



The
State
Treasurer's
Annual
Report



Investment Management
Division

Investment Management Division



Standing, left to right:

Rodney Overcash
Wilbert Lewis
Jeff Smith
Christopher Morris

Seated, left to right:

Craig Demko
Michael Williamson *Center*
Susan Carter



- The North Carolina Retirement Systems, the formal name for the Pension Fund, is the tenth largest public pension fund in the country with \$60.2 billion in assets.
- In the fiscal year ending June 30, 2009, the investment performance for the North Carolina Pension Fund (Pension Fund) declined 14.2 percent. This performance for the 2009 fiscal year is ranked in the top quartile in comparison to other public funds.
- For the fiscal year ending June 30, 2009, each asset class with the Total Pension Fund produced the following returns:
 - Fixed Income – return of 7.63 percent
 - Global Equity – return of -27.8 percent
 - Private Equity – return of -21.5 percent
 - Real Estate – return of -31.43 percent
- An actuarial valuation completed in October 2008, concluded that the funded status of the Teachers and State Employees Retirement System was 104.7 percent. Funded status is the amount by which a pension plan's assets exceed the projected benefit obligations that will have to be paid in the future.



Investment Management Division

The Investment Management Division serves as the investment arm for the Department of State Treasurer. This Division employs over 20 investment professionals that provide the expertise for state government investing.

The Investment Management Division (IMD) is responsible for the management of:

- **The Cash Management Program** – responsible for managing the operating funds of the State. The main participants in this program are the State’s General Fund and Highway Funds.
- **The Pension Fund Investment Program (Pension Fund)** – responsible for managing assets of the Teachers’ and State Employees’ Retirement System, the Consolidated Judicial Retirement System, the Firemen’s and Rescue Workers’ Pension Fund, the Local Governmental Employees’ Retirement System, the Legislative Retirement System, and the North Carolina National Guard Pension Fund. Collectively, these systems and funds are referred to as the North Carolina Retirement Systems (Systems) and each has a proportionate share of the Equity Fund, Fixed Income Fund, Real Estate Fund, and Alternative Fund (see the Pension Investment Program Review for definitions on page 44).
- **The Ancillary Investment Programs** – as authorized by the General Assembly, responsible for managing assets for the Escheats Fund, UNC and Public Hospital Funds, the Local Government Other Post-Employment Benefits Fund, and other non-Pension assets invested in the core fixed income portfolio.

At the end of the fiscal year closing June 30, 2009, total assets of the Cash Management Program, the Pension Fund Investment Program, and Ancillary Investment Programs were \$71.5 billion.

Program Percentage of Total Assets in 2009

Cash Management Program	13.49%
Pension Fund Investment Program	84.28%
Ancillary Investment Program	2.23%

The Treasurer and Investment Team are responsible for establishing, maintaining, administering, managing, and operating investment programs for all funds on deposit. In doing so, the Treasurer has full powers as a sole fiduciary and shall manage the investment programs so assets may be readily converted into cash when needed for purposes such as paying the benefits of state retirees.

The total of these programs represents the aggregate assets of seven retirement systems, various trust funds and the State’s General and Highway Funds. In establishing the comprehensive management program, the State Treasurer, utilizing a professional investment staff, has developed an investment strategy for each portfolio that recognizes the guidelines of the governing General Statutes and provides appropriate diversification. In addition to the Treasurer and the Investment team managing these programs, the Investment Advisory Committee (IAC) provides opinion on policies and general strategy for achieving investment of the Pension Fund, including asset allocation, in consultation with IMD staff.

Cash Management Program Review

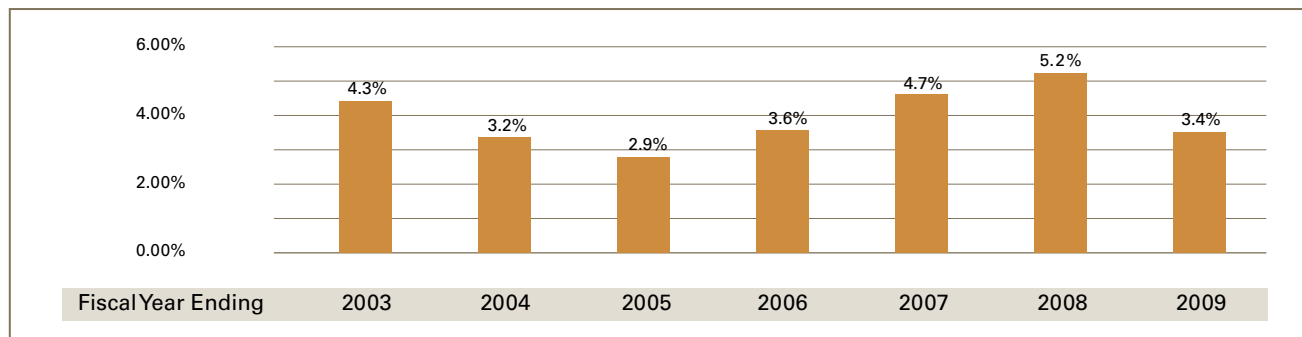
The Cash Management Program's objective is to maximize income consistent with the principals of preservation of capital and liquidity. These investments include short-term money market accounts and bonds that typically get the best interest rates. Additionally, this program included state bank deposits overseen by the Department of State Treasurer as the State's banker.

