LGIP QUARTERLY MEETING & CONFERENCE CALL

4.25.2013

OFFICE OF THE ARIZONA STATE TREASURER

AGENDA

- LGIP Performance
- Endowment Performance and Distributions
- State Cash Flow
- Guest Presentation: Arizona and US Economic Update: Jim Rounds, Senior V.P. Elliott D. Pollack & Company
- Q & A

INVESTMENT PHILOSOPHY

SAFETY

before

LIQUIDITY

before

YIELD

EARNINGS FOR FY 2013 YTD

$93,015,747

LGIP PERFORMANCE

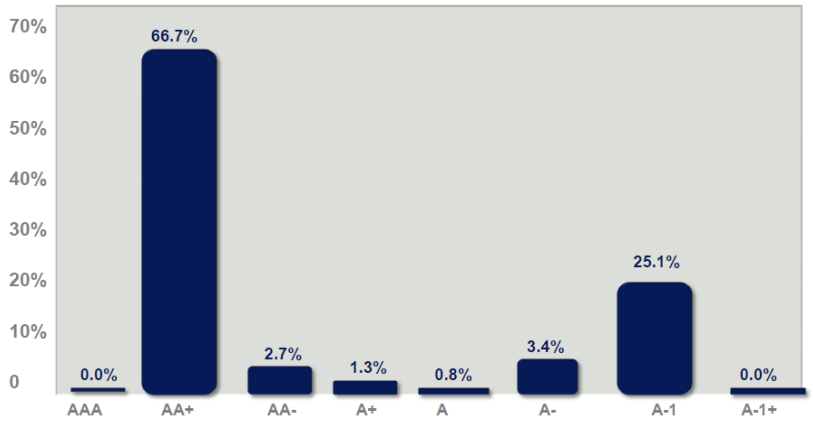
Q2 FY2013

POOL 5

- $1.25 Billion Assets as of 3/31/2013
- Net Asset Value - $1.000 3/31/2013
- Diversified investments weighted to highly rated Commercial Paper, Repurchase Agreements, and Agency/Treasuries
- Short-term rates have been choppy in past quarter as market absorbs new cash due to the expiration of federal programs – continuing into the present quarter
- Keep daily liquidity in the 10-30% range
- Maintained the highest rating possible from S&P

Safety

Continues to receive highest rating from Standard & Poor's: AAAf/S1+

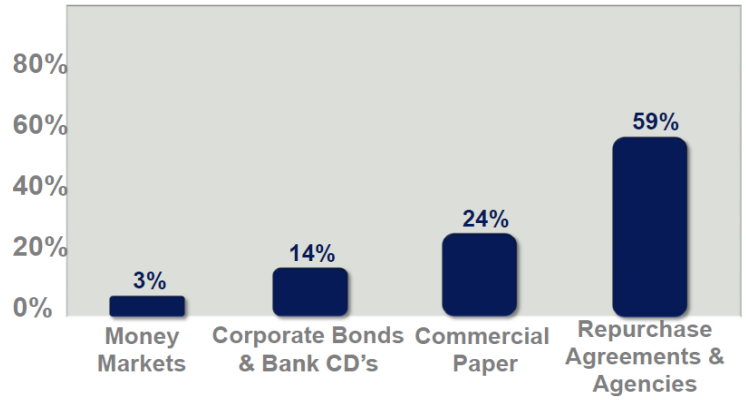


Liquidity

Weighted Average Maturity: 24 days on 3/31/2013

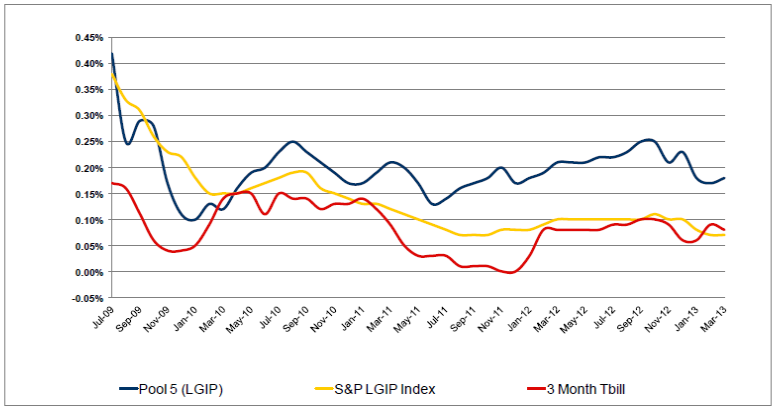
DURATION: 100% from 0-1 yrs

ASSET MIX:



Yield

.21% FYTD .09% FYTD (S&P LGIP Index)

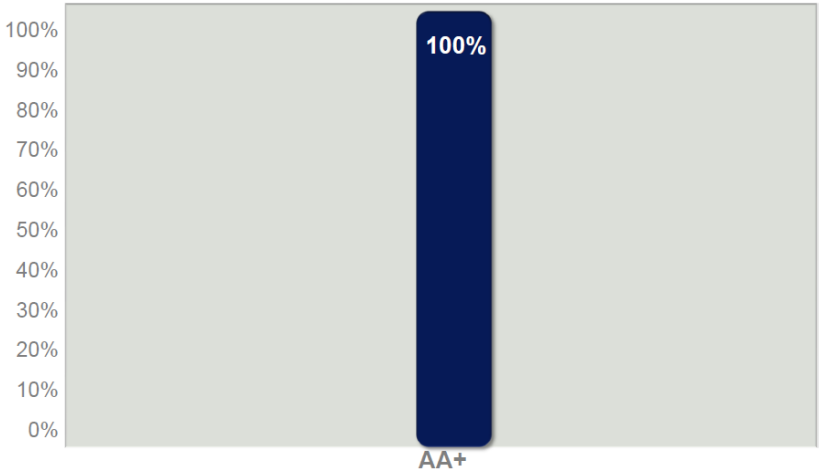


POOL 7

- $1.26 Billion Assets as of 3/31/2013
- Net Asset Value - $ 1.000 3/31/2013
- TLGP bond program and TAG program expired Dec. 31, 2012. Short-term rates have been choppy as market absorbs new cash
- Looking to ladder treasuries/repo and other full faith and credit products up to 13 month horizon
- WAM will be longer than Pool 5 but stay under 90 days

Safety

AA+ Weighted Average Rating

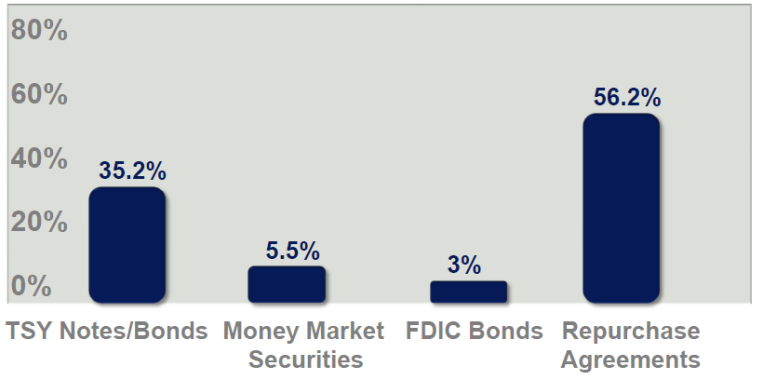


Liquidity

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

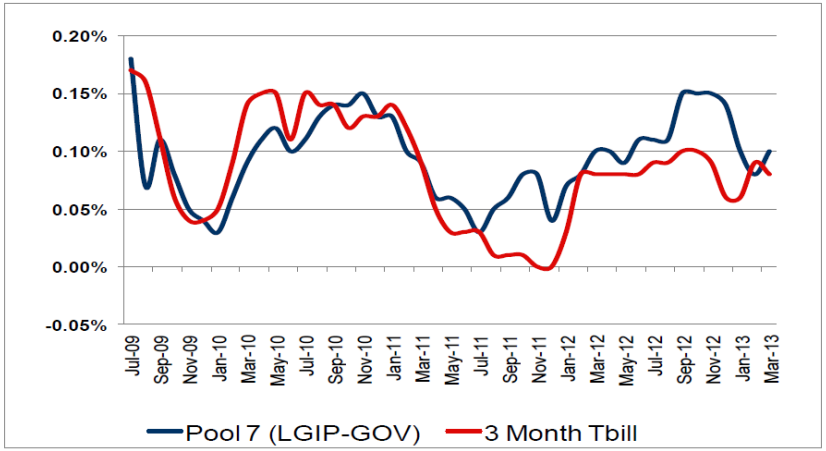
DURATION: 100% from 0-1 yrs

ASSET MIX:



Yield

.12% FYTD .08% FYTD (90 DAY T BILL)

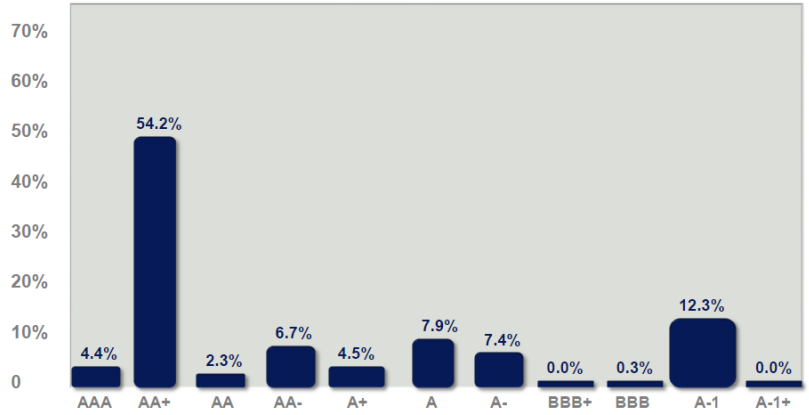


POOL 500

- $305.7 million in assets as of 3/31/2013
- Floating Net Asset Value - $1.0408 3/31/2013
- Will continue to invest in assets that provide a prudent diversification that takes advantage of prevailing market opportunities
- Keep maximum exposure to any credit below 2.5%
- Continue to target duration at one year less than the benchmark with 10% to 30% of the fund in liquid short term securities

Safety

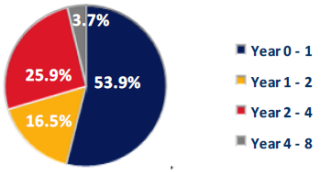
AA Weighted Average Rating



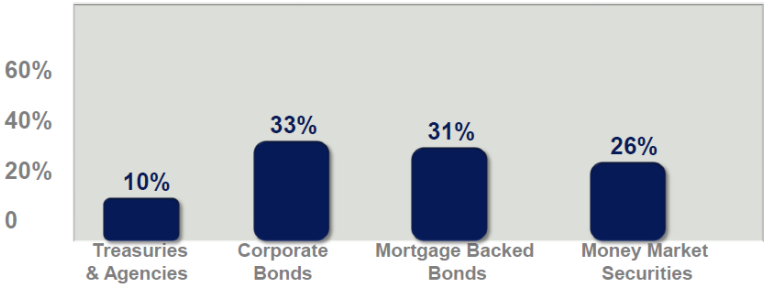
Liquidity

Effective Duration: 1.32 years on 3/31/2013

DURATION:

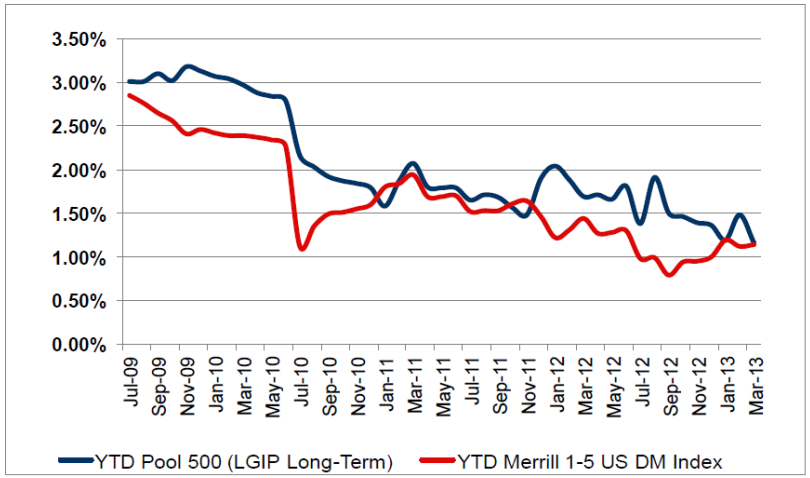


ASSET MIX:



Yield

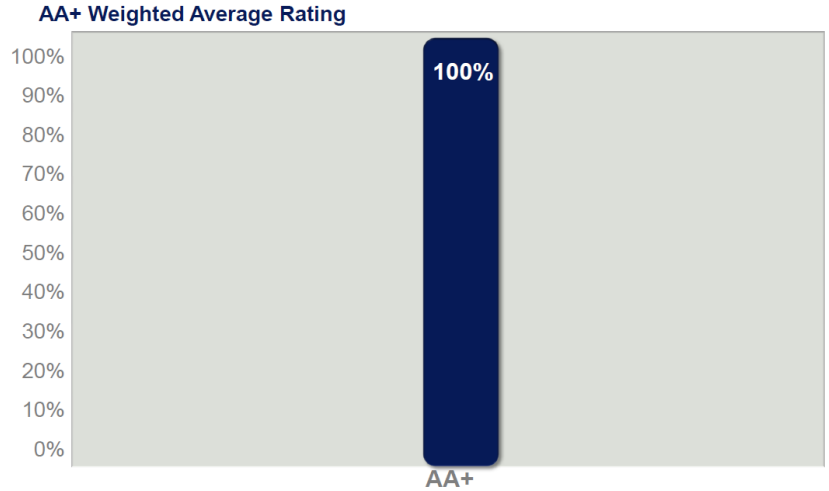
1.43% FYTD 1.01% FYTD (Index)



POOL 700

- $244.5 million in assets as of 3/31/2013
- Floating Net Asset Value - $ 1.0146 3/31/2013
- Strategy is to invest in a mix of 1-5 year US Treasuries, GNMA Mortgages and FDIC Paper
- All securities backed by US Government
- Continue to target duration at one year less than the benchmark and overweight GNMA mortgage back securities as there is not a lot of options for full faith and credit bonds

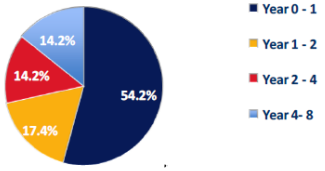
Safety



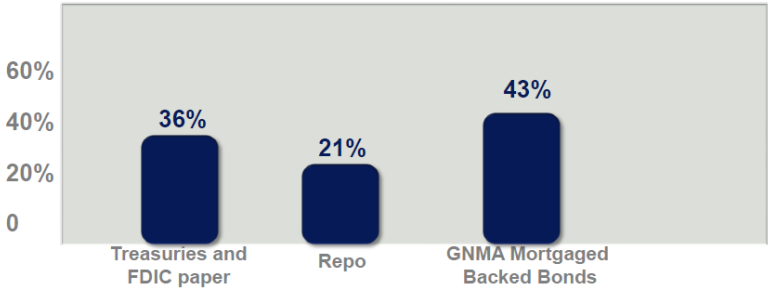
Liquidity

Effective Duration: 1.49 years on 3/31/2013

DURATION:

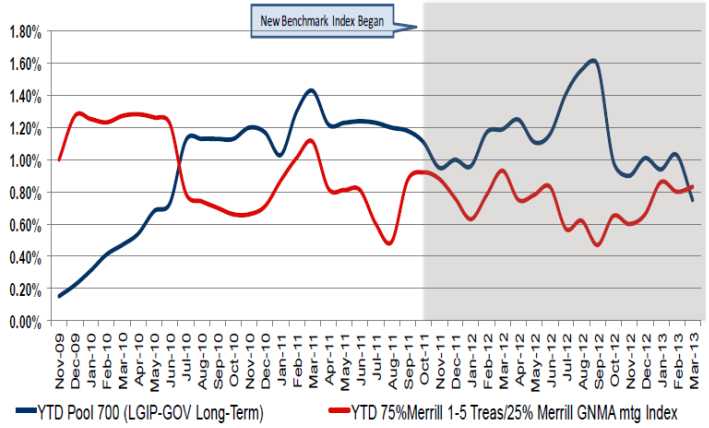


ASSET MIX:



Yield

1.13% FYTD **0.67% FYTD (Index)**



ENDOWMENT PERFORMANCE

Q3 FY2013

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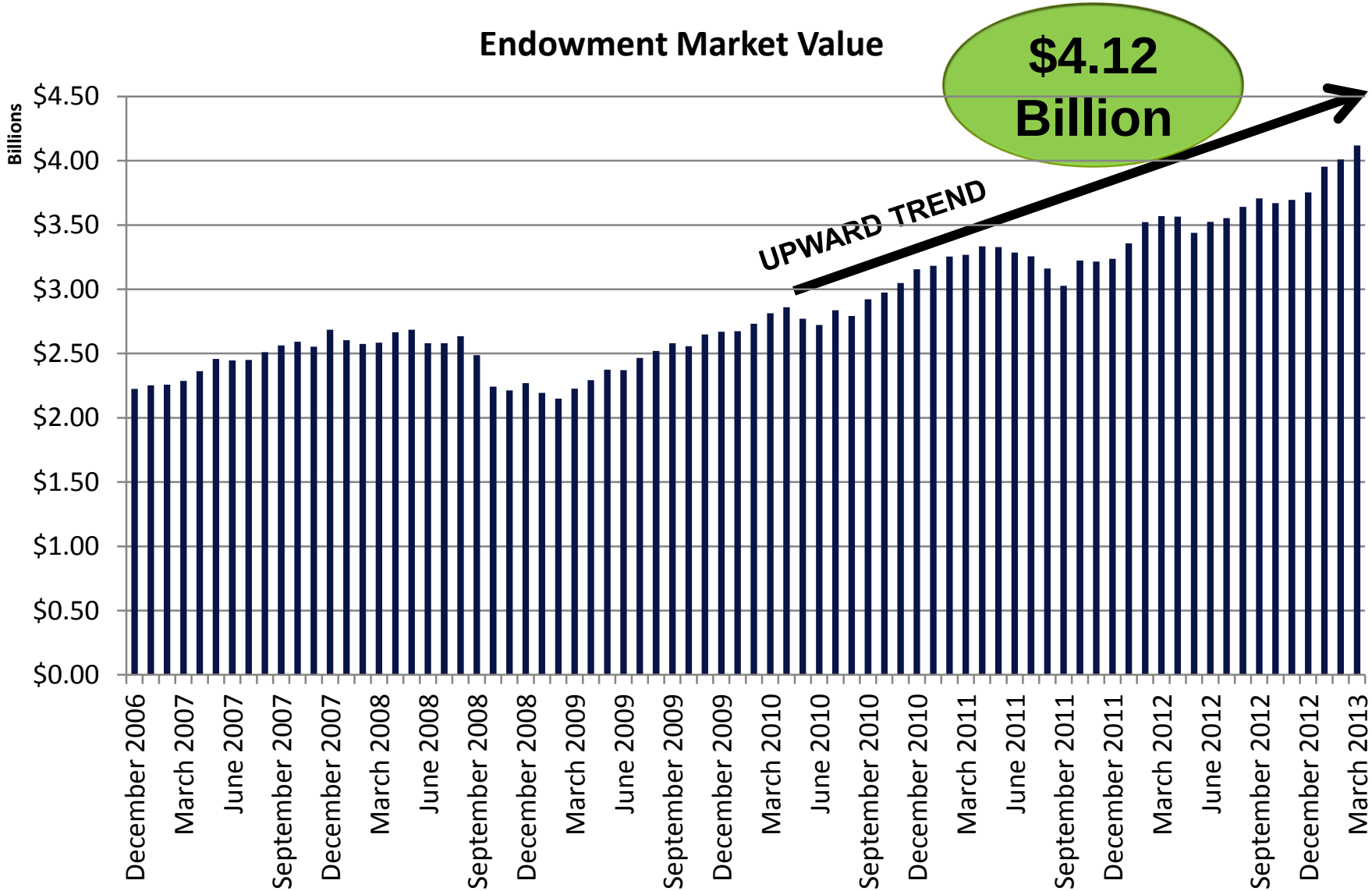
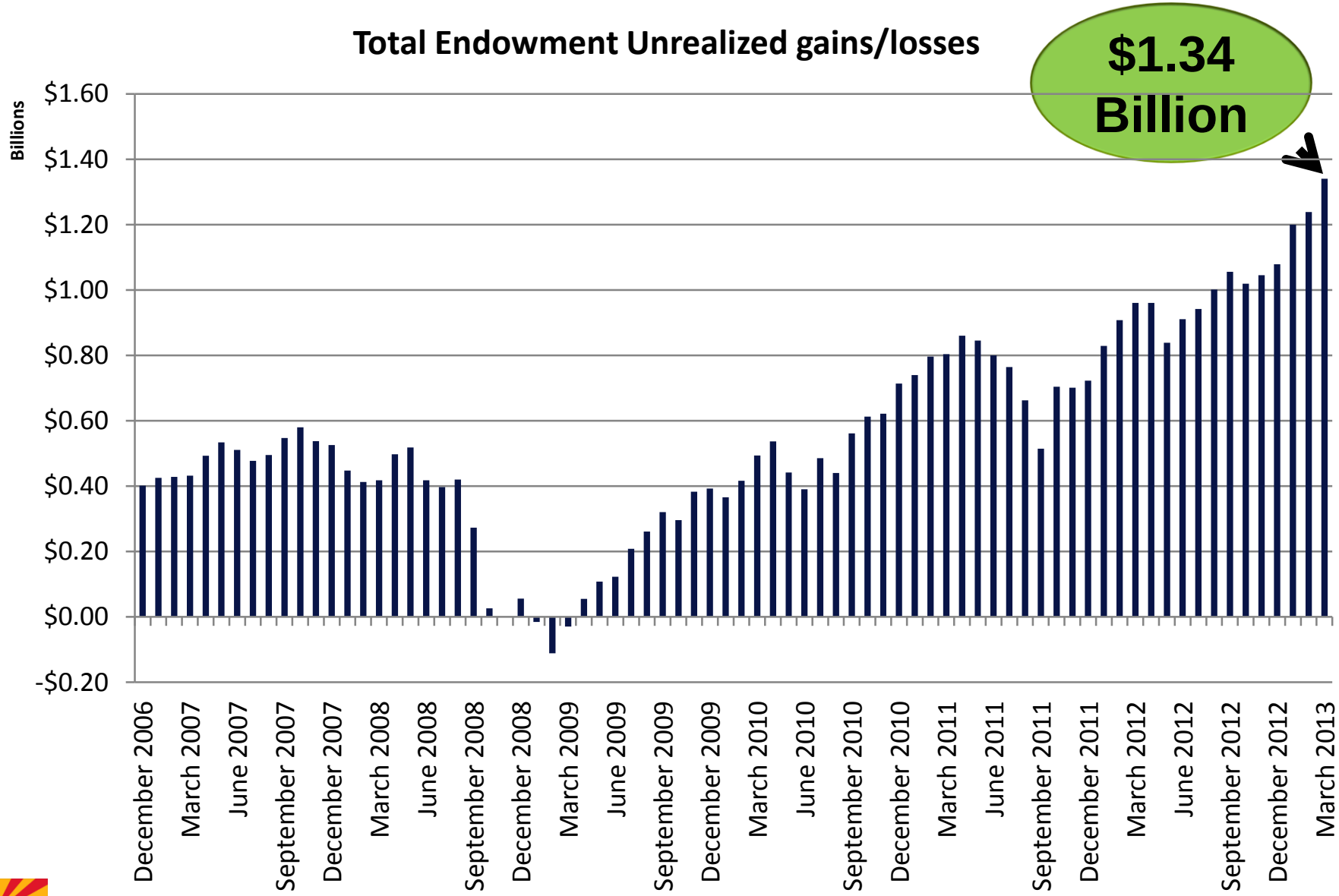
ENDOWMENT MARKET VALUE

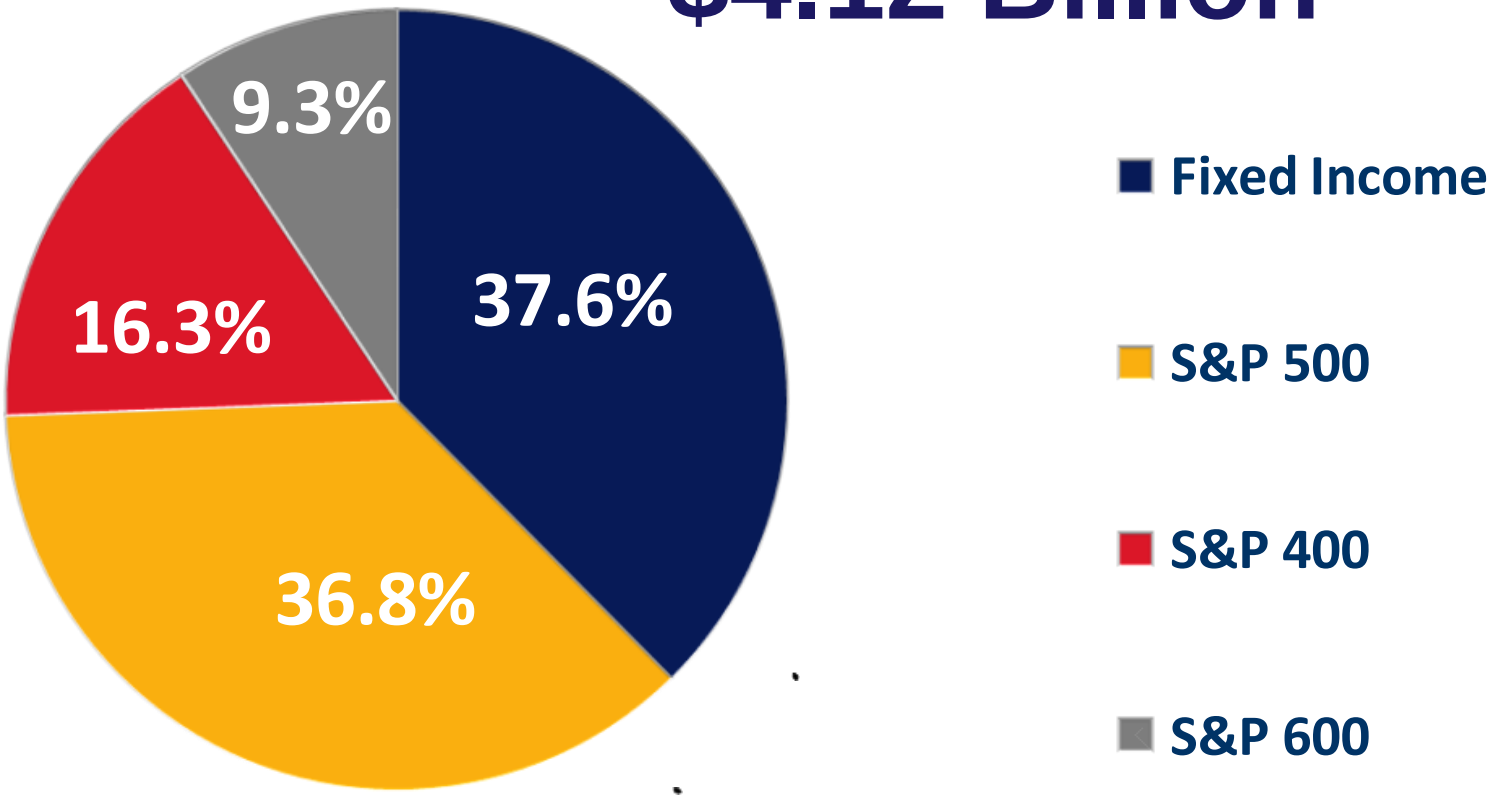


ENDOWMENT UNREALIZED GAINS



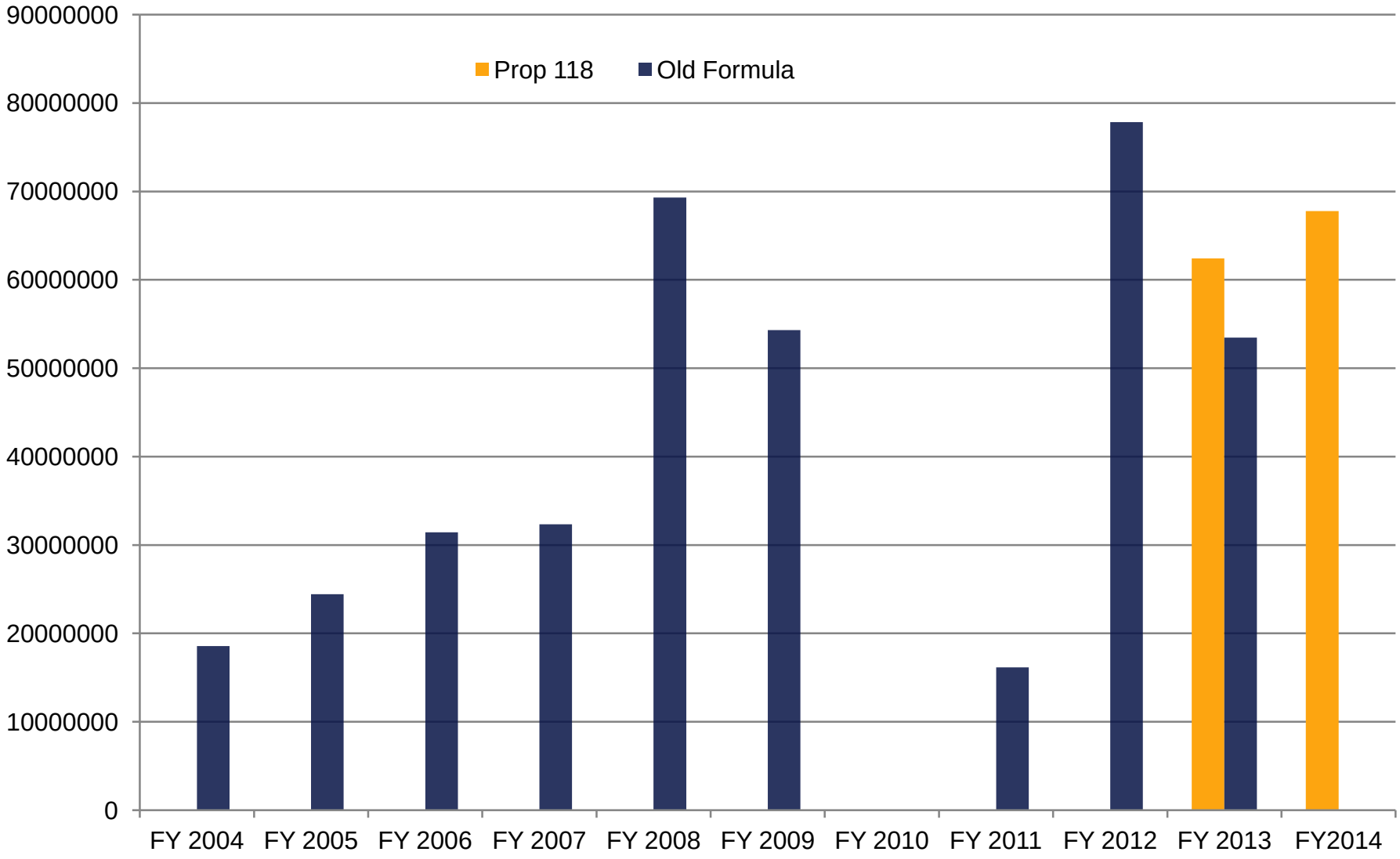
ENDOWMENT ASSET ALLOCATION

$4.12 Billion



As of 3/31/2013

K-12 DISTRIBUTIONS



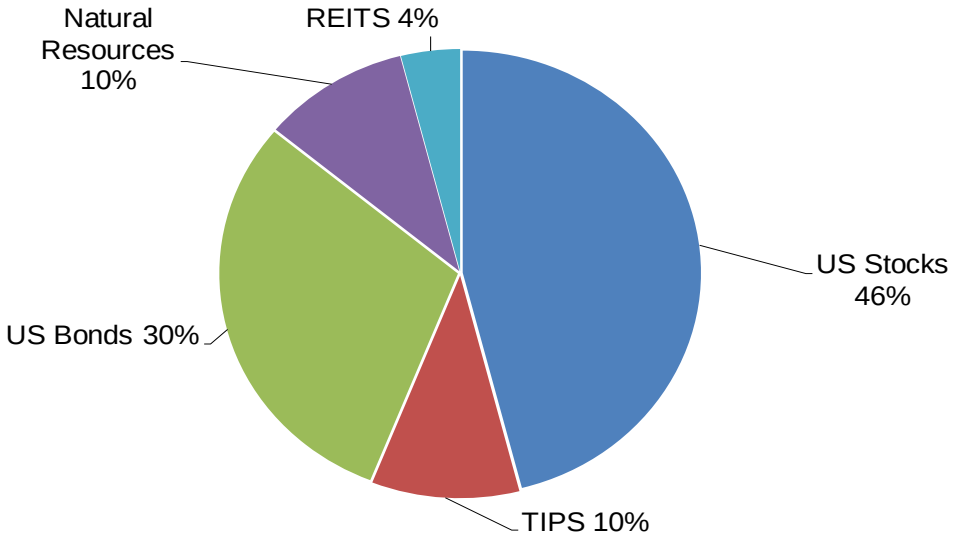
ENDOWMENT ASSET ALLOCATION

In 2011 the fund was updated from 50/50 to a 60/40 stocks to bond allocation:

20-year Projected Returns	Previous Allocation	Current Allocation	Gain
95th percentile (highest value)	9.5	10.6	$4.03 B
75th percentile	7.3	8.0	$1.71 B
50th percentile	5.8	6.2	$ .80 B
25th percentile	4.3	4.5	$ .25 B

