I. OVERVIEW

It is the investment policy of the Arizona State Treasurer and their office (hereinafter referred to as "the Treasurer") to maintain the safety of principal, maintain liquidity to meet cash flow needs, and provide competitive investment returns. The Treasurer will strive to invest with the judgment and care that prudent individuals would exercise, in the exercise of their own affairs.

The Treasurer manages investments for three main groups, collectively referred to as the “State’s investment program.” The beneficiaries of the State Land Trust; Local Governments and Political Subdivisions of the State, and for the State of Arizona and its respective agencies. The length of investment falls into three categories: short-term $1 NAV funds with a Weighted Average Maturity of less than 90 days; medium-term bond funds of one to five years in duration; and endowment funds, which are invested in perpetuity.

Performance of each type of investment pool is measured in either monthly yield for short- and medium-term funds or on a total return basis for endowment funds.

INVESTMENTS NOT GUARANTEED

*Neither the Treasurer nor the State of Arizona makes any guarantees on the investments it purchases on behalf of participants in any of the investment pools.* Participants of investment pools own shares in the pool, except where noted in section VI. The value of a share in a pool is determined by dividing the total market value of the pool by the number of shares outstanding. The owners of share(s) are entitled to their proportional share of principal of bonds in the pool (at any point in time) and interest (as determined by their weighted average daily balance of the pool).

II. AUTHORITY

The Treasurer follows A.R.S. Title 35, Chapter 2, Article 2.0, and other investment guidelines mandated by statute. The Treasurer, however, does not determine the legal capacity or statutory investment restrictions that will apply to specific depositors (such as investment restrictions set by statute, regulation or local charter). Any political subdivision of the state depositing monies with the Treasurer must assure itself that investments contained in the applicable pool comply with the subdivision's specific investment authority. In addition, the Treasurer does not limit or restrict yield on pools unless specifically mentioned herein. Depositors wishing to restrict yield for purposes of the Internal Revenue Service's Arbitrage Bond Regulations (Treasury Regulation Section 1.148-1 et seq.) must make their own determinations as to whether any designated pool deposit meets any restricted yield obligation pertaining to the funds deposited.
III. INVESTMENT OBJECTIVES

1. FIXED INCOME POOLS

Safety: Safety of principal is the foremost objective of the State’s investment program. The Treasurer will seek to ensure preservation of principal in all fixed income pools.

Liquidity: The fixed income investment pools and funds will remain sufficiently liquid to enable pools and funds to meet all operating requirements that might be reasonably anticipated.

Yield/Return on Investment: The investment pools and funds shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives.

2. PERMANENT LAND ENDOWMENT TRUST FUND

The Treasurer and the State Board of Investment (hereinafter referred to as “the Board”) in their capacity as trustees, pursuant to Article X, Section 7, of the Constitution of Arizona (hereinafter referred to as “the Constitution”) and A.R.S. § 35-314.01, have established a Permanent Land Endowment Trust Fund (hereinafter referred to as the “PLETF”) for the beneficiaries of the Arizona State Trust Lands. The proceeds from the permanent sales of Trust Lands are deposited into the PLETF along with any gifts or donations to the Trust.

The PLETF shall be invested for the benefit of current and future generations of beneficiaries consistent with the objectives of diversification, long-term capital growth and the provision of current income while adhering to Article X, Section 7 of the Constitution and A.R.S. § 35-319 pertaining to the timely distribution of monies to beneficiaries.

The PLETF is comprised of three equity and two fixed income pools. The allocation to equities shall be capped at 60% of cost, consistent with the requirements of Article X, Section 7 D (1) of the Constitution. Equities are managed internally using passive index strategies to capture market returns in a cost-effective manner. This minimizes management fees, allowing more money to be reinvested into the PLETF in perpetuity. The benchmarks for the equity pools are the S&P 500 LargeCap Index, the S&P 400 MidCap Index, and the S&P 600 SmallCap Index.

Fixed-income portfolios are established to provide current income and stability for beneficiaries with the intended outcome of smoothing overall returns in times of various economic cycles. The benchmark for the long-term fixed income pool is the FTSE US Broad Investment-Grade (USBIG®) Bond Index. The benchmark for the short-term fixed income pool is the LGIP Pool 5.