Short Term Investment Fund

The Short-Term Investment Fund (STIF) comprises 98.6 percent of the Cash Management Program. The Bond Proceeds Fund, managed by Sterling Capital, accounts for 1.4 percent of the Program.

The STIF is an internally managed portfolio of highly liquid fixed income securities. These securities are primarily money market instruments and short to intermediate term U.S. Treasuries and Agencies, such as Fannie Mae or Freddie Mac. All bank accounts of the State Treasurer are included in this portfolio, which serves as the main operating account for state agencies. Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants (or state checks), the primary consideration in making investments is safety and liquidity; the secondary consideration is income. For the fiscal year 2009, the STIF generated a return of 3.4 percent. The following chart provides historic returns for the fund performance as of June 30, 2009.

STIF Fiscal Year Performance

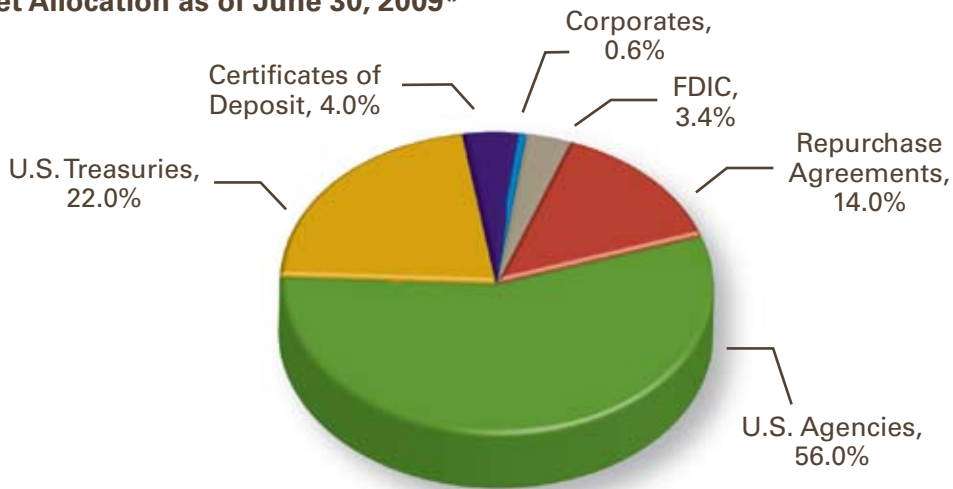


Investment Management Division

Cash Management Program Review continued

The following graph provides STIF Asset Allocation as of June 30, 2009.

STIF Asset Allocation as of June 30, 2009*



*** Definitions:**

U.S. Treasuries – government debt issued by the United States Department of the Treasury

Certificates of Deposit – financial product commonly offered to consumers by banks, thrift institutions and credit unions

Corporates – debt from a company or corporation

FDIC – FDIC-guaranteed notes

Repurchase Agreements – short-term collateralized loan

U.S. Agencies – debt from a federal government agency or government sponsored enterprise such as the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal Home Loan Banks and Federal Farm Credit Banks

Short Term Investment Fund Top Ten Positions

The chart below shows the top ten positions for the fiscal year for the Short Term Investment Fund as of June 30, 2009.