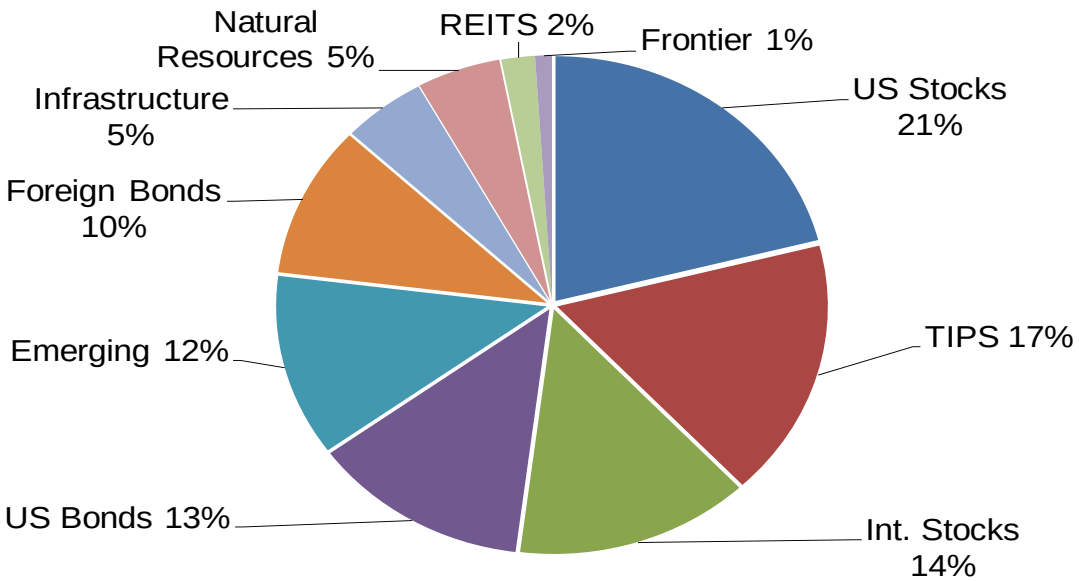
- **Expected Return increased from 6.3% to 6.9%**
- **Standard Deviation increased from 9.9% to 11.6%**
- **Projected Value of change $250 million to $4 billion**

FIRST PHASE ASSET ALLOCATION:



- **Expected Return no change: 6.9% to 6.9%**
- **Standard Deviation decreased: 11.6% to 11.5%**
- ***Projected Value of Change: $20 million to $100 million***

TARGET ASSET ALLOCATION:



- **Expected Return increased: 6.9% to 7.3%**
- **Standard Deviation increased: 11.6% to 12.5%**
- ***Value of gain: $290 million to $2.8 billion***

STATE CASH FLOW

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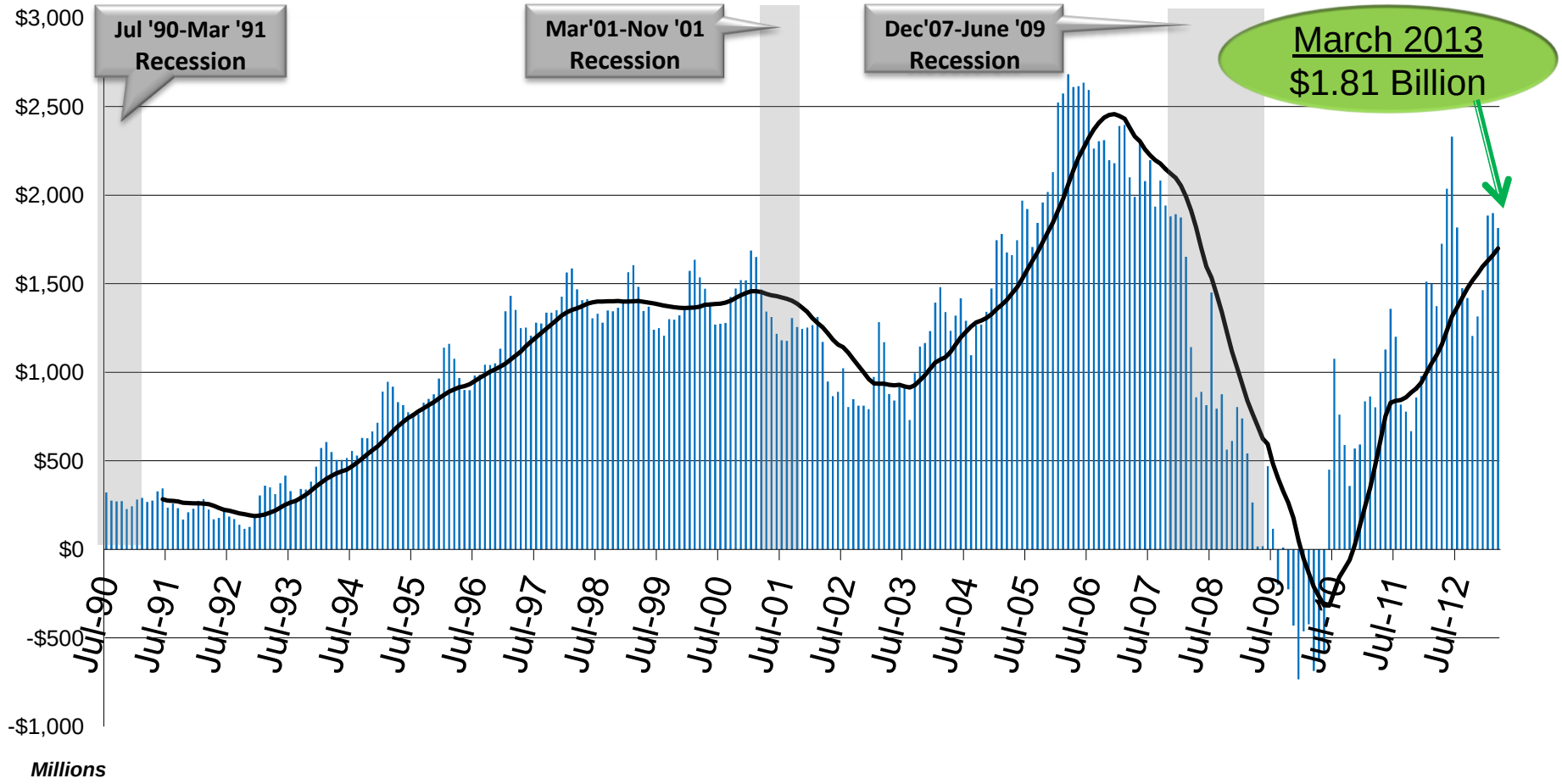
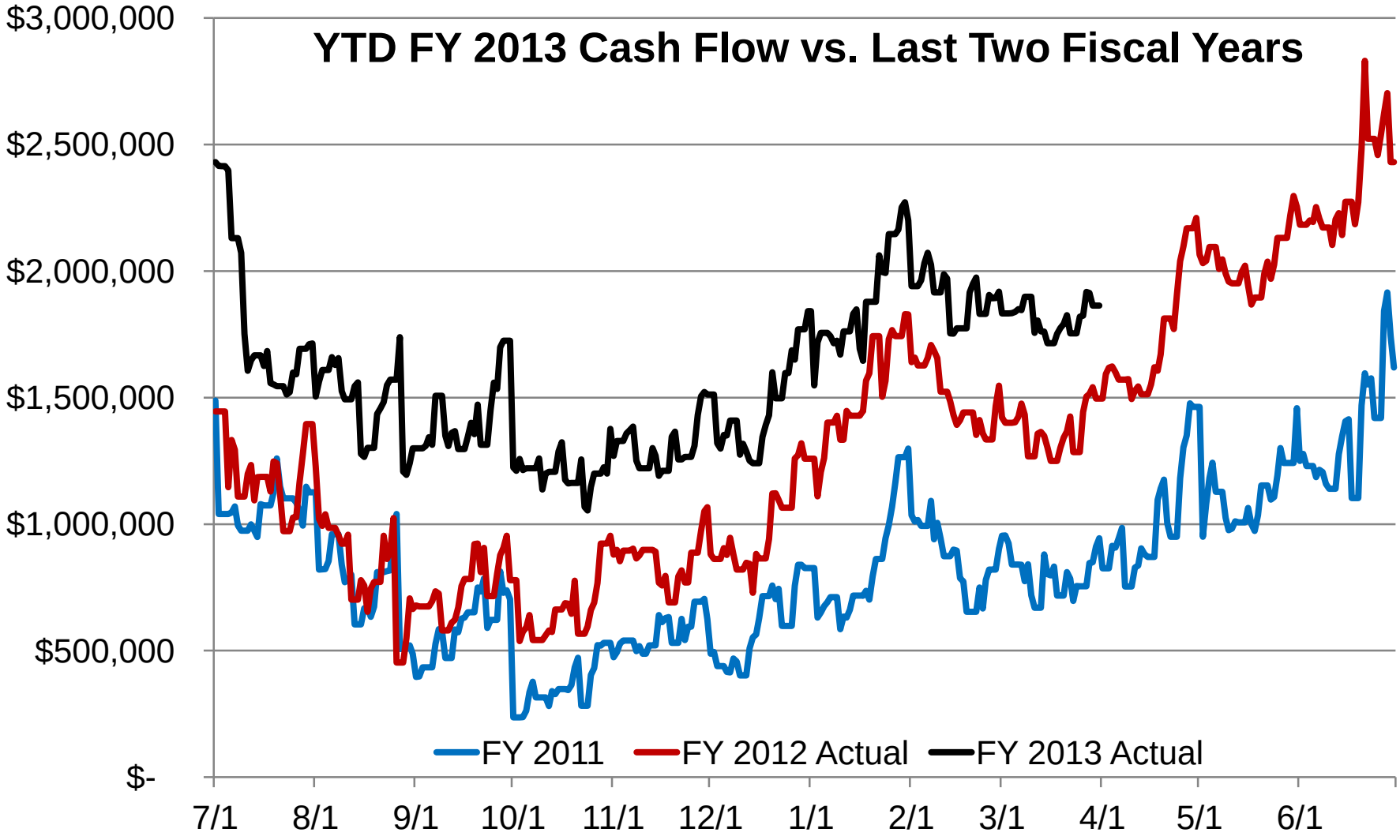
STATE CASH FLOW

TOTAL OPERATING ACCOUNT AVERAGE MONTHLY BALANCE

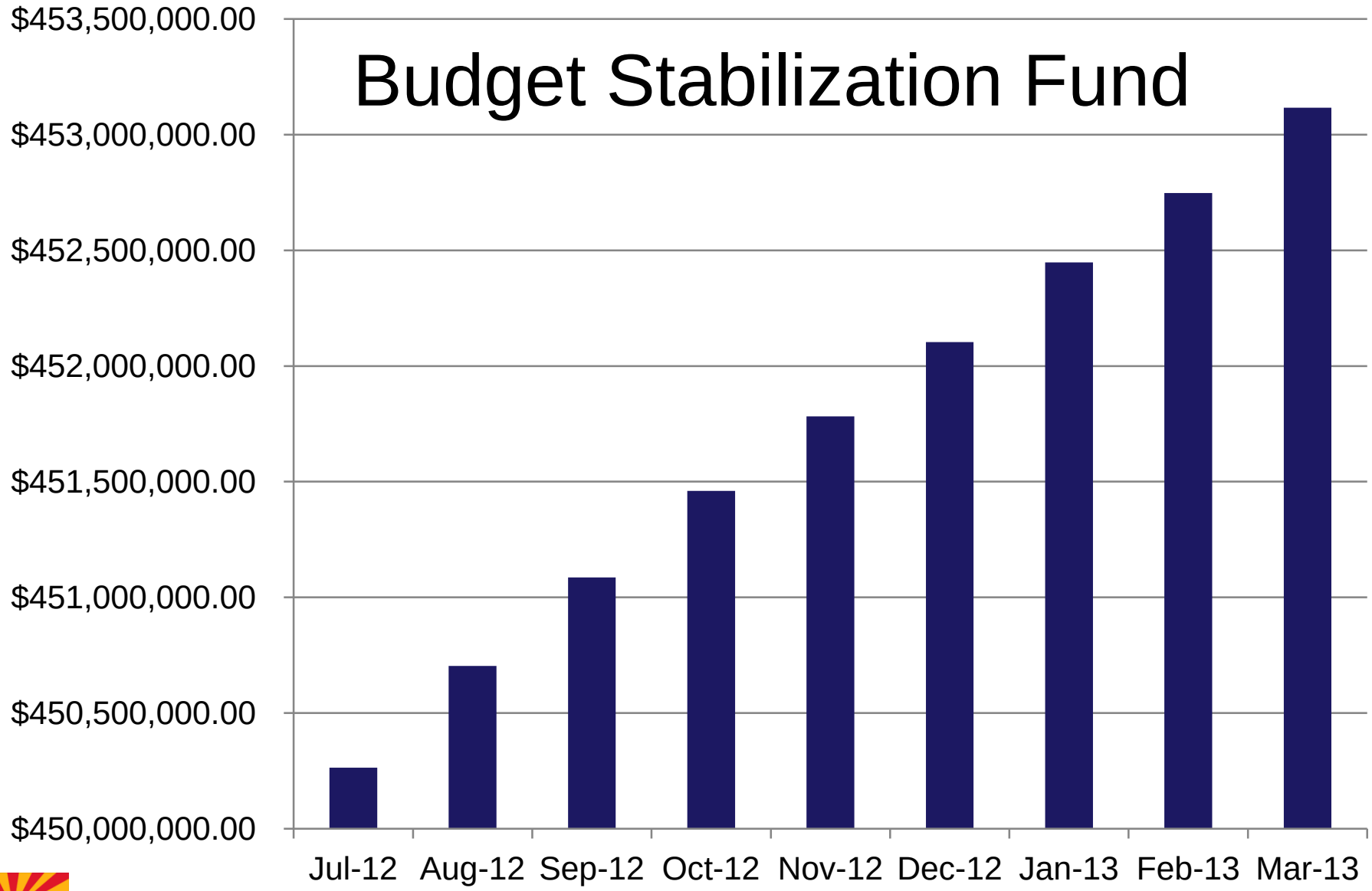
Up 48% in First 9 months YOY



STATE CASH FLOW



STATE CASH FLOW



Special Presentation

Jim Rounds

Senior Vice President

Elliot D. Pollack & Company

OFFICE OF THE ARIZONA STATE TREASURER

Arizona Economic Update

Office of the Arizona State Treasurer

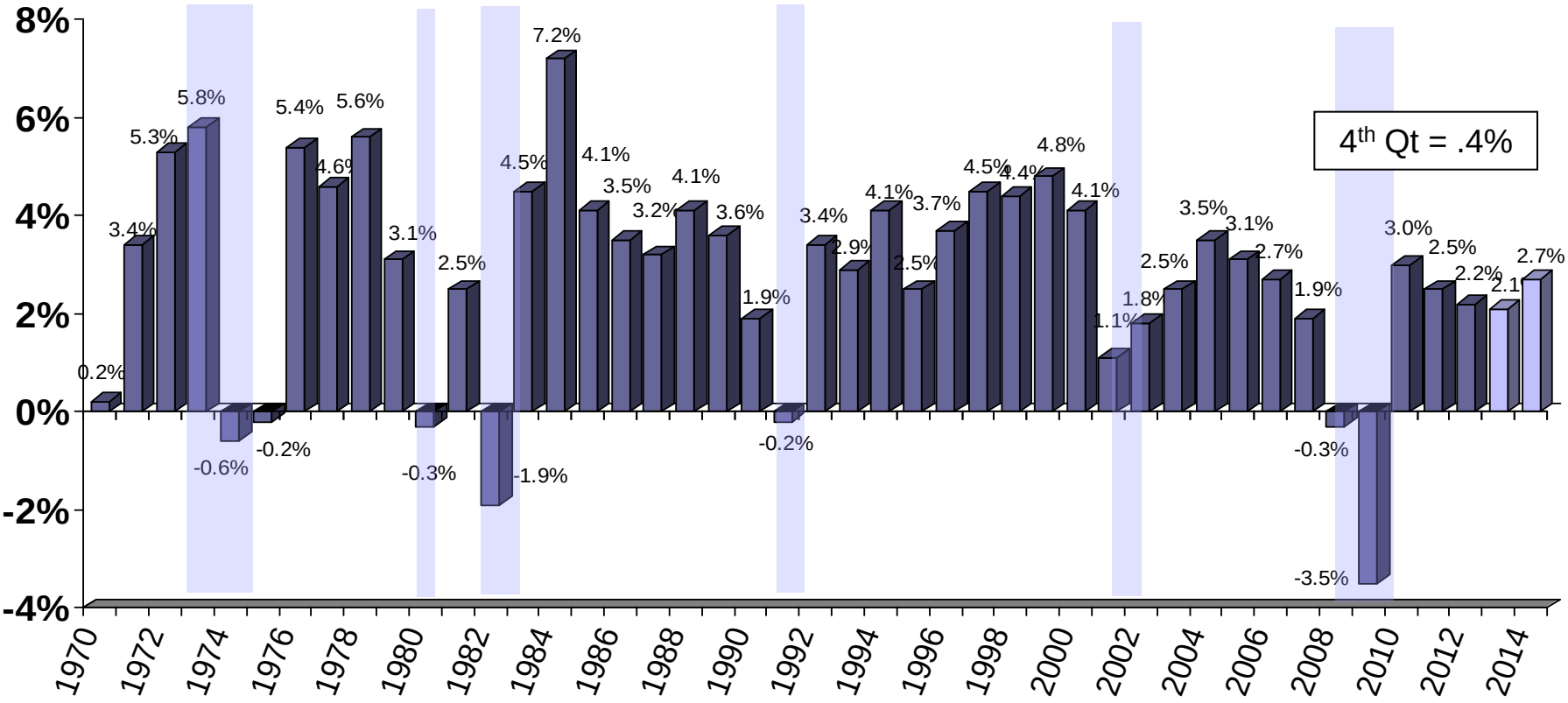
April 25th, 2013

Presented By:
Jim Rounds
Senior Vice President
Elliott D. Pollack & Company

United States Real Gross Domestic Product*

Annual Growth 1970 - 2013**

Source: U.S. Bureau of Economic Analysis & *Blue Chip Economic Indicators*



* Based on chained 2005 dollars.