The overall allocation of equities and fixed income shall be rebalanced based upon a +/- 2.5% market value trigger as shown in Table 1 below. Calculations for rebalancing will be based upon end-of-day market values. The Treasurer will rebalance the PLETF in accordance with the Permanent Land Endowment Trust Fund Procedures created by the Investment Risk Management Committee (hereinafter referred to as the “IRMC”).
### Table 1

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Range MV</th>
<th>Target MV</th>
<th>Max. Book</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>+/-2.5%</td>
<td>60%</td>
<td>60%</td>
<td>S&amp;P 500 (SPX)</td>
</tr>
<tr>
<td>Large-Cap (Pool 201)</td>
<td>35%</td>
<td>N/A</td>
<td>N/A</td>
<td>S&amp;P 400 (MID)</td>
</tr>
<tr>
<td>Mid-Cap (Pool 203)</td>
<td>15%</td>
<td>N/A</td>
<td>N/A</td>
<td>S&amp;P 600 (SML)</td>
</tr>
<tr>
<td>Small-Cap (Pool 204)</td>
<td>10%</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>U.S. Fixed Income</td>
<td>+/-2.5%</td>
<td>40%</td>
<td>100%</td>
<td>FTSE US Broad IG (SBBIG)</td>
</tr>
<tr>
<td>Pool 205</td>
<td></td>
<td></td>
<td>100%</td>
<td>LGIP Pool 5</td>
</tr>
<tr>
<td>Pool 123</td>
<td></td>
<td></td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

### 3. ARIZONA ENDOWMENT TRUST FUND

The Treasurer and the Board, in their capacity as trustees, pursuant to A.R.S. 35-314.03, have 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 Treasurer is opening the Arizona Endowment as an investment vehicle for longer term participant objectives and must confirm approval under the terms of the Arizona Endowment Trust Fund Agreement. 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.

The Arizona Endowment is comprised of three equity and one fixed income pools, detailed in Section VI (4). 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 seeks 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 end-of-day market values. The Treasurer will rebalance the Arizona Endowment in accordance with the Arizona Endowment Procedures created by the Investment Risk Management Committee.

### Table 2

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Range MV</th>
<th>Target MV</th>
<th>Max. Book</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity</td>
<td>+/-2.5%</td>
<td>60%</td>
<td>60%</td>
<td>S&amp;P 500 (SPX)</td>
</tr>
<tr>
<td>Large-Cap (Pool 301)</td>
<td>35%</td>
<td>N/A</td>
<td>N/A</td>
<td>S&amp;P 400 (MID)</td>
</tr>
<tr>
<td>Mid-Cap (Pool 303)</td>
<td>15%</td>
<td>N/A</td>
<td>N/A</td>
<td>S&amp;P 600 (SML)</td>
</tr>
<tr>
<td>Small-Cap (Pool 304)</td>
<td>10%</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>U.S. Fixed Income</td>
<td>+/-2.5%</td>
<td>40%</td>
<td>100%</td>
<td>FTSE US Broad IG (SBBIG)</td>
</tr>
<tr>
<td>U.S. Fixed Income (Pool 305)</td>
<td></td>
<td></td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
4. DIVERSIFICATION

It is the policy of the Treasurer to diversify the investment portfolio to minimize losses due to various circumstances. The circumstances include, but are not limited to, issuer defaults, market price changes, non-earning assets, technical complications leading to temporary lack of liquidity, risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities.

   A. Debt Concentration Limit;

      i. Not more than five percent (5%) of the total of each pool or fund (defined as 5% of the prior month’s ending market value on the date purchased), or five percent of the debt issues outstanding, whichever is less, shall be invested in debt of a single corporation and its subsidiaries/affiliates. The diversification policy, as it relates to the maximum (5%) investment with a single issuer, applies to Separately Managed Accounts and Investment Pools 3, 5, 10, 12, 16 and 500. For Pools 205 and 123 any single issuer cannot exceed 5% of the combined balances as defined above. Securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempted from this provision. Purchases of Treasurer Warrant Notes for Pool 3 are also exempt from this policy, provided the maximum amount of notes shall not exceed 50% of the market value of pool 3 based on prior day close of business. Purchases of bonds issued by an agency of the State of Arizona and pre-refunded municipal bonds issued by any entity that are invested in obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are also exempt from the 5% issuer limit.

5. PORTFOLIO MANAGEMENT

Following the primary objective of preservation of capital, investments shall be actively managed to take advantage of market opportunities. In so doing, negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposes, to enhance portfolio returns, or to restructure maturities to increase yield and/or reduce risk.

To provide a relative measure for comparative performance and to facilitate the periodic reporting to the Board, the IRMC shall establish benchmarks for each investment pool under the State’s Investment Program, with the exception of Pool 9, Pool 9A, and Pool 15. In keeping with the portfolio manager’s investment strategy as well as the stated objectives of each investment pool, the IRMC will establish procedures to evaluate benchmark suitability and report findings to the Board on an annual basis.
6. SEPARATELY MANAGED ACCOUNTS

The Treasurer may offer separately managed accounts (SMA’s) for those entities who meet the minimum deposit requirements and terms set by the Board as authorized by A.R.S. § 35-326.01. The incremental costs for these accounts shall be paid for out of earnings of the accounts.