STIF Top 10 Positions as of June 30, 2009

Largest investments within the fund and the maturity date and value

ISSUER (SECURITY NAME)	COUPON	MATURITY DATE	PAR VALUE (\$)
FHLB Discount Notes	---	07/01/2009	1,200,000,000
Mizuho Securities Repo	---	07/01/2009	1,000,000,000
HSBC Securities Repo	---	07/01/2009	420,000,000
U.S. Treasury Note	3.625%	10/31/2009	350,000,000
Federal Home Loan Mortgage Corp.	3.030%	05/05/2014	250,000,000
Federal Home Loan Mortgage Corp.	3.125%	11/05/2014	250,000,000
Federal Home Loan Mortgage Corp.	3.020%	09/25/2013	250,000,000
Federal Home Loan Mortgage Corp.	3.140%	05/12/2014	250,000,000
Federal Home Loan Mortgage Corp.	2.125%	07/29/2011	250,000,000
Federal Home Loan Mortgage Corp.	3.310%	06/03/2014	250,000,000

Summary of Brokers Utilized to Trade Fixed Income Securities during Fiscal Year 2009

Brokers are used to execute buy and sell orders on behalf of the fund, adding the benefit of experience in the field to investment decisions. Below is a list of Brokers used to facilitate trades of securities during the 2009 fiscal year.

STIF Summary of Brokers Utilized During Fiscal Year 2009

Bank of America	Goldman Sachs	Morgan Stanley
Barclays Capital	HSBC Securities	RBC Capital Markets
Citigroup	JPMorgan Chase	RBS Greenwich Capital
Credit Suisse Securities	Loop Capital	UBS Securities
Deutsche Bank Securities	Merrill Lynch	Wachovia Capital Markets
First Tennessee Bank	Mizuho Securities	

Pension Fund Investment Program Review

The Pension Fund Investment Program's objective is to generate returns that match or exceed those of the appropriate benchmarks over a three to five year basis, maintaining the long-term strength of the Systems by providing a consistent long-term actuarial rate of return while simultaneously minimizing risk in the portfolio. These are long-term investments in stocks, bonds and real estate.

The Division conducts its activities in accordance with the Statement of Investment Policy approved by the Treasurer in consultation with the Investment Advisory Committee.

This policy covers fiduciary standards of care, asset allocation ranges, rebalancing processes, and other issues.

Operating Policy

In all transactions executed for any investment program managed by the State Treasurer, the objective is to perform such business in the best interest of the beneficial owners of the trusts' assets, which are North Carolina's public employees, teachers, firefighters, police officers, and other public workers.

Within the Pension Fund, assets are divided into various classes of investments defined in the chart below.

Portfolio	Investment Mandate	Definitions
Fixed Income Investment Portfolio	Longer Term Investments	Investment Grade Corporate Securities, Treasuries, Agencies, MBS
Equity Investment Portfolio	Equity Securities	Separate Accounts and Funds with experienced public equity investment advisors
Real Estate Investment Portfolio	Real Estate	Limited Partnerships* managed by experienced real estate advisors
Private Equity Investment Portfolio	Private Equity	Limited Partnerships* managed by experienced private equity advisors
Hedged Strategies Investment Portfolio	Hedge Funds	A diversified mix of funds managed by experienced advisors

*Limited Partnerships are the standard vehicle for investment in private equity and real estate funds with a main purpose of buying interests in investments that, in general, are not publicly traded. The partnership has a General Partner whose responsibilities include making and monitoring investments, ultimately exiting investments to generate returns on behalf the investors. The investors are known as Limited Partners.

Pension Fund Strategy

The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well throughout the years. The Pension Fund continues that tradition with a significant allocation in fixed income assets (bonds). The result of this strategy is a fund that is a top performer in turbulent economic and financial market environments, and steady in bull markets.

Recent Standard & Poor's reports and rankings demonstrate the strength of North Carolina's long-term strategy as it consistently ranks in the top five of state retirement funding ratios. More recently, Wilshire, the most widely accepted benchmark for the performance of institutional assets, reported that North Carolina was one of the top performers for the fiscal year ending June 30, 2009. In a year when the median public fund with assets greater than \$5 billion lost 18.8 percent and the S&P 500 lost more than 26 percent, the North Carolina Retirement Systems lost 14.2 percent.

Fiscal Year Review

The fiscal year ending June 30, 2009 saw significant turmoil and losses in markets across the globe. The mortgage crisis and tightening credit, investment bank failures, and declines across the financial markets made it a difficult year for investors. Although the Pension Fund experienced negative performance for the fiscal year, its conservative asset allocation discipline and investment strategy mitigated the extreme losses experienced by peer investors and helped the Pension Fund outperform its benchmark.

Many investors were hit particularly hard by collapses in structured securities and other credit instruments. The Pension Fund avoided these pitfalls and took no direct losses from instruments such as Collateralized Debt Obligations (CDOs) and Structured Investment Vehicles (SIVs). In addition, the Investment Management Division was able to identify and

capitalize on the crisis-induced opportunities presented in the credit markets. For example, a selection of investments made to the significantly distressed residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and senior secured loan markets provided an immediate and positive impact on the portfolio throughout the second half of the fiscal year.