** 2013 is a forecast from the Blue Chip Economic Indicators, March 2013

Recession Periods

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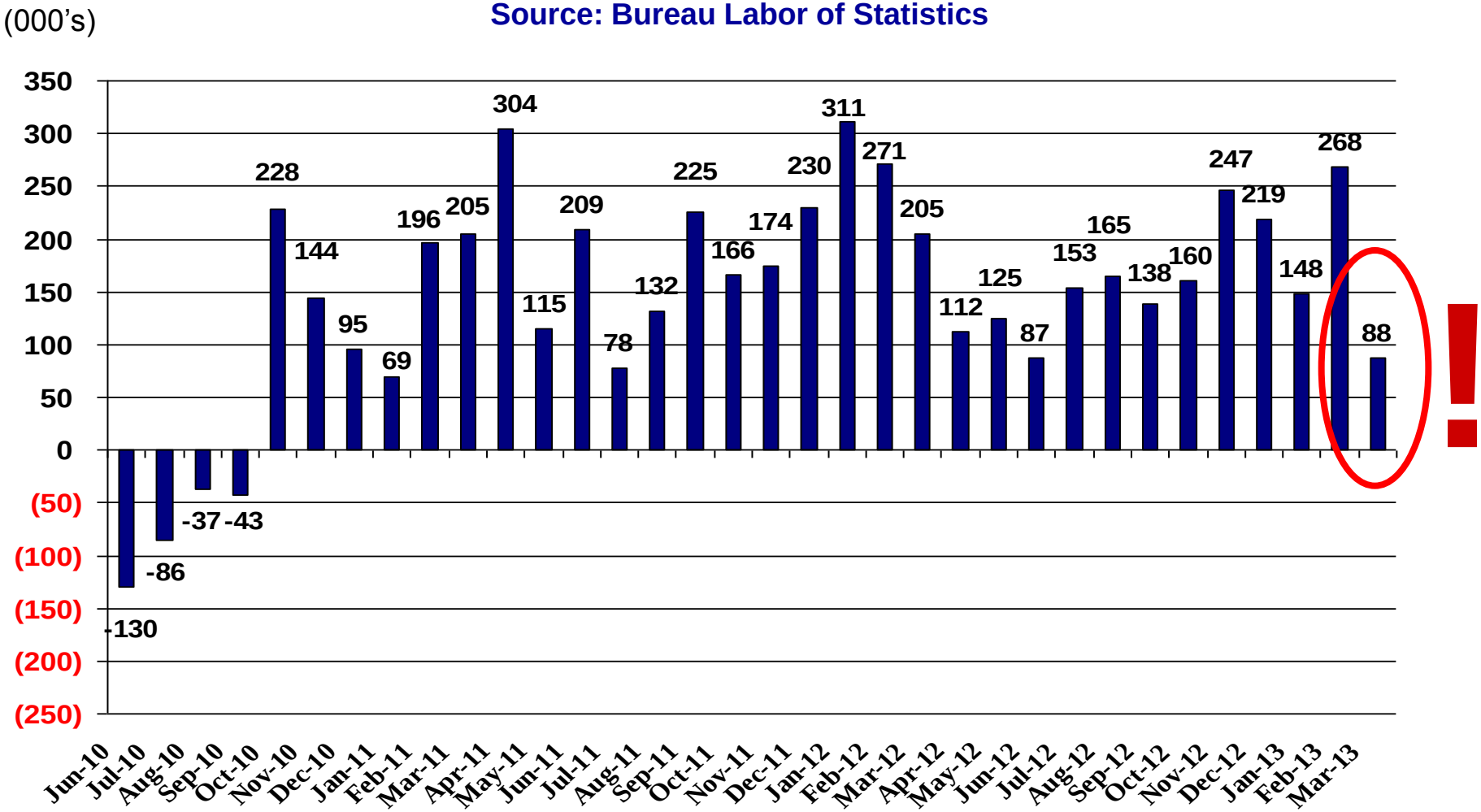
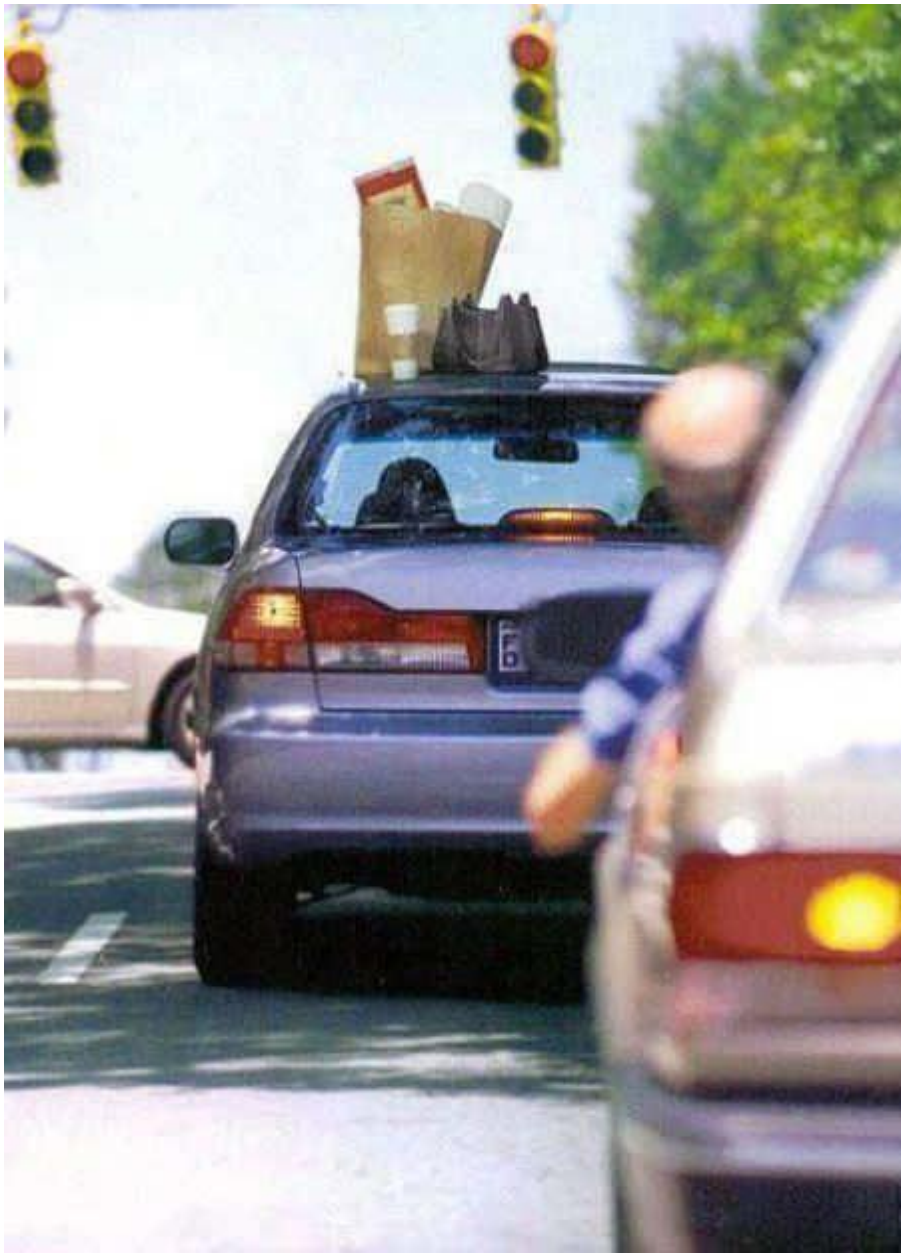
US Non-Farm Employment
Change from Prior Month (S/A)
June 2010 – March 2013

