



ARIZONA STATE TREASURER'S OFFICE

THE ARIZONA ENDOWMENT TRUST FUND AGREEMENT

Kimberly Yee, Arizona State Treasurer

Adopted: June 25, 2019

I. Overview

The Arizona State Treasurer's Office (hereinafter referred to as the "ASTO") pursuant to A.R.S. 35-314.03 has established the Arizona Endowment Trust Fund (hereinafter referred to as the "Arizona Endowment") for state agencies, political subdivisions and tribal nations (hereinafter referred to as the "Participants"). The Arizona Endowment is an investment vehicle for longer term participant objectives. Participants that open an account will receive shares in the Arizona Endowment based on the value of the shares at the time of purchase. The participant's investment will be co-mingled with other participants, similar to other investment pools offered by the ASTO.

INVESTMENT DISCLAIMER

The ASTO services described in this agreement are for the convenience of the participant. **Neither the ASTO nor the State of Arizona makes any guarantees on the investments it purchases on behalf of participants in the Arizona Endowment, nor shall it be considered to act as a fiduciary in its management of accounts.** The ASTO does not guarantee the performance of the Arizona Endowment. Investments are subject to market fluctuations due to various market, currency, economic, political and business risks, and may not necessarily be profitable. The ASTO makes no promise or assurance of any kind that the investment decisions, strategies, or overall management of an account will be successful. It is possible to lose money on the investments in the account and an investment may underperform other investments. The ASTO has no duty to reimburse any losses attributable to management of account funds.

II. Investment Objectives

1. FUND GUIDELINES

The Arizona Endowment shall be invested for the participant's long-term capital growth and the provision of periodic income based upon this agreement. The Arizona Endowment will be managed under the restrictions listed in the Treasurer's Investment Policy Statement, Arizona Revised Statutes, and the Arizona Constitution.

This fund will be invested in a diversified portfolio that targets 60% in equity securities and 40% in fixed income securities based on the market value asset allocation shown in Table 1. The allocations may be comprised of a mix of individual securities or exchange traded funds (ETFs) that seek to track a diversified benchmark index.

The overall allocation of equities and fixed income shall be rebalanced based upon a +/- 2.5% market value trigger. Calculations for rebalancing will be based upon month-end market values. The Treasurer will rebalance the Arizona Endowment in accordance with the Arizona Endowment Procedures created by the Investment Risk Management Committee, referenced in the ASTO Investment Policy.

Table 1

Asset Type	Arizona Endowment Asset Allocation			
	Range MV	Target MV	Max. Book	Benchmark
U.S. Equity	+/-2.5%	60%	60%	
Large-Cap (Pool 301)		35%	N/A	S&P 500 (SPX)
Mid-Cap (Pool 303)		15%	N/A	S&P 400 (MID)
Small-Cap (Pool 304)		10%	N/A	S&P 600 (SML)
U.S. Fixed Income	+/-2.5%	40%	100%	
U.S. Fixed Income (Pool 305)		40%	100%	FTSE US Broad IG (SBBIG)

The ASTO will make all decisions to buy, sell or hold allowable securities, cash or other investments as stated in Appendix 1 for the Arizona Endowment in its sole discretion and without consulting the participant. A description of such securities can be found in Section IV of the Investment Policy Statement. The account agreement gives the ASTO the full power and authority to carry out investment decisions on behalf of the account and Participant, such as determining or adjusting appropriate benchmark policies, security lending activities or directing business to various brokers, dealers and custodial banks engaged by the ASTO. The account agreement between the ASTO and the Participant shall govern the transactions placed through any broker, dealer, mutual fund, investment firm, custodial bank or any other subcontractor as ASTO deems necessary.

The investment objectives the ASTO will follow in managing the Arizona Endowment are to be memorialized in Appendix 1. This agreement is not valid without a signed copy of Appendix 1.

2. PARTICIPANT RESPONSIBILITIES

The ASTO will manage accounts based on this agreement and the permissible investments described in Appendix 1. It is the responsibility of the Participant to advise the ASTO of changes in their financial conditions or objectives at any time.

3. DEPOSITS, DISTRIBUTIONS AND WITHDRAWALS

The minimum initial deposit into the Arizona Endowment is \$100,000. There are no minimum requirements for subsequent deposits. Deposits into the Arizona Endowment can be made on the first business day of each month with 5 business day notice. All participants will be subject to a 60-month lockout period beginning on the date of the initial deposit into the endowment, this period is known as the 5-year lockout. During the 5-year lockout, no funds from the initial deposit or any subsequent deposits made during the 5-year lockout period, nor any investment earnings made on the deposits of the participant, will be available for distribution. This is to allow time for the funds to accumulate earnings and smooth out any market volatility.

