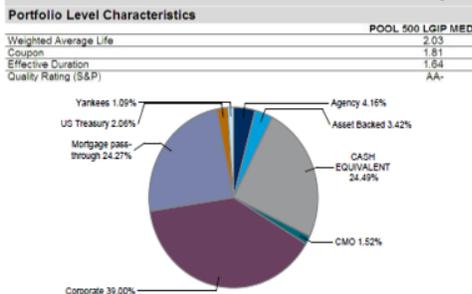
**Pool 5
Yielded 9
Basis Points
(as of June 30, 2014)**

LGIP Pool 500: Medium-term fund

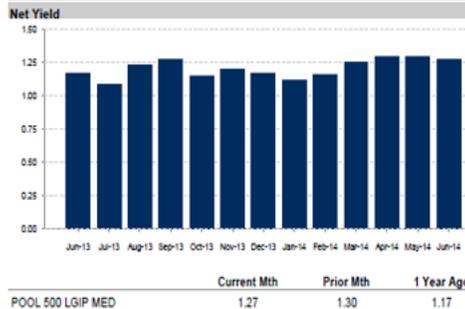
SAFETY: Distribution of Holdings (Moody's Ratings)



LIQUIDITY: 24% of Assets Mature Within 90 Days



YIELD: 1.27% (June 2014)



**Pool 500
Yielded 127
Basis Points
(as of June 30, 2014)**

AT A GLANCE

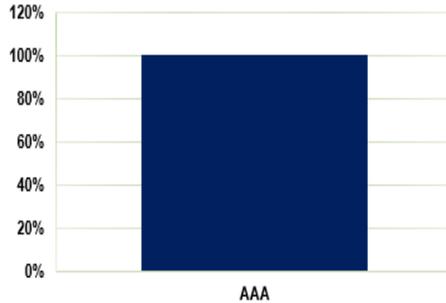
- \$275 Million in assets with Floating Net Asset Value at \$1.034 as of 6/30/2014.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.64 years.
- 50% of the investments have a duration inside one year.
- Maximum exposure to any credit at 2.5%.
- Weighted Average Rating of all the securities is AA.

Pool 7 LGIP-GOV: Short-term fund

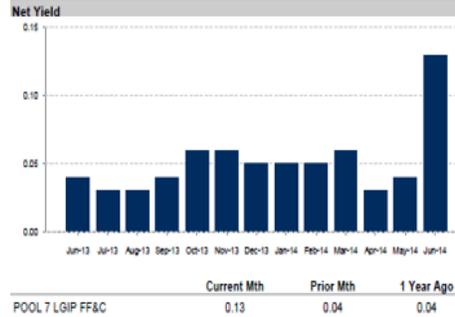
AT A GLANCE

- \$950 Million in assets with Net Asset Value at \$1.00 as of 6/30/2014.
- 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 19 days.
- 88% of the assets maturing within three months.
- Outperformed the 90 day T-Bill by 11 basis points.

SAFETY: Distribution of Holdings (Moody's Ratings)

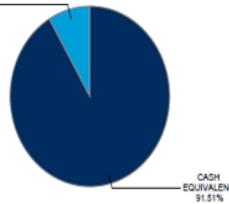


YIELD: .13% (June 2014)



LIQUIDITY: 88% of Assets Mature Within 90 Days

Portfolio Level Characteristics	POOL 7 LGIP FF&C
Weighted Average Life	0.11
Coupon	0.28
Effective Duration	0.07
Quality Rating (S&P)	AA+

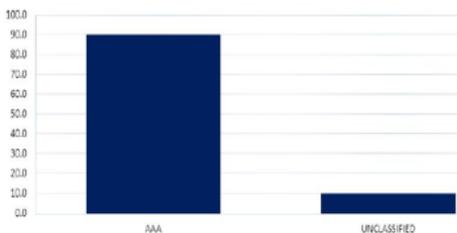


Pool 7 Yielded 13 Basis Points (as of June 30, 2014)

Pool 700 LGIP-GOV: Medium-term fund

SAFETY: Distribution of Holdings (Moody's Ratings)

Rating Distribution



YIELD: June 1.28%

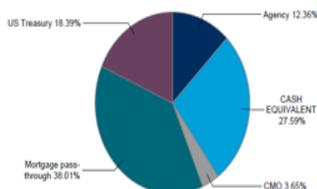


AT A GLANCE

- \$177 Million in assets with Floating Net Asset Value at \$1.007 as of 6/30/2014.
- 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 2.18 years.
- Keeping the fund short with 34% of the duration inside of one year.
- Weighted Average Rating of all the securities is AA+.

LIQUIDITY: 28% of Assets Mature Within 90 Days

Portfolio Level Characteristics	POOL 700 LGIP MD
Weighted Average Life	2.61
Coupon	1.85
Effective Duration	2.18
Quality Rating (S&P)	AA+



Pool 700 Yielded 128 Basis Points (as of June 30, 2014)

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

Pooled Collateral Reporting Now Available

In accordance with A.R.S.§35-1202 the Treasurer's Office began monitoring and reporting collateral held for all Arizona public deposits on July 1, 2014. The program was created to better protect taxpayer funds and is 100% funded by the participating banks.

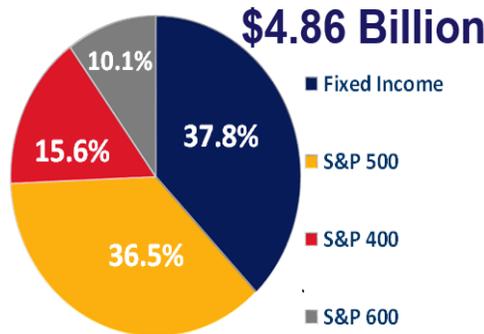
Daily, Monthly Collateral Holdings, and Monthly Certification reports are now available at <http://www.aztreasury.gov/pooled-collateral-reports/>.

Each public entity will continue to bank with the provider of their choice, and all collateral will continue to be held by third party escrow agents. If there are any discrepancies between the statement from the Treasurer's Office and your bank statement reports, please contact our Pooled Collateral Administrator at PooledCollateral@aztreasury.gov.



**Land Endowment
Asset Allocation**

(as of June 30, 2014)



**AZ's Savings Account
Budget Stabilization Fund**

\$455,333,903

Market Value as of
June 30, 2014

AZ's Checking Account

**FY 2014 Average
Monthly Cash Balance:**

+15% YOY

**April = \$2.1 Billion
May = \$2.311 Billion
June = \$2.462 Billion**

**FY 2014 Earnings
\$130,283,112**