Source: Bureau Labor of Statistics

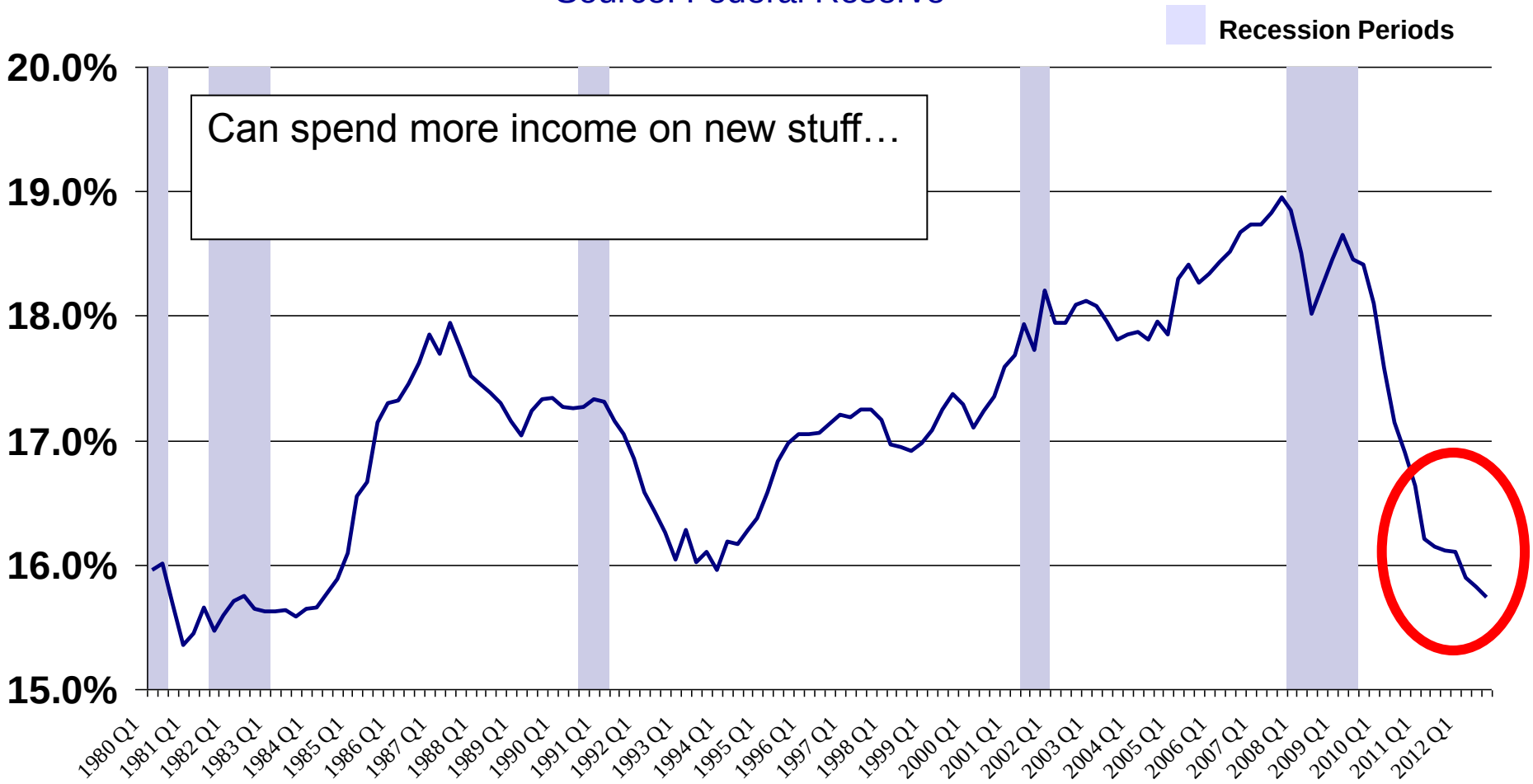


Consumers



Financial Obligation Ratio**
1980 – 2012*

Source: Federal Reserve

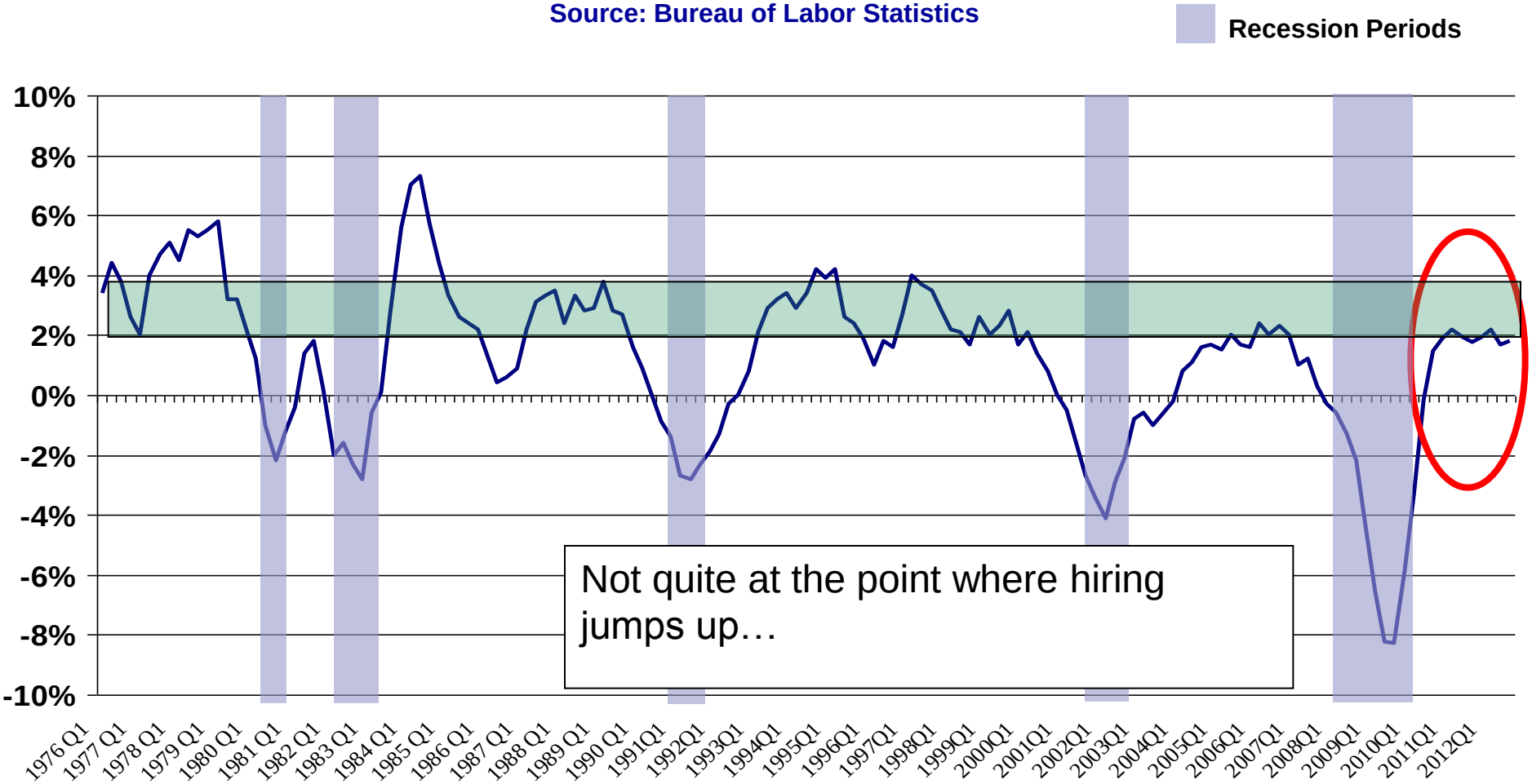


*Data through third quarter 2012

**Ratio of mortgage and consumer debt (including auto, rent and tax payments) to disposable income.

Hours Worked
Percent Change from Year Ago
1976 – 2012*

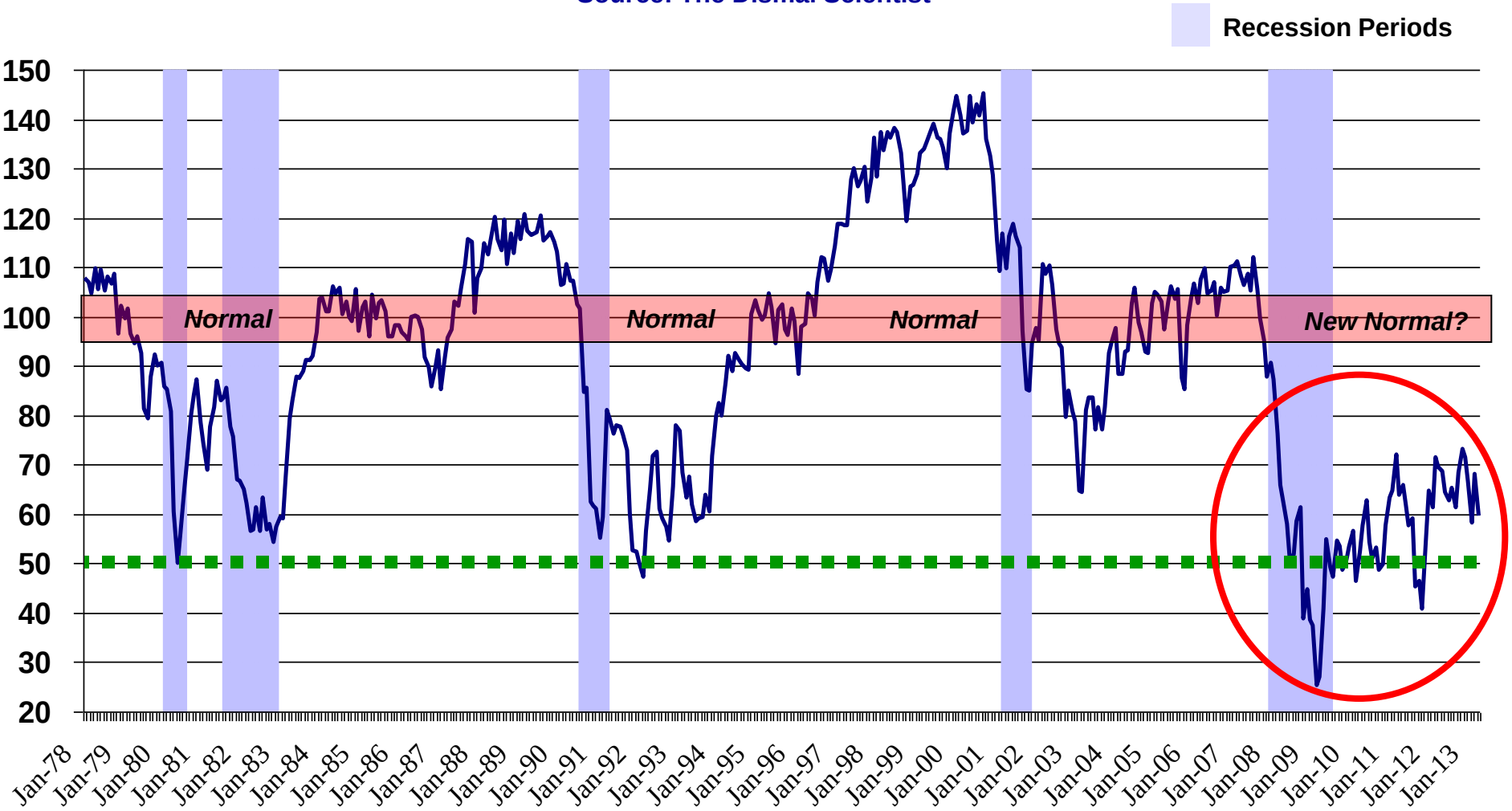
Source: Bureau of Labor Statistics



*Data through third quarter 2012

Consumer Confidence
1978 – 2013*

Source: The Dismal Scientist



*Data through February 2013

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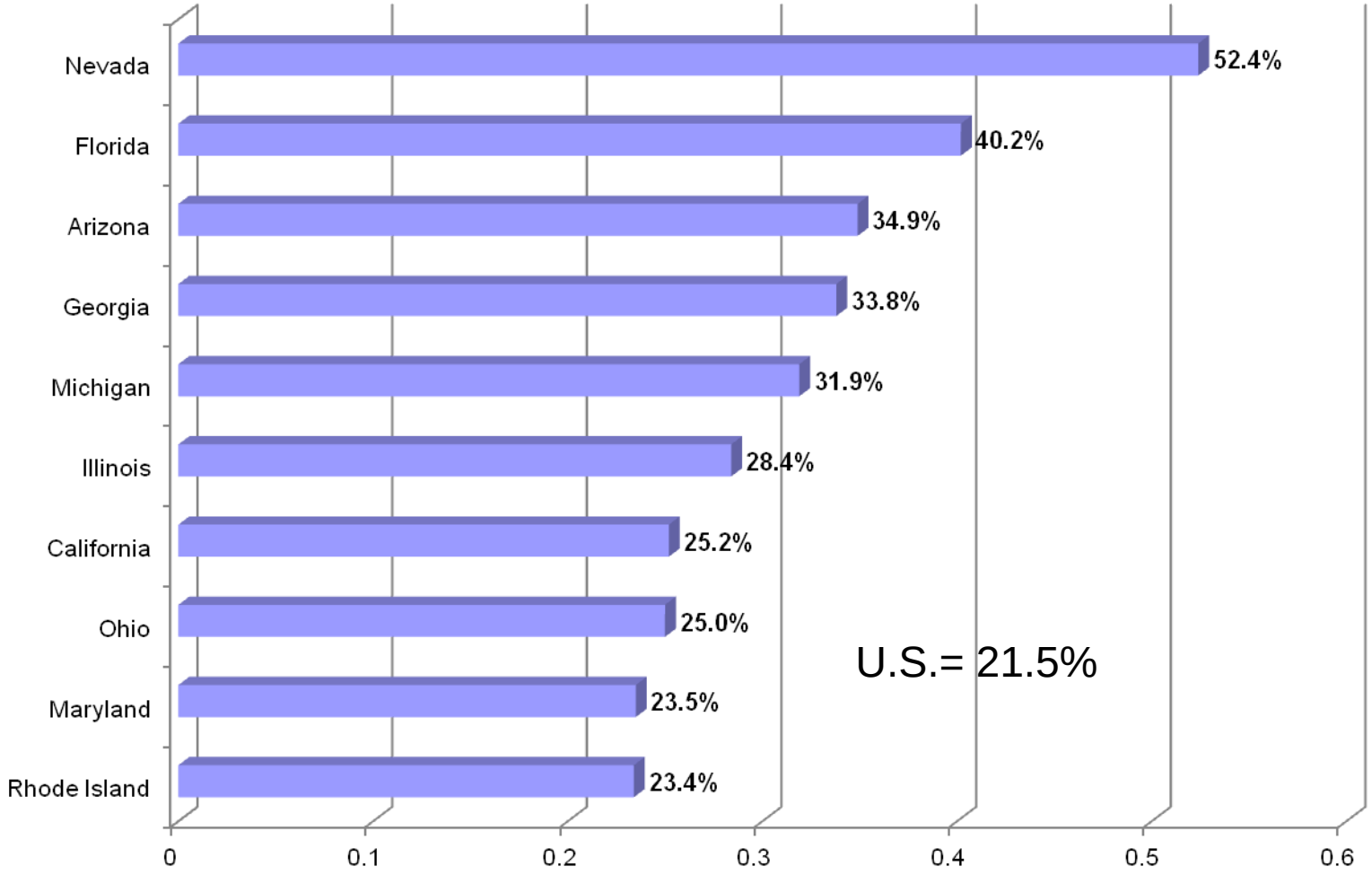
Top 10 States

Percent of Homes with Mortgages with Negative Equity

Source: Core Logic



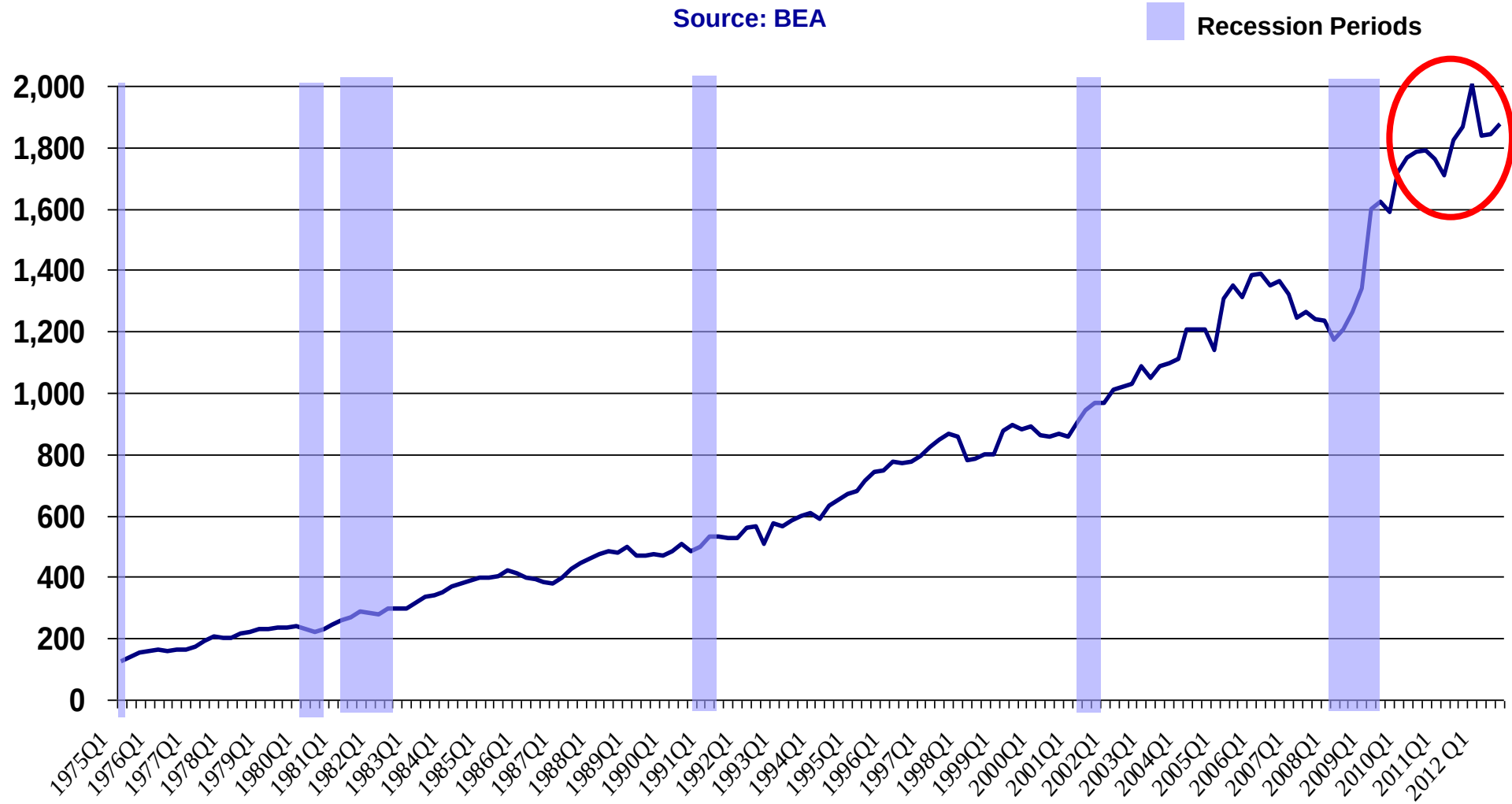
Consumer Summary:

- **Jobs are being created at a *slow* rate. Temporary?**
- **Those that have jobs are spending a little more but will remain cautious.**
- **Unemployment to remain high, but should trend lower.**
- **Wealth levels are improving.**
- **Will the additional uncertainty translate into dampened consumer spending?**

Business

Corporate Profit
(Billions of Dollars, SA)
1975-2012*

Source: BEA



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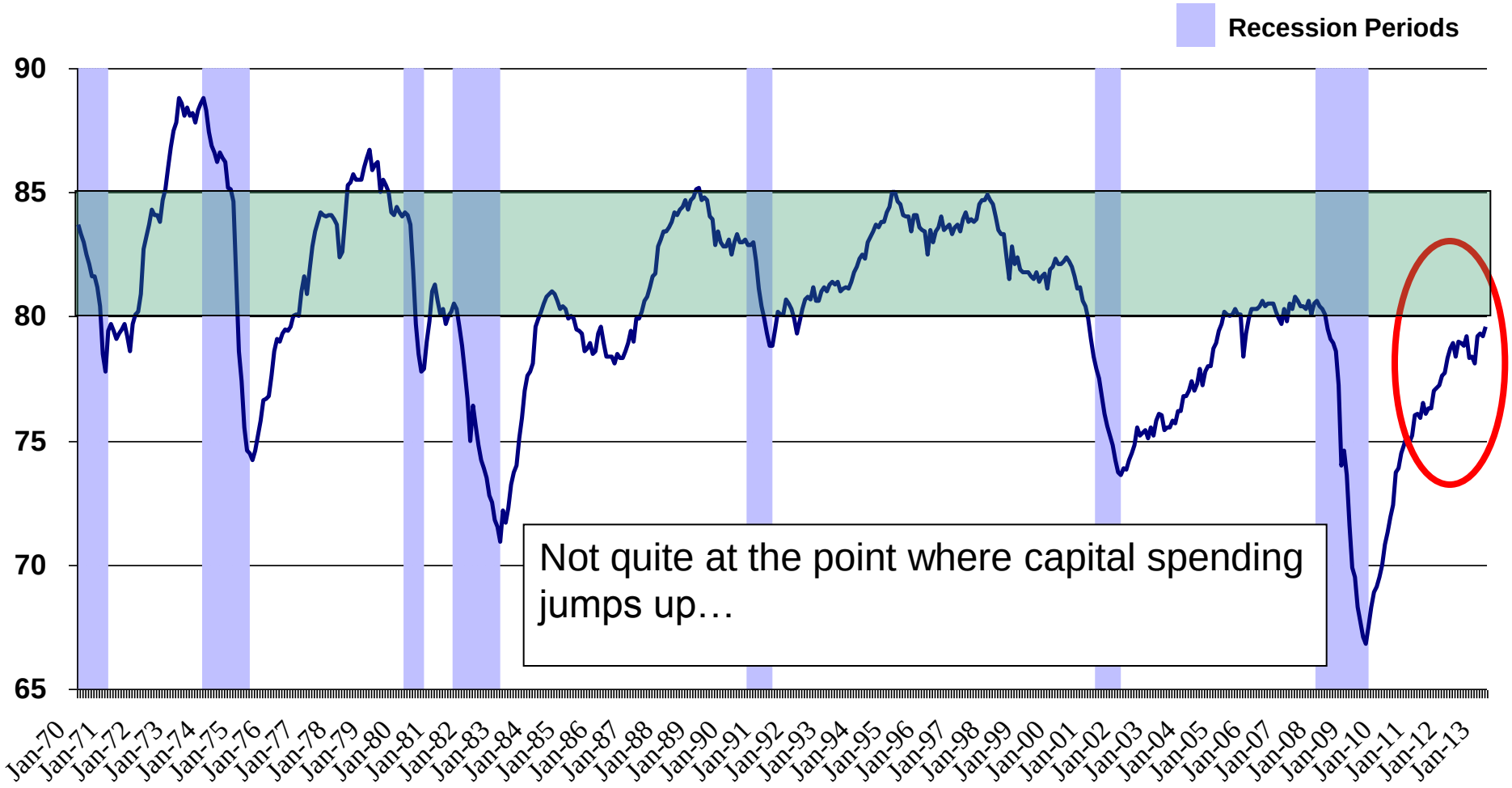
*Data through third quarter 2012

Capacity Utilization Rate
1970 – 2013*

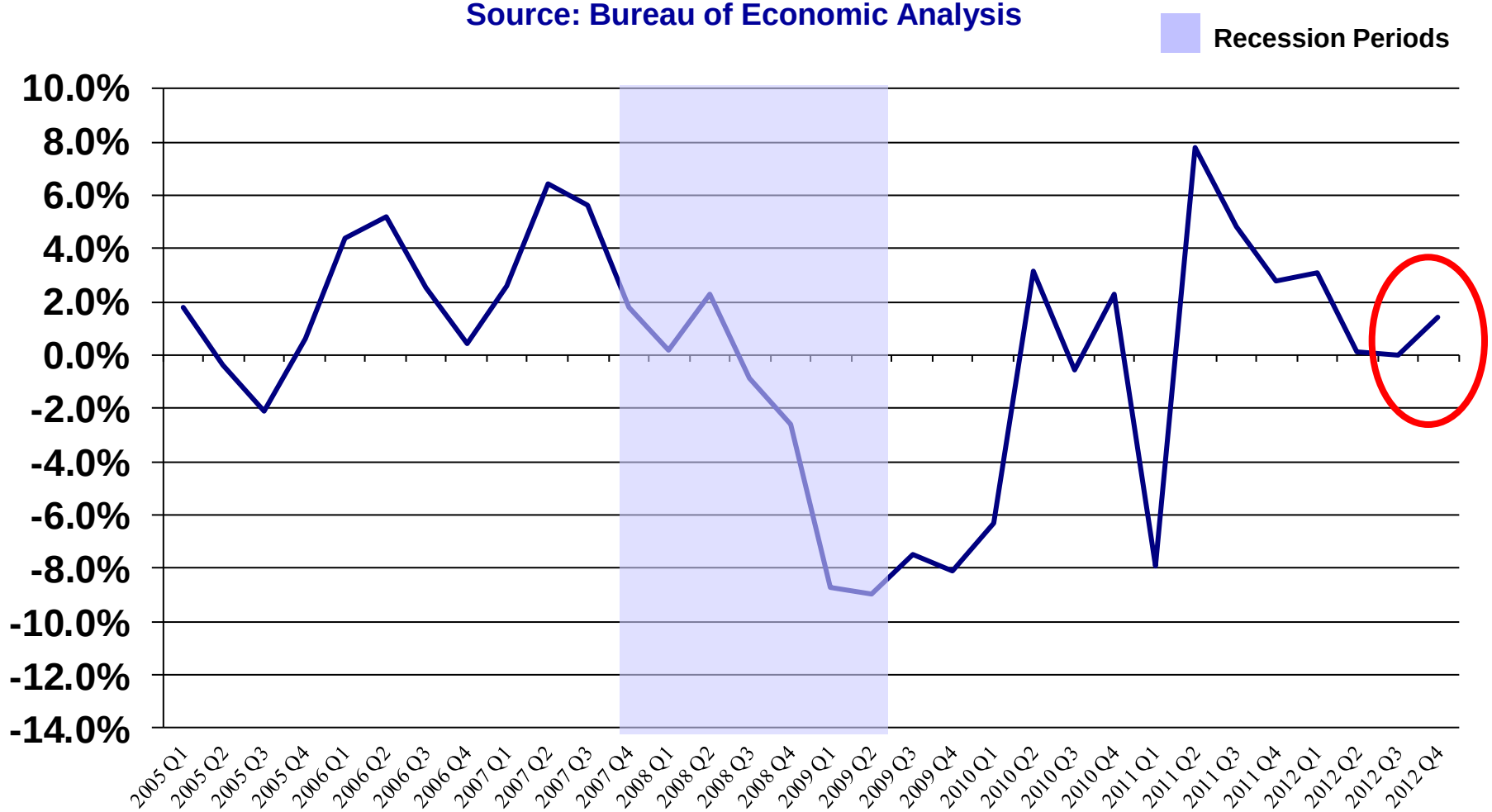
Source: The Federal Reserve Bank of St. Louis



*Data through February 2013

Business Spending on Plant
Percent Change from Prior Quarter
2005 – 2012*

Source: Bureau of Economic Analysis



*Data through fourth quarter 2012

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Business Summary:

- Businesses are in better shape.
- Spending on equipment to continue to grow.
- Spending on plant will lag until capacity utilization goes higher…getting close.
- Employment to continue to grow. But how quickly?