Distributions are subject to the terms and conditions specified in the resolution, see Appendix II, adopted by the Participant pursuant to A.R.S. 35-314.03 (E). Distributions will be set at 4% of the average market value of the Participants share in the fund for the previous 60 months as calculated on a calendar year basis ending December 31st. These distributions will be in monthly installments starting the next fiscal year that begins July 1st.

4. EARNINGS

All earnings distributed to Participants including income, dividends, capital gains, securities lending income and return of principal will automatically be reinvested to the Participant's account on the payment date.

5. FEES AND EXPENSES

The ASTO will deduct from the account a monthly management fee of 0.055% (5.5 basis points) applied to the average daily balance in the account.

6. TERMINATION

The ASTO's authority under this agreement will remain in effect until the Participant notifies the ASTO in writing to terminate their account. Termination of this agreement may not happen until the 5-year lockout period has expired. Upon the notice of termination, the ASTO will begin the wind down period over which the account liquidation would occur. The wind down period may take up to 12-months to mitigate potential losses due to liquidity constraints. The ASTO makes no guarantee that securities sold under liquidation may not incur losses.

Termination of this agreement will not affect (a) the validity of any action previously taken by the ASTO under this agreement, (b) liabilities or obligations of the Participant from transactions initiated before termination of this agreement, or (c) the Participant's obligation to pay management fees (pro-rated through the date of termination). Upon any termination of this agreement, the ASTO will have no obligation to recommend or take any action with regard to the securities, cash or other investments in the account.

6a. Emergency Liquidation

In addition to a written notice of termination, and in the event of extenuating circumstances, a Participant may submit a request for a one-time exception to the distribution policies of the Arizona Endowment, including the 5-year lockout period and/or 12-month liquidation timeframe. Emergency liquidation requests require direct authorization from the Participant's governing body and must be submitted along with the minutes from the meeting at which governing body authorization was granted. Emergency liquidations are subject to approval by the State's Board of Investment, as referenced in the ASTO Investment Policy.

In the event of an emergency liquidation, the Participant may be responsible for any negative impacts or additional costs directly attributable to the liquidation of securities that are incurred by all other participants of the Arizona Endowment. The ASTO may assess these costs at the time the withdrawal is completed, or by subsequent assessments thereafter.

III. Risks

1. LIQUIDITY RISK

Investments of account funds may be exposed to liquidity risks. Liquidity risk exists when investments are difficult to purchase or sell. An account's investments in illiquid securities may reduce the return of the account if those securities must be liquidated prior to maturity because the ASTO may be unable to sell such illiquid securities at an advantageous time or price.

2. INTEREST RATE RISK

Investments of account funds may be exposed to risks from changes in interest rates. The income generated by debt securities owned by the account will be affected by changing interest rates. If interest rates rise, the values of fixed income securities held by the account are likely to decrease. Falling interest rates may cause an issuer to redeem or "call" a security before its stated maturity, which may result in the account having to reinvest the proceeds from the redemption in lower yielding securities. Securities with longer durations tend to be more sensitive to changes in interest rates, usually causing more price volatility than securities with shorter durations.

3. COUNTERPARTY RISK

Investments of account funds may be exposed to counterparty risks. Counterparty risk is the likelihood or probability that one of those involved in a transaction might default on its contractual obligation. Varying degrees of counterparty risk exists in all financial transactions. Counterparty risk can exist in credit, investment, and trading transactions.

4. CREDIT RISK

Investments of account funds may be exposed to credit risks. Securities are subject to varying degrees of credit risk, which are often reflected in opinions and assessments of credit rating agencies. The value of an issuer's securities held by the account may decline in response to adverse developments with respect to the issuer or market conditions. In addition, the account could lose money if the issuer or guarantor of a fixed income security is unable or unwilling to make timely principal and interest payments or to otherwise honor its obligations.

5. MARKET RISK

Market risk is the risk that the value of an investment will change due to moves in market factors. Volatility frequently refers to the standard deviation of the change in value of a financial instrument with a specific time horizon.

6. CONCENTRATION RISK

Concentration risk is the risk of loss attributed to the magnitude of an account's investment in a single issuer. No more than five percent of the total of each account (defined as five percent of the prior month's ending amortized book value on the date purchased) or five percent of the issues outstanding, whichever is less, shall be invested in debt securities issued by a single issuer and its subsidiaries and affiliates, or single equity common stock. Securities issued by the federal

government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities as well as ETFs and Mutual Funds are exempt from this provision.