Prior to the establishment of an SMA, a written agreement between the entity and the Treasurer shall be reached that sets forth the account’s credit risk, duration, and liquidity needs. For endowment trusts established pursuant to A.R.S. § 35-314.03, the agreement shall also set forth the terms of the distributions from such endowments. Securities held in these accounts are held in trust on behalf of the entity who is the ultimate owner of the securities.

IV. PERMITTED INVESTMENT INSTRUMENTS

Under A.R.S. § 35-312, 35-313, and 35-314.03 the Treasurer is permitted to invest and reinvest treasury monies in certain permitted investments. The following items set forth those investments permitted by law. An individual investment pool or fund may be designed in a manner which does not permit all such investments to be made for that pool or fund.

1. Obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.

2. Repurchase agreements and tri-party repurchase agreements, collateralized at no less than 102 percent by securities or 100 percent by cash, purchased from authorized counterparties that have adequate capital and liquidity as determined by the Treasurer. Repurchase agreements and tri-party repurchase agreements collateralized by mortgage-backed securities shall be collateralized at no less than 102 percent. In all cases, collateral must be delivered to the Treasurer’s custody institution, or held in an account for the benefit of the Treasurer in an institution meeting the requirements of A.R.S. § 35-310.1 as an eligible depository. In the case of tri-party repurchase agreements, the eligible depository may price and verify collateral but is required to provide a report of pricing and adequacy of collateral to the Treasurer or a designated portfolio manager or compliance manager within 24 hours of settlement.

3. Bonds or other evidences of indebtedness of this state or any of the counties or incorporated cities, towns or duly organized school districts which carry as a minimum Investment Grade or better rating from any Nationally Recognized Statistical Rating Organization (NRSRO).

4. Treasurer’s warrant notes issued pursuant to A.R.S. § 35-185.01 or registered warrants of a county issued pursuant to A.R.S. § 11-605, if the yield is equal to or greater than yields on eligible investment instruments of comparable maturities.

5. State Transportation Board Funding Obligations, subject to A.R.S. § 35-313(D), delivered pursuant to A.R.S. § 28-7678.


7. Commercial paper whose issuer is investment grade for short-term obligations by any two NRSRO’s. All commercial paper must be United States dollar denominated.
8. Bills of exchange or time drafts known as banker’s acceptances notes which are issued by commercial banks chartered and doing business in the United States with a rating of Investment Grade or better by any NRSRO’s.

9. Negotiable certificates of deposit issued by a nationally or state chartered bank or savings and loan association which carry as a minimum Investment Grade rating or better by any NRSRO’s.

10. Bonds, debentures, notes or other evidences of indebtedness that are denominated in United States dollars and that carry an investment grade rating by any NRSRO.

11. Securities of or any other interests in any open-end management type investment company or investment trust including exchange traded funds whose underlying investments are invested in securities allowed by state law, registered under the Investment Company Act of 1940 (54 Stat. 789; 15 United States Code §§ 80a-1 through 80a-64), as amended. For any Treasurer investment pool that seeks to maintain a constant share price both of the following are stated to be the investment company’s policy:
   a) The investment company or investment trust takes delivery of the collateral for any repurchase agreement either directly or through an authorized custodian.
   b) The investment policy of the investment company or investment trust includes seeking to maintain a net asset value of one dollar per share.

12. Any of the investments authorized in A.R.S. § 35-312 and A.R.S. § 35-313 not heretofore mentioned, which are limited to shares in the Treasurer’s local government investment pools which seek to maintain a constant share price, shares in the Treasurer’s medium-term government investment pools, which terms are determined by the Board, pursuant to A.R.S.§ 35-326.01, certificates of deposit, collateralized repurchase agreements, deposit accounts and collateralized interest bearing saving accounts with eligible depositories, and certificates of deferred property taxes as provided by A.R.S. § 42-17309.

13. Any of the investments authorized in A.R.S. § 35-312 and A.R.S. § 35-313 not heretofore mentioned, which are limited to certificates of deposit, collateralized repurchase agreements, deposit accounts and collateralized interest bearing saving accounts with Arizona depositories.

14. Securities with a Hard Put may be purchased even though the stated final maturity exceeds the fund/pool's guidelines for maximum final maturity as long as the put-date does not exceed those same guidelines. The portfolio manager may decide not to put the security back to the issuer only if the final maturity (or next hard put date) falls within the fund/pool's guidelines for maximum allowable maturity.