Government

Sequestration Analysis – Best Guess

30k Lost Jobs in AZ

(usually takes a couple of years to realize the full impact)

1% Off Forecasted Growth Rate

(if forecasting 5%, adjust down to 4%, etc.)

Recession?
No.

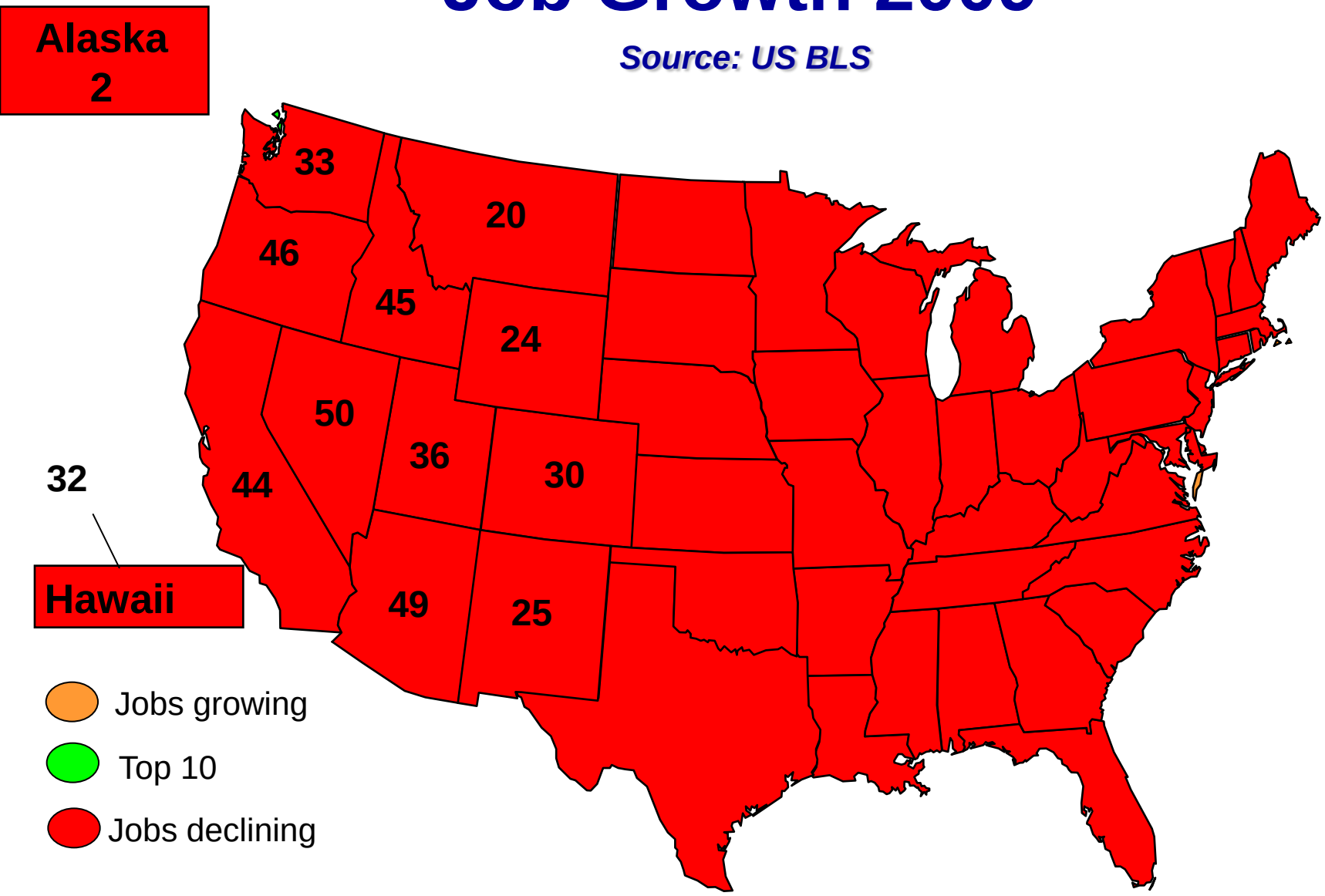
Slow growth?
Yes.

Kicking the can…
Yes.

State Performance

Job Growth 2009

Source: US BLS



Jobs growing

Top 10

Jobs declining

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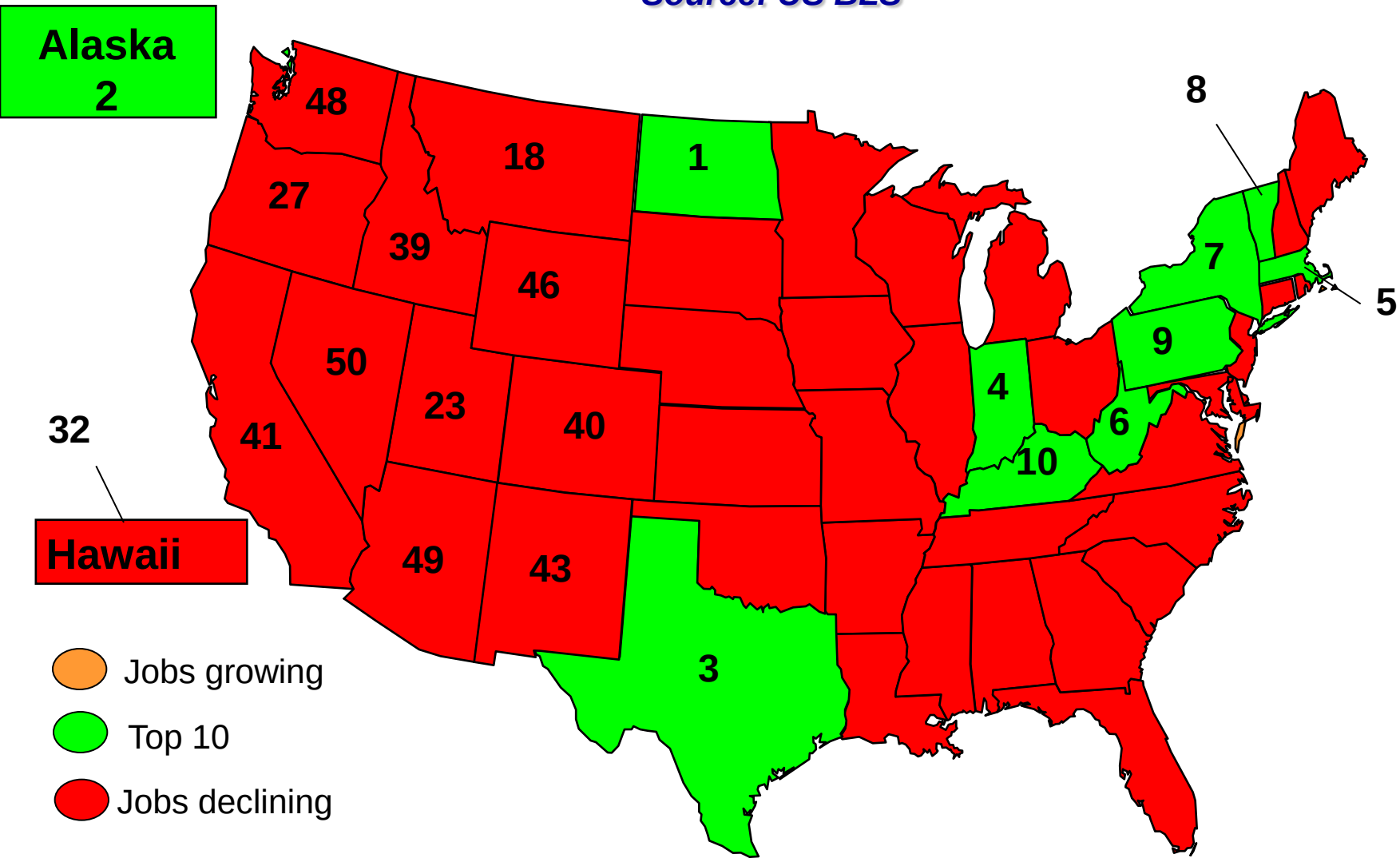
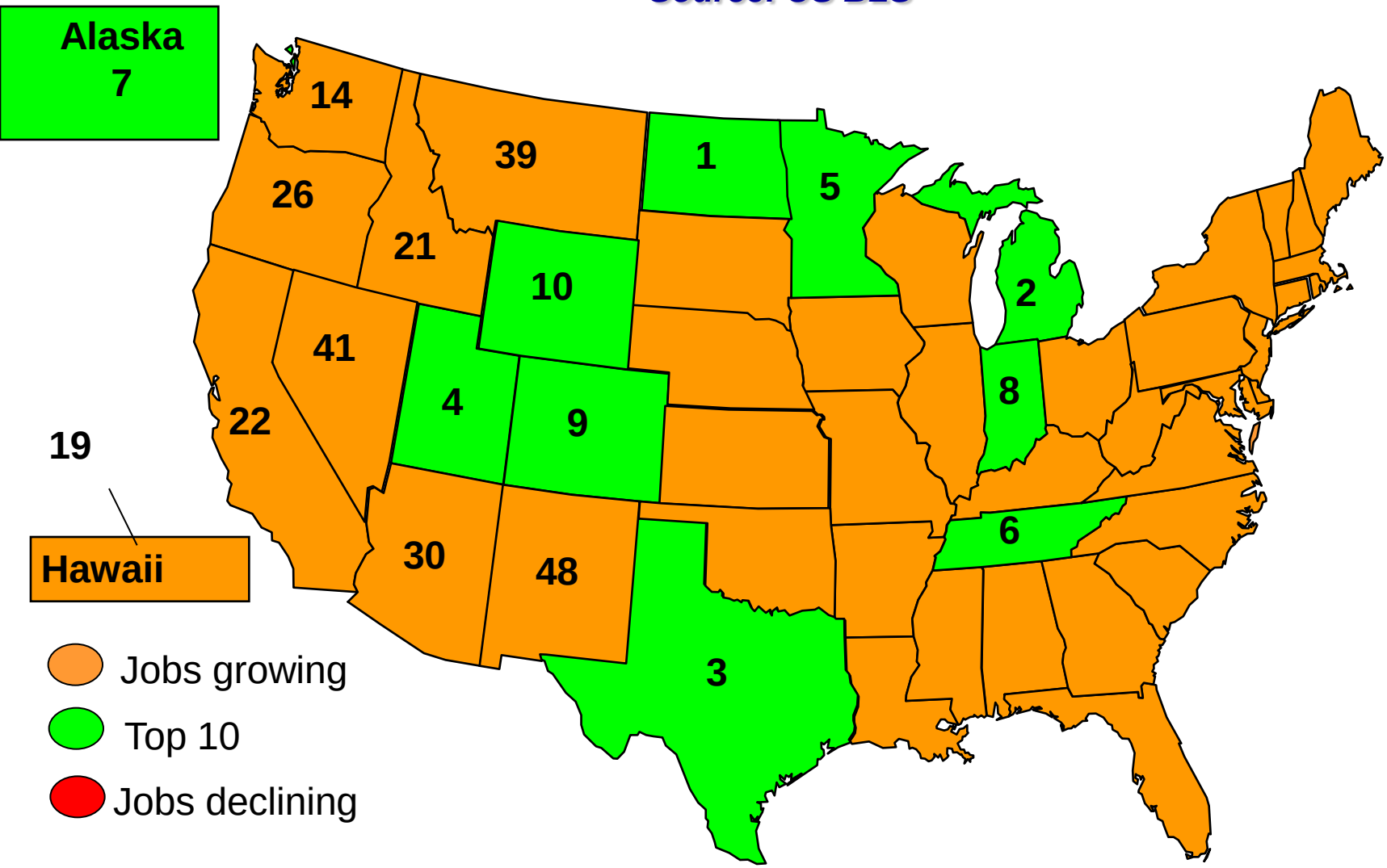
Job Growth 2010