The undersigned has read and understood the terms of this agreement and warrants to ASTO that they have the legal authority and capacity to use the ASTO to manage investments on behalf of the Participant.

(Participant Name)

(Authorized Signer)

Signature: _____

Name: _____

Title: _____

Date: _____

Appendix 1: PERMISSIBLE INVESTMENTS

ALLOWABLE INVESTMENTS*		MAXIMUM ALLOWABLE INVESTMENT**
Fixed income assets		100%
	Full Faith and Credit Bonds	100%
	Repo (FFC Collateral)	100%
	US Treasury Securities (all)	100%
	TIPS	100%
	Other FFC Government Bonds	100%
	FFC Agency MBS (Pools and CMO)	100%
	US Government Agency (non-FFC)	100%
	Bullet or FRN Debt. (non-option)	100%
	Option Debt (Call/Put/Step/ETC.)	100%
	Agency MBS (Pools and CMO)	100%
	US Corporate Debt investment grade (or better)	100%
	Commercial Paper	100%
	Bonds and Medium-Term Notes	100%
	Asset Backed Securities (in addition to the above)	100%
	Asset backed Commercial Paper (ABCP)	100%
	Asset Backed Term Debt (ABS)	100%
	Commercial Mortgage Backed Securities CMBS)	100%
	Residential MBS (RMBS)	100%
	US Municipal Debt	100%
	Funds	100%
	Money Market Mutual Funds	100%
	Fixed Income Funds or ETFs	100%
Equity		60%
	US Domestic Equity	60%
	Funds	60%
	Indexed ETFs	60%
	Equity Mutual Funds	60%
	Equity ETFs	60%

- *Approved lists are kept on file with the Arizona State Treasurer's Office and can be requested at any time.
- ** Amounts based on book value.

The Arizona State Treasurer's Office may hire an external manager to manage the above account if they feel that the account will be better serviced to do so. Any account manager whether internal or by contract will be held to the same guidelines provided herein. Additional costs incurred will be passed onto the participant.

The Office of the Arizona State Treasurer

Signature: _____

Name: _____

Title: _____

Date: _____

(Participant Name)

(Authorized Signer)

Signature: _____

Name: _____

Title: _____

Date: _____

Appendix 2: TERMS OF DISTRIBUTION

(Example)

DISTRIBUTION RESOLUTION

The following resolution was passed at a meeting of the _____ (Governing Body) of _____ (Participant Name) on _____ (Date) . Minutes from the meeting are included with this resolution.

It is resolved that the governing body has voted to enter into an agreement with the Arizona State Treasurer’s Office to participate in the Arizona Endowment Trust Fund pursuant to Arizona Revised Statute 35-314.03.

In accordance with the Arizona Endowment Trust Fund Agreement the following distribution schedule shall be applied to such fund:

Distribution Rate: 4%

Distributions will be set at 4% of the average market value of the Participants share in the fund for the previous 60 months as calculated on a calendar year basis ending December 31st. These distributions will be in monthly installments starting the next fiscal year that begins July 1st, except for the initial distribution.

The initial distribution will occur on the 61st month based on the average market value of the first 60 months of the Participants share value until such time as the Participants shares reach the normal cycle for calculating distributions. Deposits made after the first deposit but during the initial 5-year lockout period would still not receive their first distribution until the 61st month of their initial participation in the Arizona Endowment.

This resolution will remain in full force and effect until it is rescinded or replaced by the governing body.

(Authorized Signer)

Signature: _____

Name: _____

Title: _____

Date: _____

Appendix 3: AUTHORIZED INDIVIDUALS

(Example)

AUTHORIZATION RESOLUTION

The following resolution was passed at a meeting of the _____ (Governing Body) of _____ (Participant Name) on _____ (Date). Minutes from the meeting are included with this resolution.

It is resolved that the governing body has voted to enter into an agreement with the Arizona State Treasurer’s Office to participate in the Arizona Endowment Trust Fund pursuant to Arizona Revised Statute 35-314.03.

The following individuals are authorized to instruct the Arizona State Treasurer’s Office on behalf of the Fund:

Name:	Title:	Signature:
_____	_____	_____
_____	_____	_____
_____	_____	_____

*If additional individuals are required, please include multiple copies of this page with signatures and dates included on all pages.

The Arizona State Treasurer’s Office shall be promptly notified if there are any changes to the above list.

(Authorized Signer)

Signature: _____
Name: _____
Title: _____
Date: _____