15. Equities for any investment pool in which the investment participant is authorized by statute to invest in equities.
   a) For equity investment pools whose stated objective is a “Passive Index Strategy,” the following guidelines shall apply: For each index, the sector and individual equity weightings of the pool will coincide with the weights of the index. Equity index pool weightings for internally managed funds shall be managed with the goal of allowing a variance of no more than five (5) percent of the market value of the portfolio per sector and one (1) percent of the market value of the portfolio per individual equity. Each equity pool shall
rebalance to the Index at least quarterly. Stocks selected for each index are limited to the equities in the particular index.
b) Each equity pool may invest in exchange traded products that mimic the index of each pool.
c) For all actively managed equity investment pools, no more than five (5) percent of the total market value of the pool may be invested in any single issuer.

16. The Treasurer, prior to purchase, shall approve any security product not described in section IV of this policy in writing.

V. PROHIBITED INVESTMENT PRACTICES

1. Lending Securities (unless otherwise authorized under a securities lending agreement with a second party)
2. Futures, Contractual Swaps, Options
3. Inverse Floaters
4. Interest Only Securities
5. Forward Contracts
6. Closed end management type companies
7. Securities whose yield/market value is based on currency, commodity or non-interest indices
8. Bearer-form securities

VI. INVESTMENT POOL DESCRIPTION AND OBJECTIVES

1. STATE AGENCY POOLS

POOL 2 - STATE AGENCIES I (U.S. Government, Full Faith and Credit);

This pool invests in the full faith and credit of the United States of America, or funds qualified in section IV (10) above that invest in the full faith and credit of the United States of America. The final maturity or, if applicable, average life based on Bloomberg average pre-payment estimates at time of purchase, shall not exceed five years from the settlement date of the purchase. Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.

POOL 3 - STATE AGENCIES II (Diversified Asset Mix);

This pool invests in diversified fixed income assets as noted in section IV above, or funds qualified in section IV (10) that invest in those assets as noted in section IV above. The final maturity, or if applicable average life based on Bloomberg average pre-payment estimates at time of purchase, shall not exceed five years from the settlement date of the purchase. This pool is used by any state agency where the authority to invest references A.R.S. §35-312 or A.R.S. § 35-313. Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.
POOL 4 - STATE AGENCIES IV (U.S. Government and Agencies);

This pool invests in U.S. Treasury & Agency securities (but, not necessarily required to be guaranteed by the full faith and credit of the U.S. Government), or funds qualified in section IV (10) above that invest in U.S. Treasury and Agency securities. The final maturity or, if applicable, average life based on Bloomberg average pre-payment estimates at time of purchase, shall not exceed five years from the settlement date of the purchase. Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.

POOL 9 - BOARD FUNDING OBLIGATIONS;

The only securities issued for this pool are State Infrastructure Bank Board Funding Obligations issued pursuant to A.R.S. §28-7678. The only participant in the pool is the state operating fund.

Pool 9A – PROGRAM FUNDING OBLIGATIONS;

This fund may invest in program funding obligations delivered by the credit enhancement eligibility board pursuant to A.R.S. §35-313(16) in reference of A.R.S. §15-2157. This provision is exempt from the five-year maturity restriction, as well as the Debt Concentration Limit found in section III (3.A) above. The only participant in the pool is the state operating fund.

POOL 10 – STATE AGENCIES MEDIUM TERM AND TAX-EXEMPT NON-AMT POOL;

This pool will invest in diversified fixed income assets as noted in section IV above, or funds qualified in section IV (10) that invest in those assets as noted in section IV above for the purposes of medium term investments for state operations. In addition, the pool will include securities qualified in section IV (10) that are exempt from federal income tax and not subject to the alternative minimum tax under the United States Internal Revenue Code. The maximum duration of the pool is 5 years. For tax-exempt securities, the pre-refunded date on pre-refunded bonds will be considered the maturity date. For tax-exempt securities, except for those securities issued by the State of Arizona and its political subdivisions, and other municipal issues that have been pre-refunded with obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities, securities, at time of purchase, will carry, as a minimum, an A (or equivalent) by any NRSRO. Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.
POOL 15 – STATE AGENCIES OPERATING LIQUIDITY POOL; TRADING CLEARING ACCOUNT

This pool is established to provide short-term liquidity for state operations. This pool may also be used as a clearing and settlement account prior to trades settling in respective investment pools on an intra-day basis. Only participants that are considered to be part of the State's reporting entity will be allowed to participate in this pool.

This pool invests in diversified fixed income assets as noted in section IV above, or funds qualified in section IV (10) that invest in those assets as noted in section IV above. The pool invests in liquid cash equivalents to accommodate the short-term state operations. The final maturity of any fixed-rate security shall not exceed 18 months from the settlement date of the purchase. The final maturity of any variable-rate security shall not exceed two years.