The year did see the Pension Fund make a number of significant new investments and continue its effort to diversify the portfolio and maintain liquidity. Liquidity refers to an asset's ability to be sold without causing a significant movement in the price and with minimum loss of value. The decision to not fully rebalance assets back, meaning that assets were not reallocated to the original desired ratio, into an enduring highly volatile equity market throughout the first half of the fiscal year provided positive results to the Pension Fund. Throughout one of the most challenging fiscal years, the fixed income portfolio maintained ample liquidity to satisfy cash demands and posted strong gains. During the first half of the fiscal year, the Pension Fund accessed strong opportunities in alternative investments to help boost performance and reduce risk; however, activity in 2009 was limited as the Pension Fund reached its asset allocation limits that are determined by North Carolina General Statutes near the end of 2008.

Investment Management Division

Pension Fund Investment Program Review continued

Total Pension Fund Structure

As of June 30, 2009, the Pension Fund maintained a market value of \$60.2 billion. The Investment Management Division is constantly monitoring the overall Pension Fund in an effort to control risk. The following chart highlights the strategic asset allocation targets over the past four years.

Current and Historical Strategic Targets

	JUNE 2004	JUNE 2005	JUNE 2006	JUNE 2007	JUNE 2008	JUNE 2009
Fixed Income	41.0%	39.5%	39.5%	39.5%	39.5%	39.5%
Global Equity	54.0%	54.5%	54.5%	52.0%	50.0%	50.0%
U.S.	46.5%	46.8%	41.5%	36.0%	34.0%	34.0%
Non-U.S.	7.5%	8.0%	13.0%	16.0%	16.0%	16.0%
Real Estate	3.5%	3.5%	3.5%	5.0%	6.0%	6.0%
Private Equity	0.75%	1.10%	1.25%	1.75%	3.15%	3.15%
Hedged Strategies	0.75%	1.10%	12.5%	1.75%	1.35%	1.35%

The Investment Management Division utilizes rebalancing to ensure the overall portfolio weights stay in line with the target ranges. Asset allocation and a disciplined approach to rebalancing ultimately controls the level of risk that an investment portfolio experiences.

Pension Fund Asset Allocation as of June 30, 2009

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT	TARGET RANGE
Fixed Income	\$25,353,050,201	42.1%	39.5%	35.0% – 44.0%
Global Equity	\$28,355,391,185	47.1%	50.0%	45.0% – 55.0%
Real Estate	\$3,244,341,605	5.4%	6.0%	5.0% – 7.0%
Private Equity	\$2,622,467,948	4.4%	3.15%	3.5% – 5.0%
Hedged Strategies	\$648,794,822	1.1%	1.35%	3.5% – 5.0%
TOTAL PENSION FUND	\$60,224,045,821	100.0%	---	---

Total Pension Fund Performance

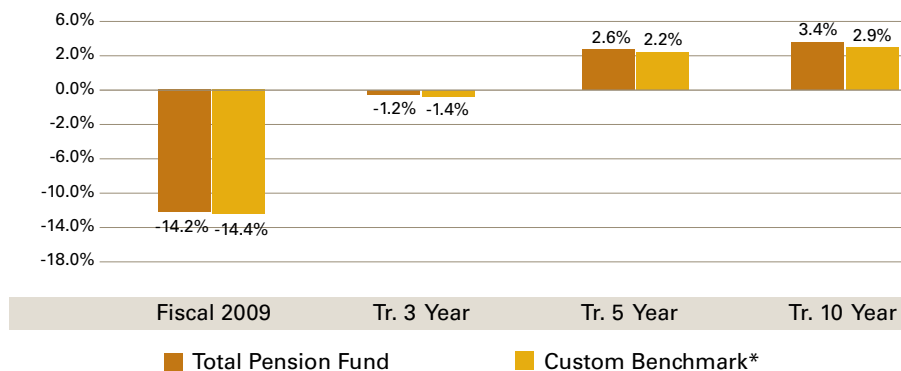
The Pension Fund has outperformed its custom benchmark over the past fiscal year, attributable to the selection of investments and its emphasis on downside protection. The following chart provides fiscal year returns for each asset class within the total Pension Fund.