Source: US BLS



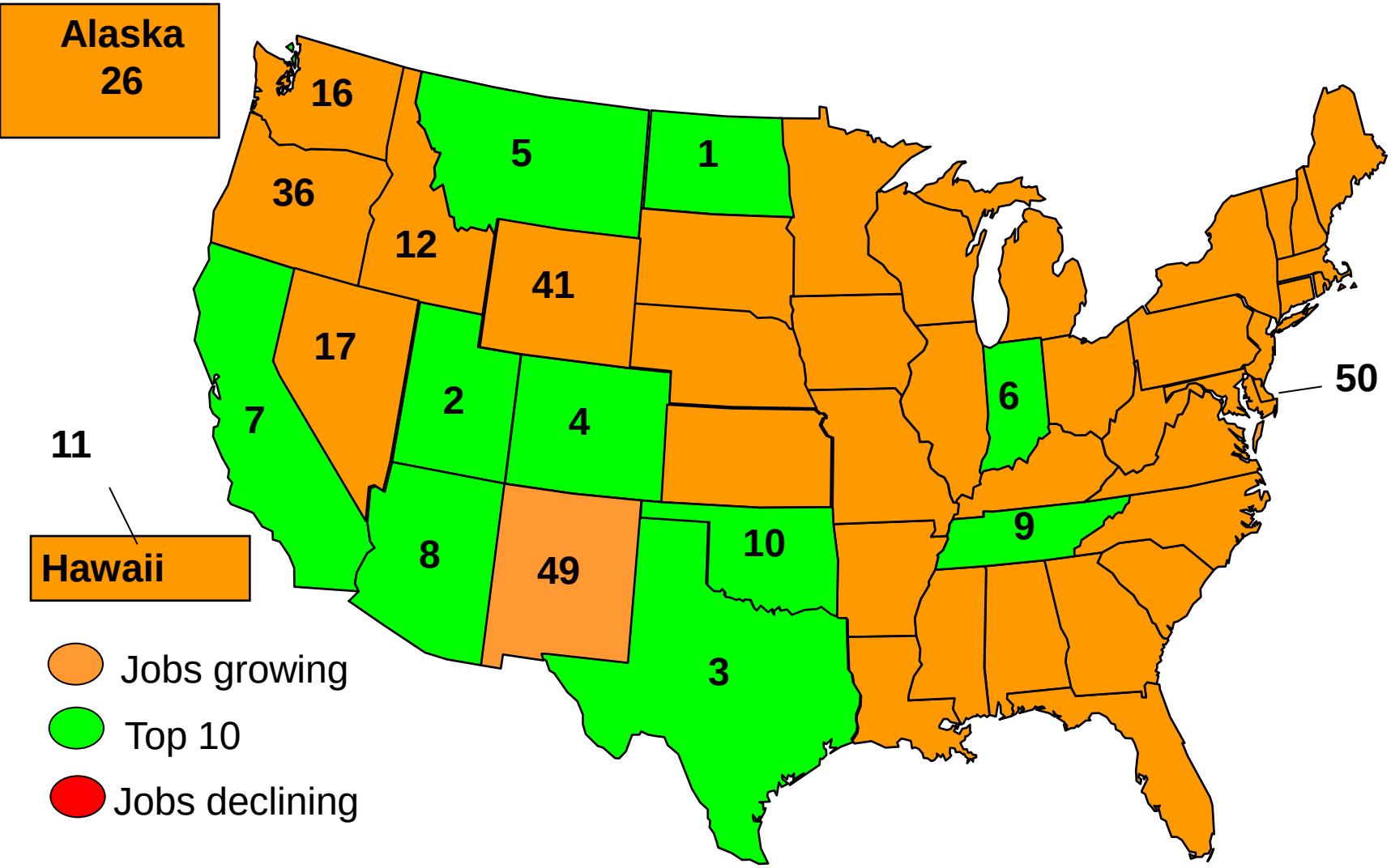
Job Growth 2011

Source: US BLS



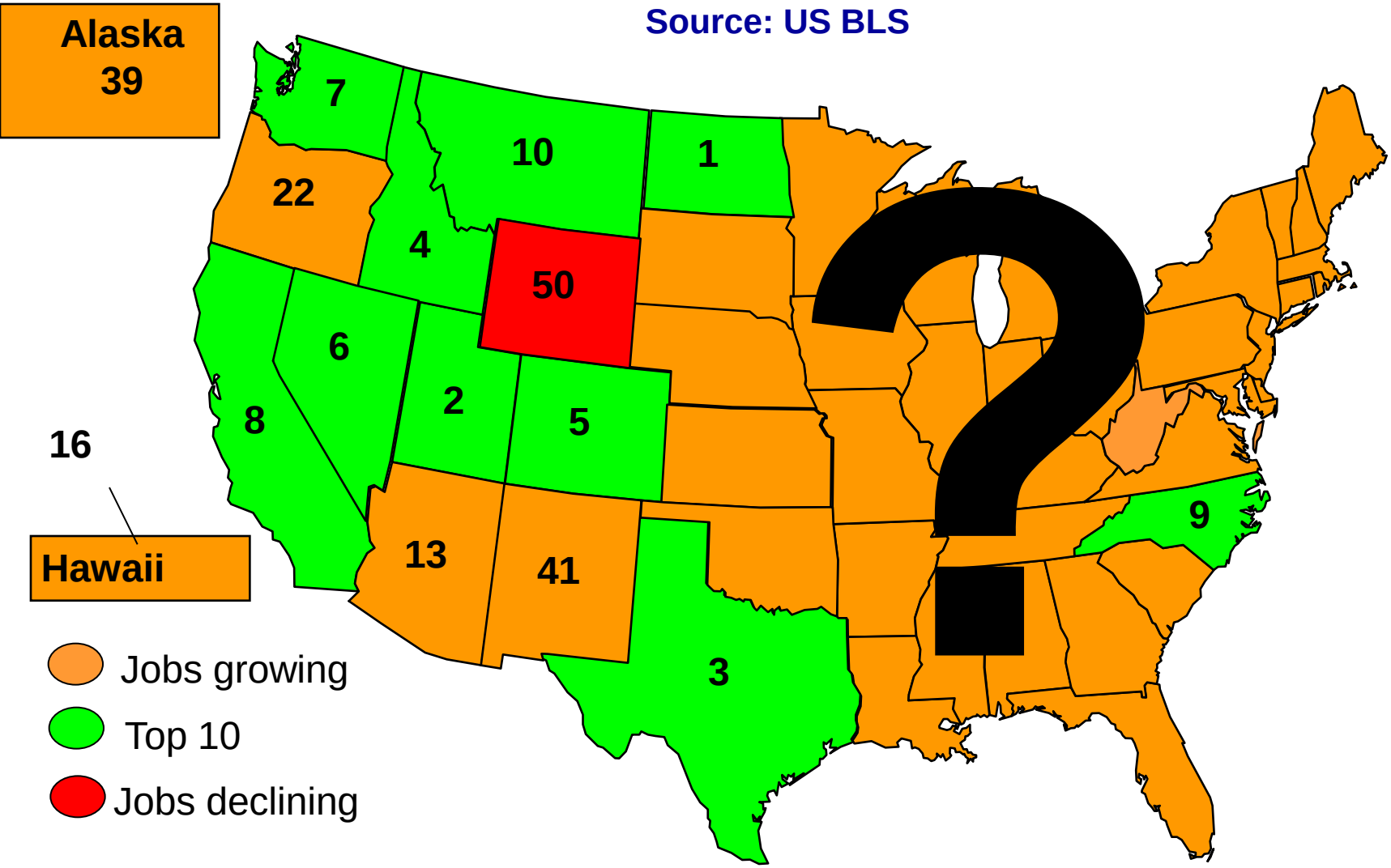
Job Growth 2012

Source: US BLS



Job Growth 2013

YTD March 2013 vs YTD March 2012
Source: US BLS



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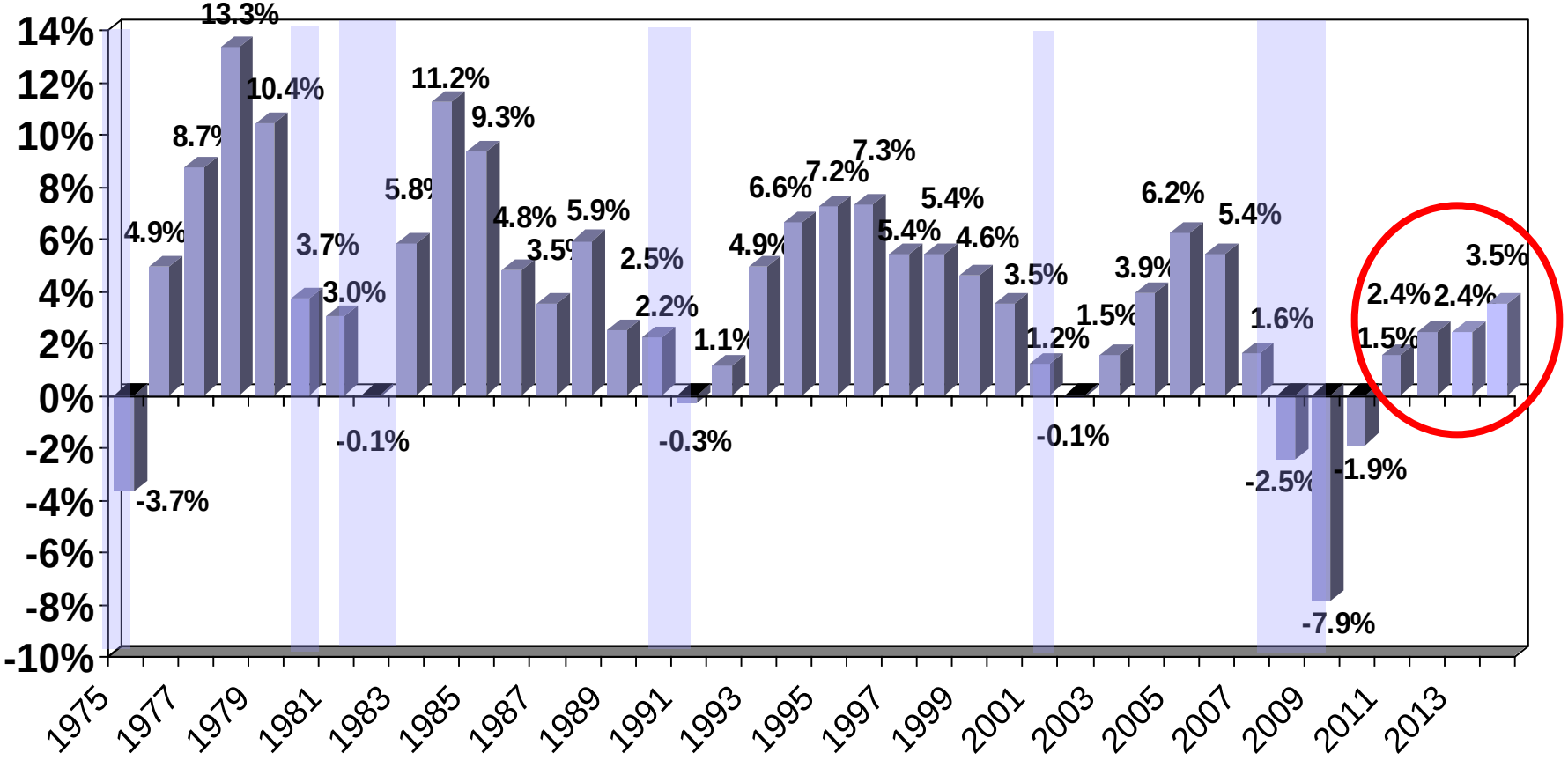
Greater Phoenix Employment*
Annual Percent Change 1975–2014**

Source: Department of Commerce, Research Administration



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

** 2013 & 2014 forecast is from *Elliott D. Pollack & Co.*

Recession Periods

Elliott D. Pollack & Company

Greater Phoenix Employment*

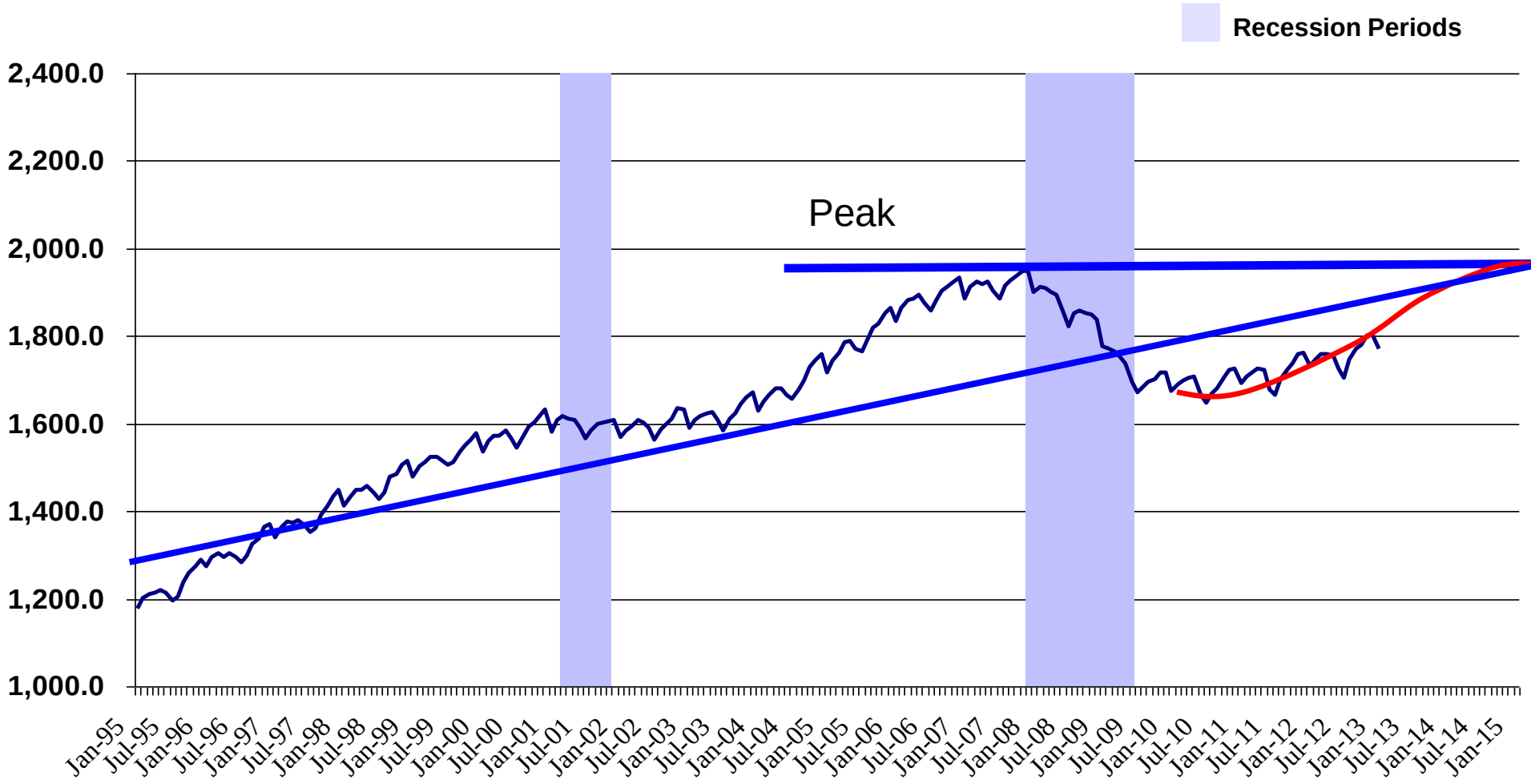
Source: Bureau of Labor Statistics

Sectors in Decline	Net Change	Sectors Improving	Net Change
		Construction	7,000
		Trade, Transp, Utilities	6,800
		Professional & Bus Services	6,500
		Leisure & Hospitality	6,200
		Education & Health Services	5,900
		Financial Activities	3,600
		Government	2,500
		Manufacturing	1,500
		Information	500
		Other Services	300
		Natural Resources & Mining	300

*Mar. 2013/ Mar. 2012

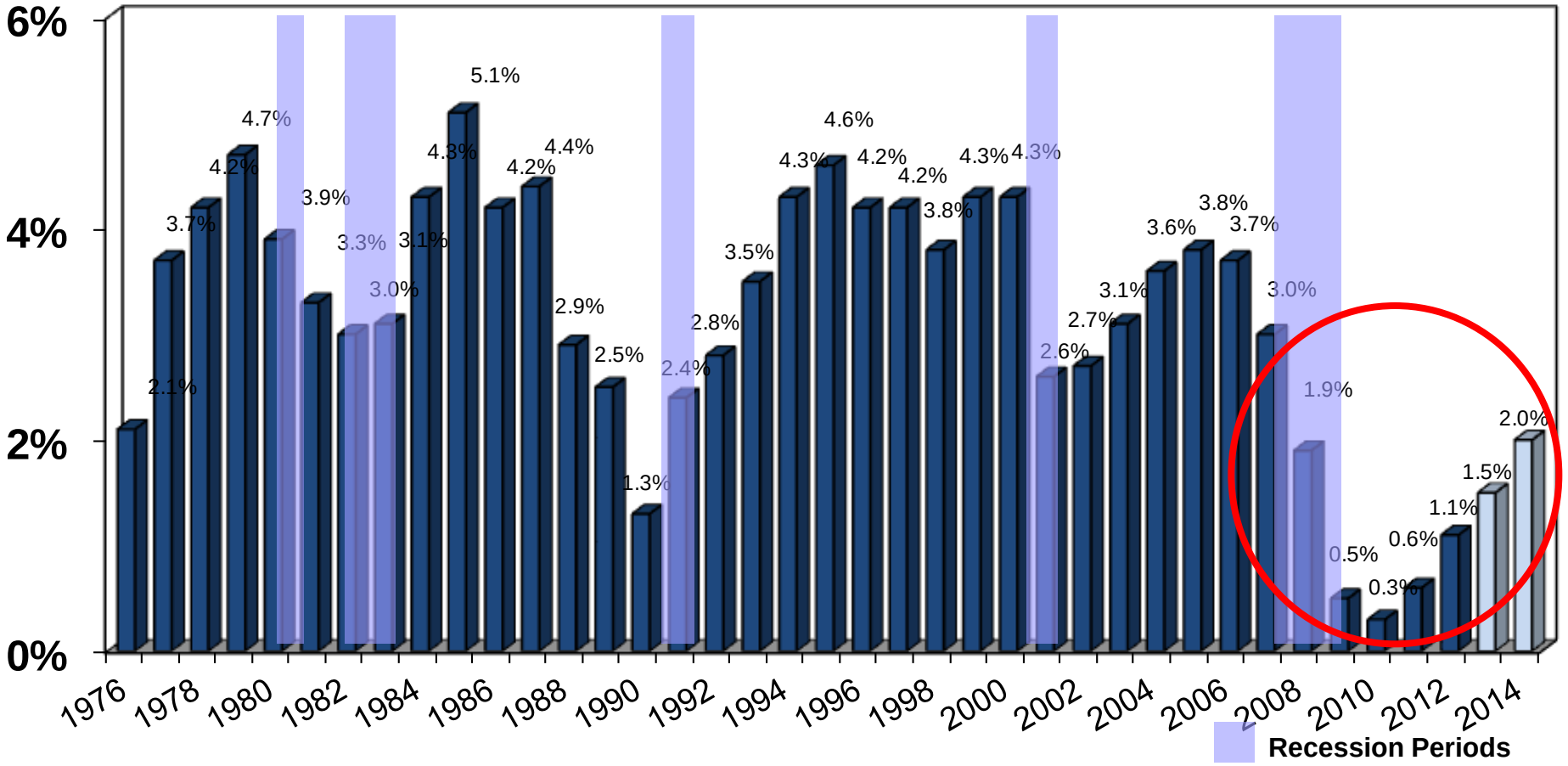
Employment Levels:
Greater Phoenix back to Peak in 2015?