2. LOCAL GOVERNMENT INVESTMENT POOLS

POOL 5 - LGIP;

This pool is for liquid cash equivalent needs of public entities. The pool invests in diversified fixed income assets as noted in section IV above, or funds qualified in section IV (10) that invest in those assets as noted in section IV above. Money market instruments at the time of purchase will carry ratings in the top two categories by any two NRSROs. The final maturity of any fixed-rate security shall not exceed 18 months from the settlement date of the purchase. The final maturity of any variable-rate security shall not exceed two years. The dollar weighted average portfolio maturity (WAM) shall not exceed 90 days.

The portfolio manager shall strive to maintain a Net Asset Value (NAV) of $1.00 ($0.995 - 1.005) for the pool. Unrealized market value gains/losses exceeding this threshold will be realized against income in that same month to the extent that they exceed the allowable range.

POOL 7 - LGIP – (U.S. Government, Full Faith & Credit);

This pool is used for public entities requiring or desiring a liquid investment in a "full faith and credit" pool. Only securities backed by the full faith and credit of the U.S. Government may be purchased for this pool or funds qualified in section IV (10) above that invest in the full faith and credit of the United States of America. The final maturity of any fixed-rate security shall not exceed 18 months from the settlement date of the purchase. The final maturity of any variable-rate security shall not exceed two years. The dollar weighted average maturity (WAM) shall not exceed 90 days.

The portfolio manager shall strive to maintain a Net Asset Value (NAV) of $1.00 ($0.995 - 1.005) for the pool. Unrealized market value gains/losses exceeding this threshold will be realized against income in that same month to the extent that they exceed the allowable range.
POOL 500 – LGIP MEDIUM TERM POOL;

This pool is designed to meet the longer-term investment needs of local governments and public entities including trust and treasury monies. This pool invests in diversified fixed income assets as noted in section IV above, or funds qualified in section IV (10) that invests in those assets as noted in section IV above. The final maturity, or applicable average life based on Bloomberg average pre-payment estimates at time of purchase, of any security shall not exceed five years from the settlement date of the purchase. The duration for the pool shall not exceed 1 year greater than the Bloomberg Barclays US Aggregate 1-3 Year Index.

The Net Asset Value (NAV) of the portfolio is a floating price and will fluctuate from its $1.00 target based on factors such as pool cash flows and market activity. Income generated from investments is distributed monthly. Gains and losses (realized and unrealized) are reflected in the NAV calculated each month.

POOL 700 – LGIP MEDIUM -TERM POOL (U.S. Government, Full Faith & Credit);

This pool is for local governments and public entities including trust and treasury monies requiring or desiring an investment in a “full faith and credit” pool. Only securities backed by the full faith and credit of the U.S. Government may be purchased for this pool, or funds qualified in section IV (10) above that invest in the full faith and credit of the United States of America. The final maturity, or applicable average life based on Bloomberg average pre-payment estimates at time of purchase, of any security shall not exceed five years from the settlement date of the purchase. The duration for the pool shall not exceed 1 year greater than the Bloomberg Barclays US Treasury 1-3 Year Index.

The Net Asset Value (NAV) of the portfolio is a floating price and will fluctuate from its $1.00 target based on factors such as pool cash flows and market activity. Income generated from investments is distributed monthly. Gains and losses (realized and unrealized) are reflected in the NAV calculated each month.

3. PERMANENT LAND ENDOWMENT TRUST POOLS

POOL 201 - PLETF LARGE-CAP EQUITY POOL;

This pool implements a passive index strategy as defined in Section IV (15)(A) and is designed to provide diversification, capital growth and dividend income from the large market-capitalization (Large-Cap) companies in the Standard and Poor’s 500. Target allocation to this pool shall be 35% of the market value of the PLETF as established in Section III (2), Table 1. This pool of domestic equities is intended to produce results similar to the Standard & Poor's 500 LargeCap Index.
POOL 203 - PLETF MID-CAP EQUITY POOL;

This pool implements a passive index strategy as defined in Section IV (15)(A) and is designed to provide diversification, capital growth and dividend income from the middle market-capitalization (Mid-Cap) companies in the Standard and Poor’s 400 Index. Target allocation to this pool shall be 15% of the market value of the PLETF as established in Section III (2), Table 1. This pool of domestic equities is intended to produce results similar to the Standard & Poor’s 400 MidCap Index.

POOL 204 – PLETF SMALL-CAP EQUITY POOL;

This pool implements a passive index strategy as defined in Section IV (15)(A) and is designed to provide diversification, capital growth and dividend income from the small market-capitalization (Small-Cap) companies in the Standard and Poor’s 600. Target allocation to this pool shall be 10% of the market value of the PLETF as established in Section III (2), Table 1. This pool of domestic equities is intended to produce results similar to the Standard & Poor’s SmallCap 600 Index.

POOL 205 – PLETF LONG-TERM FIXED-INCOME POOL;

This pool is an actively managed fixed income fund designed to provide diversification, cash flow stability and current income to meet the longer-term investment needs of the PLETF. Target allocation to this pool shall be 40% of the market value of the PLETF as established in Section III (2), Table 1. This is a pool of fixed-income securities pursuant to section IV. Pool 205 was established to provide the endowment funds with fixed-income exposure and to diversify holdings for the smaller funds. The maximum allowable weighted-average duration is 15 years. Maximum allowable exposure to any credit shall be 5% of the pool market value and 5% of the issuer.

POOL 123 – PLETF DISTRIBUTION FUND;

The PLETF distribution fund is an actively managed short-term fixed income fund designed to provide the liquidity necessary for the monthly distributions pursuant to Article X, Section 7 of the Constitution and A.R.S. § 35-319. Pool 123 is a subset of Pool 205.

This pool invests in diversified fixed income assets as noted in section IV above, or funds qualified in section IV (10) that invests in those assets as noted in section IV above.

The final maturity of any fixed-rate security shall not exceed 18 months from the settlement date of the purchase. The final maturity of any variable-rate security shall not exceed two years. The dollar weighted average portfolio maturity (WAM) shall not exceed 90 days. Allocation to this pool is established in Section III (2), Table 1.

FUNDS 101-114 - Monies shall be invested pursuant to Article X, Section 7 of the Constitution to provide income to beneficiaries of the thirteen endowment funds. Allowable investments include shares in Equity Pools and Fixed Income Pools as established by the Board.
4. ARIZONA ENDOWMENT TRUST FUND

POOL 301 – ARIZONA ENDOWMENT LARGE-CAP EQUITY POOL;

This pool implements a passive index strategy as defined in Section IV (15)(A) and is designed to provide diversification, capital growth and dividend income from the large market-capitalization (Large-Cap) companies in the Standard and Poor’s 500. Target allocation to this pool shall be 35% of the market value of the Arizona Endowment as established in Section II (3), Table 2. This pool of domestic equities is intended to produce results similar to the Standard & Poor's 500 LargeCap Index.

POOL 303 – ARIZONA ENDOWMENT MID-CAP EQUITY POOL;

This pool implements a passive index strategy as defined in Section IV (15)(A) and is designed to provide diversification, capital growth and dividend income from the middle market-capitalization (Mid-Cap) companies in the Standard and Poor’s 400 Index. Target allocation to this pool shall be 15% of the market value of the Arizona Endowment as established in Section II (3), Table 2. This pool of domestic equities is intended to produce results similar to the Standard & Poor’s 400 MidCap Index.

POOL 304 – ARIZONA ENDOWMENT SMALL-CAP EQUITY POOL;

This pool implements a passive index strategy as defined in Section IV (15)(A) and is designed to provide diversification, capital growth and dividend income from the small market-capitalization (Small-Cap) companies in the Standard and Poor’s 600. Target allocation to this pool shall be 10% of the market value of the Arizona Endowment as established in Section III (3), Table 2. This pool of domestic equities is intended to produce results similar to the Standard & Poor’s SmallCap 600 Index.

POOL 305 – ARIZONA ENDOWMENT LONG-TERM FIXED-INCOME POOL;

This pool is an actively managed fixed income fund designed to provide diversification, cash flow stability and current income to meet the longer-term investment needs of the Arizona Endowment. Target allocation to this pool shall be 40% of the market value of the Arizona Endowment as established in Section III (3), Table 2. This is a pool of fixed-income securities pursuant to section IV. Pool 305 was established to provide the endowment funds with fixed-income exposure and to diversify holdings for the smaller funds. The maximum allowable weighted-average duration is 15 years. Maximum allowable exposure to any credit shall be 5% of the pool market value and 5% of the issuer.
5. SEPERATELY MANAGED ACCOUNT POOLS

POOL 12 - CAWCD MEDIUM-TERM POOL;

This pool is established to provide the Central Arizona Water Conservation District with investments with a longer duration pool of securities. The target duration of the pool is 4.5 years. Securities, at time of purchase, will carry, as a minimum, an A or better rating (or equivalent) by any NRSRO. Eligible securities include U.S. Treasury, U.S. agency, corporate notes, MBS/ABS, and money market instruments with a minimum of the top two ratings by any NRSRO or funds qualified in section IV (10) that invests in those assets as noted in section IV above. No state agency or general fund participation is allowed in this pool. CAWCD owns the SECURITIES in this pool (as opposed to SHARES).

POOL 16 – ECDH MEDIUM-TERM POOL;

This pool is established to provide the Early Childhood Development and Health Board with investments with a longer duration pool of securities. The maximum duration of the pool is 5 years. Securities, at time of purchase, will carry, as a minimum, an A or better rating (or equivalent) by any NRSRO. Eligible securities include those mentioned in Section IV 1-13 of this policy. No state agency or general fund participation is allowed in this pool. ECDH owns the SECURITIES in this pool (as opposed to SHARES).