Source: ADOA



Greater Phoenix Population
Annual Percent Change 1976–2014*

Source: Arizona State University & Department of Commerce, Research Administration

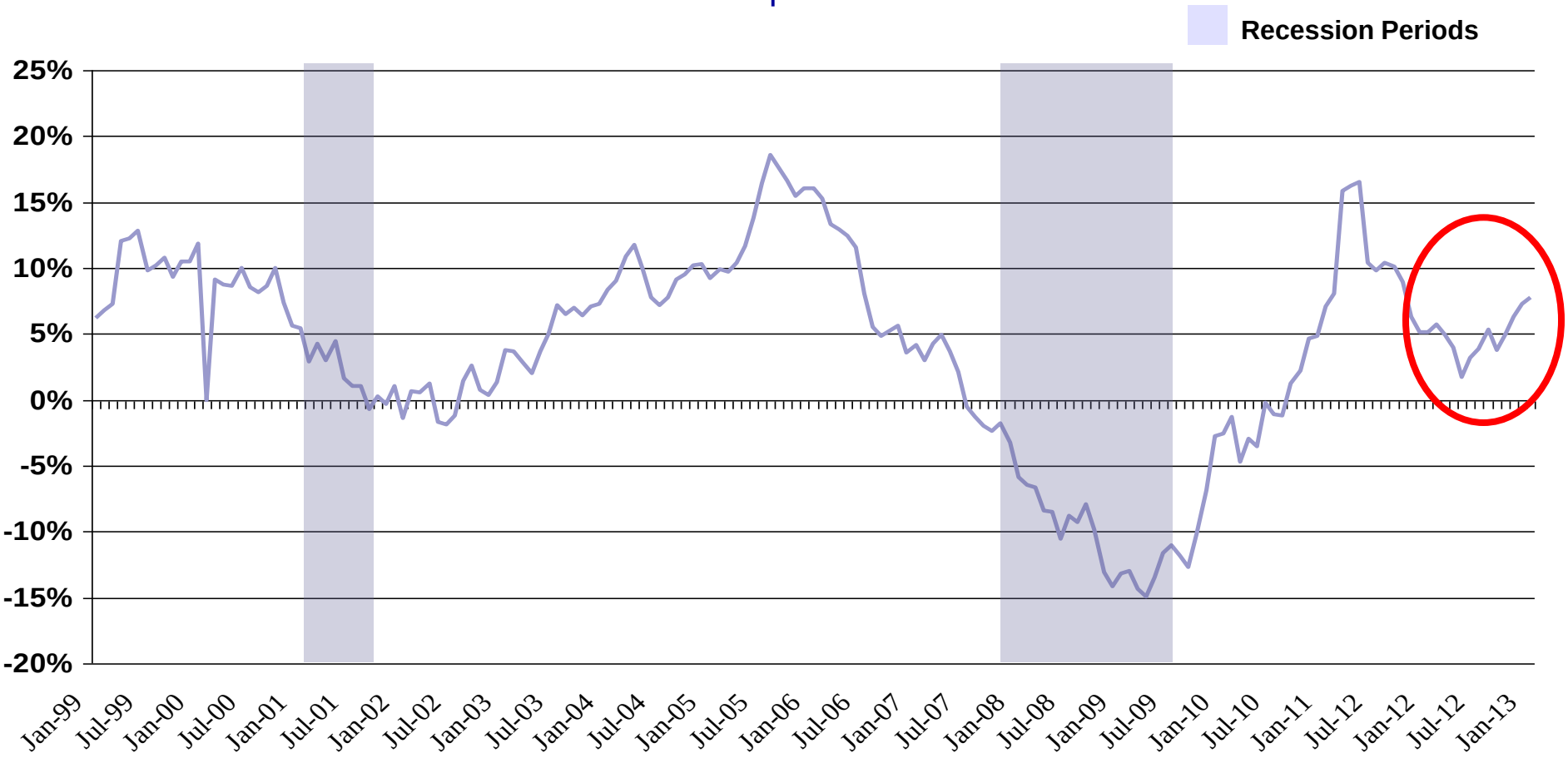


Elliott D. Pollack & Company

* 2012 & 2013 forecast is from *Elliott D. Pollack & Co.*

Greater Phoenix Retail Sales
Percent Change Year Ago*
1999 – 2013**

Source: Arizona Department of Revenue



*Data through January 2013
**3-month moving average
Note: January 2010 and March 2010 retail sales are estimates.

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Greater Phoenix
Single Family Permits

Source: RL Brown

Year	Permits	% chg
2004	60,872	27.6%
2005	63,570	4.4%
2006	42,423	-33.3%
2007	31,172	-26.5%
2008	12,582	-59.6%
2009	8,027	-36.2%
2010	6,822	-15.0%
2011	6,794	-0.4%
2012	11,615	71.0%
2013*	3,146	26.0%

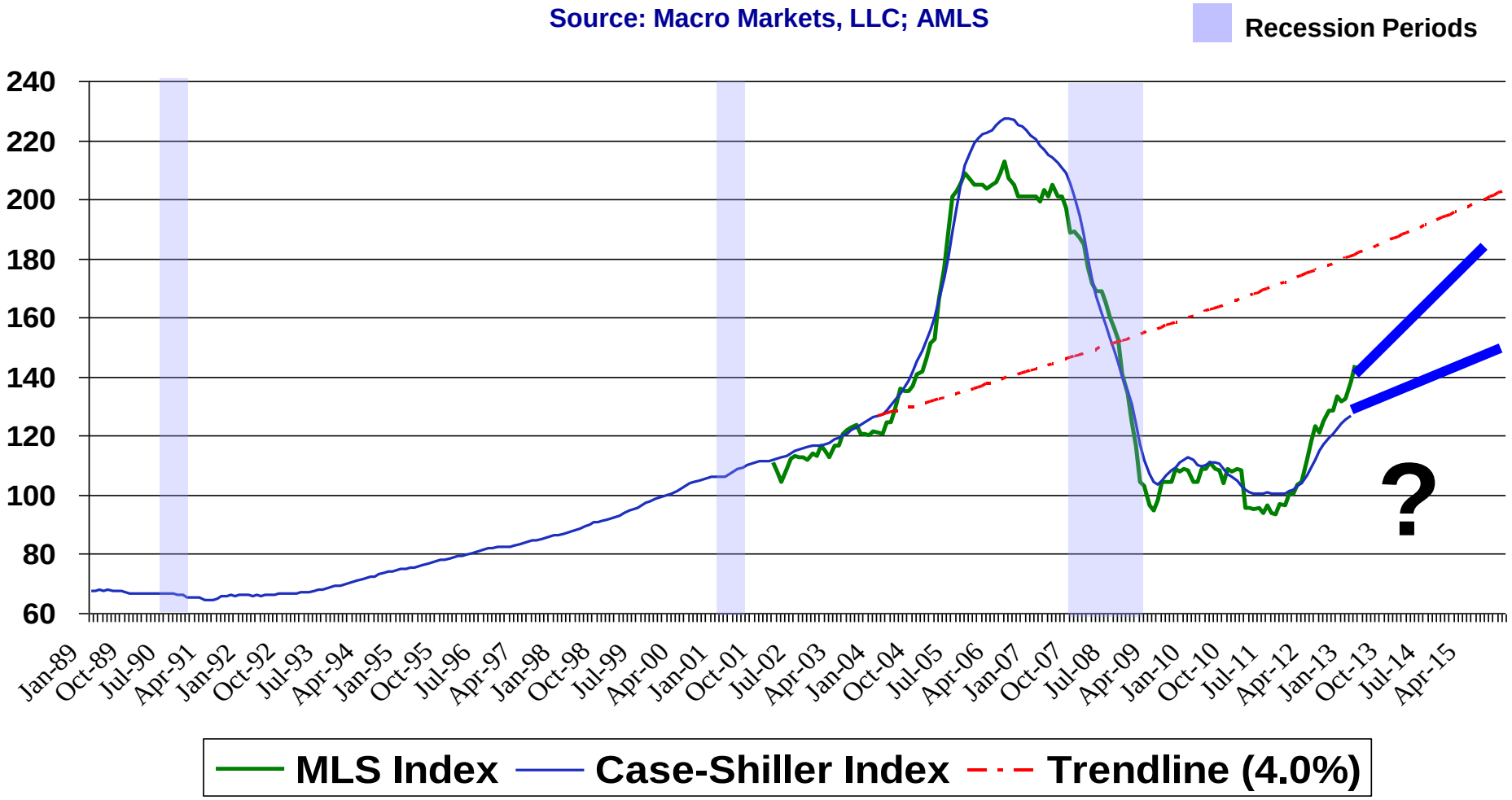
*Data through YTD Mar. 2013 v. Mar. 2012

Home Prices Indices

Greater Phoenix

1989 – 2012*

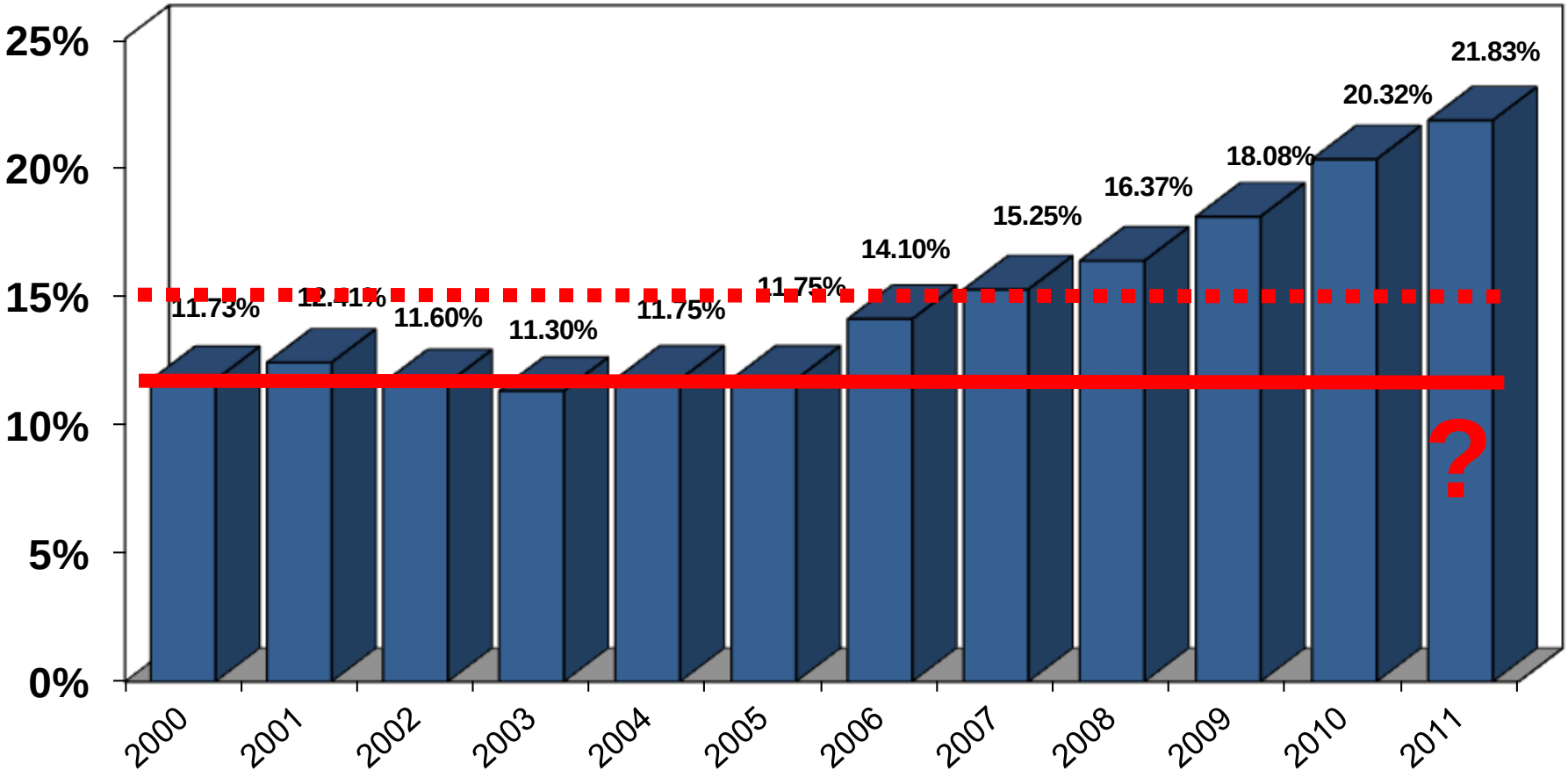
Source: Macro Markets, LLC; AMLS



*Data through January 2013.

Total Single Family Units Occupied by Renters
2000-2011
Greater Phoenix

Source: American Community Survey



Many renting will buy.

Many doubled-up will buy.

Some population growth is back.

Employment growth is occurring.

Retirees less tied to current homes.

Investors will not suddenly dump and run.

Still producing less than "normal."

Fundamentals remain in place for many.

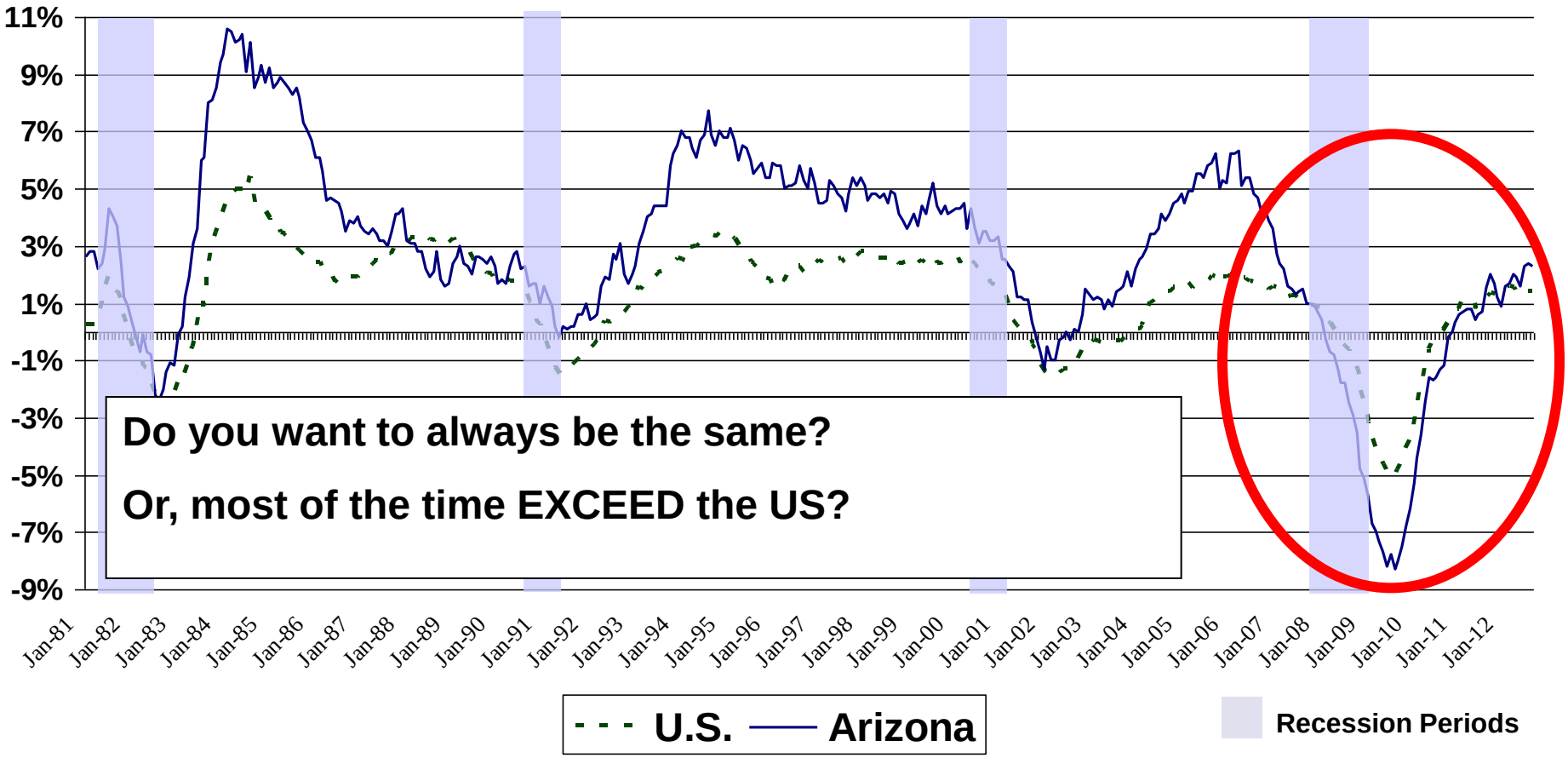
"Normal" returns in 2015-ish.

Growth rates will be strong now though.

Why be Optimistic?

Is the Cycle Our Enemy or Friend?

(Non-farm Emp. Percent Change 1980 – August 2012)



Slow but mildly accelerating recovery.

2013 will be slightly better than 2012.

2014 will be better than 2013.

2015 should be a good year.

QUESTIONS?

OFFICE OF THE ARIZONA STATE TREASURER