VII. SECURITIES LENDING

The investment of cash and or non-cash collateral received as part of a securities lending program are limited to those investments authorized for each investment pool or SMA. For pools 201, 203, 204, 301, 303, and 304 securities lending investments may include any investments authorized in section IV.

VIII. INVESTMENT OPERATIONS

1. DELEGATION OF AUTHORITY

Authority to manage the State's investment program is vested in the Treasurer under the trusteeship of the Board pursuant to the Constitution and Arizona Revised Statutes. Day-to-day management responsibility for the State’s investment program is delegated to internal and external portfolio managers under the direction of the IRMC. The IRMC and Portfolio Managers are responsible for investment decisions and activities under the direction of the Treasurer. The IRMC consists of a Deputy Treasurer, Chief Investment Officer, Internal Portfolio Managers, and investment analysts employed by the Treasurer’s office. The IRMC shall establish written procedures for the operation of the State’s investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the IRMC.
The IRMC shall establish a system of internal controls to regulate the activities of investment personnel and the Treasurer shall approve this system. In the development of the system of internal controls, consideration shall be given to documentation of strategies and transactions, techniques for avoiding collusion, separation of functions, delegation of authority, limitations of action and custodial safekeeping.

2. QUALIFICATIONS OF INVESTMENT OFFICIALS

Internal portfolio managers are appointed by the Treasurer and are responsible for planning directing and managing the State’s investment programs. These positions are under the direction of the Deputy Treasurer and each appointee shall meet the following guidelines:

A bachelor's degree from an accredited institution in a finance-related field;

And

Eight years of work experience as an investment or trust officer for a financial institution, association, or corporation, or governmental entity;

Or

Five years of experience in fixed income and/or equity portfolio analysis which includes the use of fixed income and/or equity analytics systems.

Or

Five years of experience in money market and fixed income investing or equivalent experience as approved by the Treasurer.

Or

Any combination of the above equaling five or more years of experience.

3. EXTERNAL PORTFOLIO MANAGEMENT

External investment managers offer expertise, resources, investment flexibility, and/or comparative performance in addition to the capabilities of internal personnel. With the authority derived from the Constitution and A.R.S. Title 35, Chapter 2, Article 2, the Treasurer may conduct a search and retain an external investment manager(s) to invest a portion of the assets included in the State’s investment program. Prior to entering an agreement with an external investment manager, the Treasurer will issue and complete a request for competitive proposal (RFP) in accordance with laws laid out in A.R.S. Title 41, Chapter 23, to be evaluated and awarded by a specially designated RFP committee. External portfolio managers shall be approved by the Board upon the recommendation of the IRMC.

External Portfolio Managers shall possess adequate skills, resources and experience, as determined by the IRMC and investment policy, and shall have the power to invest assets in accordance with pool guidelines and objectives as laid out in investment policy.
4. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery versus payment basis with the exception of tri-party repurchase agreements which require the securities to be held by a third-party custodian under the terms of the contract for such tri-party repurchase agreements. Securities shall be held by the Treasurer or a custodian designated by the Treasurer and evidenced by custodial reports.

5. BROKERS/DEALERS

Investment transactions shall only be conducted with financial institutions that are licensed as may be required by law to do business in Arizona. Primary government securities dealers, or broker-dealers engaged in the business of selling government securities shall be registered in compliance with section 15 or 15C of the Securities Exchange Act of 1934 and registered pursuant to A.R.S. § 44-3101, as amended. In addition, investment transactions shall be conducted only with those direct issuers who meet both credit and capital requirements established by the Treasurer. It shall be the responsibility of the broker-dealer to provide the following:

A. Audited most recent annual financial statements within six months of the close of the fiscal year
B. Unaudited most recent quarterly financial statements
C. Proof of Financial Industry Regulatory Authority (FINRA) or successor agency certification
D. Proof of Arizona registration (as needed)
E. A signed letter acknowledging that they have read the Treasurer’s investment policies

Broker-dealers shall be approved by the Board upon the recommendation of the IRMC before any investment transactions commence. The Treasurer shall maintain a listing of approved broker dealers to be reviewed annually.

The Treasurer will periodically ask brokers to quote prices (as of the last day of the prior month) for securities. The Treasurer requires these quotes no later than six business days after the broker has received the request. Non-compliance with this policy will result in the suspension of trading with that broker until such quotes are received.

6. PURCHASES AND SALES OF SECURITIES

All trades shall be executed with the objective of realizing the best bid or offer price available. It is the responsibility of the investment personnel to know the "market price" or relative values of all securities before trades are executed. The method used by the investment personnel shall be the one that will obtain the best execution price or value given the objective of the transaction.
7. ETHICS AND CONFLICTS OF INTEREST

It is the intent of the Treasurer that all personnel maintain high ethical standards when transacting business on behalf of the State of Arizona. Officers and employees of the Treasurer involved in the investment process shall understand, conform, and commit to the Arizona State Treasurer’s Office’ Employee Code of Conduct, and further adhere to the conflict of interest laws as set forth in A.R.S. § 38-501 through 38-511. They shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. All such investment officials shall disclose to the Treasurer, at least annually, any holdings material to their investment portfolio in financial institutions that conduct business within this jurisdiction, and they shall further disclose any related parties who are employed by financial institutions doing business with the State's portfolios. All investment officials shall subordinate their personal investment transactions to those of the State, particularly with regard to the timing of purchase and sales.

8. NOTICE OF REDEMPTIONS/WITHDRAWALS

State Agencies may be required to give notice of withdrawal and deposit transactions by 2:00 P.M. on the day prior to the transaction only after the Treasurer’s office has provided at least two weeks’ notice to agencies of the new transaction deadline.

For Local Government Investment Pool (Pool 5) or Local Government Investment Pool GOV (Pool 7) deposits can be made at any time. Withdrawals may be made on the same day if a draw down request is received by 10:00 a.m. on such day. Withdrawals over $3 million dollars may require 24-hour advance notice; withdrawals over $5 million may require 72-hour notice; withdrawals over $10 million may require 5-day notice and withdrawals over $20 million may require 7-day notice.

Transfers to and from SMAs, the LGIP Medium Term Pool (Pool 500) or LGIP-GOV Medium Term Pool (Pool 700) shall be made once per month upon receipt of notification at least five business days prior to the end of the month. The effective date of the transfer will be the first business day of the next month.

The Treasurer cannot anticipate all instances which might adversely affect this policy, therefore the goal of liquidity is subject to change as economic or other conditions warrant.

9. PROXY VOTING

It is the policy of the Board to instruct the staff to vote with management’s recommendations in all proxies unless the Board determines that a different vote is more beneficial to the PLETF.

10. SECURITIES LITIGATION

The Treasurer monitors and participates in securities litigations as necessary to protect the interests of the securities owned. The Board’s approval is required before initiating a class action or pursuing individual private action. The Board’s approval is not necessary to participate in an already established class action.
IX. PERFORMANCE EVALUATION AND REPORTING

Evaluation and monitoring of investment performance are the ongoing responsibilities of the IRMC with assistance from the Investment Accounting Manager. Performance statistic and activity reports shall be generated by the Investment Accounting Manager.

1. Monthly Performance Analysis

The Investment Accounting Manager shall generate and provide a monthly performance report to the Treasurer, Board, and IRMC. Pursuant to A.R.S. § 35-311, the Board shall meet monthly to review and approve the performance reports. Monthly performance reports are matters of public record and contain the following information:

A. Earnings distributed for each investment fund and the general fund, compared to the same period from the prior year as well as management fees collected per fund.
B. Net earnings, monthly yield, yield-to-date, and comparisons to benchmarks.
C. Weighted average life, duration, maturity and rating for each fund.
D. Percentage breakdown of assets by duration, rating, sector and allocation.
E. Average invested balance of operating monies compared to the previous two years.
F. PLETF performance including all items listed in 1 through 5 as well as purchases and sales, realized gains and losses and investments outstanding by shares, book, and market value as well as unrealized gains and losses.
G. PLETF performance shall also show the total return for the current month, fiscal year to date as well as trailing three-, five-, and ten-year returns, as well as since the fund’s inception.
H. Equity investments summarized by industry sectors compared to benchmarks (including cash and SPDR holdings) specified in each index, with columns depicting market value and fund and index sector weightings.
I. Separately managed accounts may be reported on a composite basis.
J. A broker activity report to be included on a quarterly basis.

2. Periodic Reporting

The Investment Accounting Manager shall prepare a daily report of all purchases, sales, investment holdings, and pool balances. Periodic reporting will be provided to the IRMC for all investment pools.

The report of investment holdings shall be reconciled to the Treasurer’s custodian bank within 30 days of the close of each month. Discrepancies shall be reported to the Treasurer and IRMC.

A summary of accounts by cities, counties, and other public entities shall be prepared on a monthly basis.

3. Annual Reporting

The annual audited financial report shall be submitted to the Governor pursuant to A.R.S. § 41-172A.8, on or before November 1 of each year.
X. OTHER

Any deviation from the preceding policy shall require the prior specific written authority of the Treasurer.

This Investment Policy will be reviewed annually to keep abreast of changes in the financial market place.

Questions regarding, or requests for copies of this investment policy can be addressed to the Chief Investment Officer at (602) 542-7800.

Effective Date: May 25, 2021

Kimberly Yee, State Treasurer