2009 Fiscal Year Returns Total Pension Fund

Fixed Income	7.6%
Equity	-27.8%
Real Estate	-31.4%
Private Equity	-21.5%
Hedged Strategies	-16.8%
TOTAL PENSION FUND	-14.2%

For the fiscal year 2009, the Pension Fund returned -14.2 percent, net of fees, outperforming its custom benchmark return of -14.4 percent. Over longer time periods, the Pension Fund outperformed its benchmark for the annualized three-, five- and ten-year periods ending June 30, 2009. Compared to its peer group plans, the Pension Fund also outperformed the median public plan with greater than \$5 billion across the one-, three- and five-year time periods, according to Wilshire. The below charts provide a snapshot for the total pension fund's annualized performance and performance by asset class for one-, three-, five-, and ten-year periods.

Total Pension Fund Annualized Performance



* 50% Custom Global Equity Benchmark, 39.5% Custom Fixed Income Benchmark, 6% Custom Real Estate Benchmark and 4.5% Custom Alternatives Benchmark (70 percent Custom Private Equity Benchmark and 30 percent Custom Hedge Fund Benchmark).

Pension Fund Investment Program Review continued

The following chart details performance by asset class and also provides the benchmarks or target returns.

Annualized Performance as of June 30, 2009

	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Total Pension Fund	-14.2%	-1.2%	2.6%	3.4%
Total Pension Custom Benchmark ¹	-14.4%	-1.4%	2.2%	2.9%
Fixed Income Portfolio	7.6%	7.4%	5.8%	6.9%
Custom Fixed Income Benchmark ²	6.2%	6.7%	5.4%	6.6%
Global Equity Investment Portfolio	-27.8%	-8.1%	0.9%	0.0%
Custom Global Equity Benchmark ³	-27.9%	-8.2%	-1.2%	-1.0%
Real Estate Investment Portfolio	-31.4%	-4.8%	3.9%	5.3%
Custom Real Estate Benchmark ⁴	-23.8%	-0.9%	6.2%	7.8%
Private Equity Investment Portfolio	-21.5%	1.2%	5.8%	2.5%
Custom Private Equity Benchmark ⁵	-35.7%	-11.0%	-2.0%	0.3%
Hedged Strategies Investment Portfolio	-16.8%	-2.9%	0.9%	–
Custom Hedged Strategies Benchmark ⁶	5.0%	7.2%	7.2%	7.2%

¹ 50 percent Custom Global Equity Benchmark, 39.5 percent Custom Fixed Income Benchmark, 6 percent Custom Real Estate Benchmark, and 4.5 percent Custom Alternatives Benchmark (70 percent Custom Private Equity Benchmark and 30 percent Custom Hedge Fund Benchmark)

² 40 percent Govt 5+Yr, 35 percent Corp (Investment Grade – BBB Max 25 percent) 5+Yr, and 25 percent Mortgage Master

³ 68 percent Russell 3000 Index and 32 percent Custom International Equity Benchmark (90 percent MSCI EAFE Index/10 percent MSCI EM Index)

⁴ 90 percent NCREIF Open End Funds Index and 10 percent FTSE EPRA/NAREIT Global Securities Index

⁵ Russell 3000 Index lagged 3 months + 250 basis points

⁶ U.S. T-Bill + 400 basis points

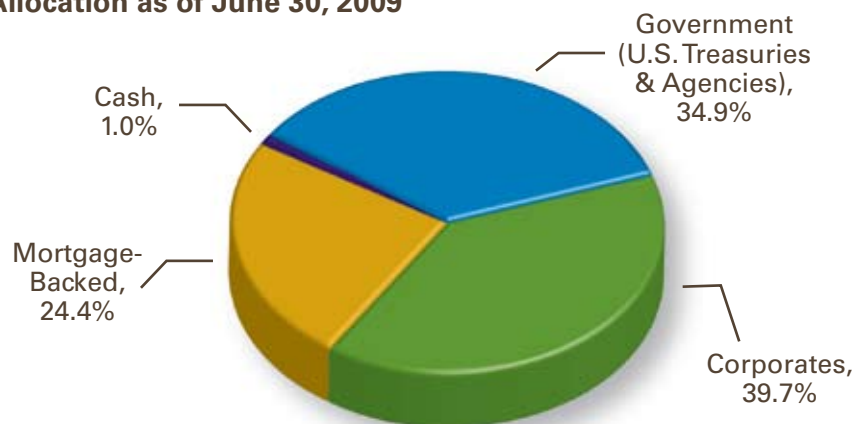
Fixed Income

As of June 30, 2009, the fixed income allocation maintained a market value of \$25.4 billion, representing 42.1 percent of the Pension Fund. The Pension Fund's core Long-Term Investment Portfolio (LTIP) represents the bulk of the fixed income assets with a market value of \$23.2 billion. The balance of the fixed income assets are in non-core strategies.

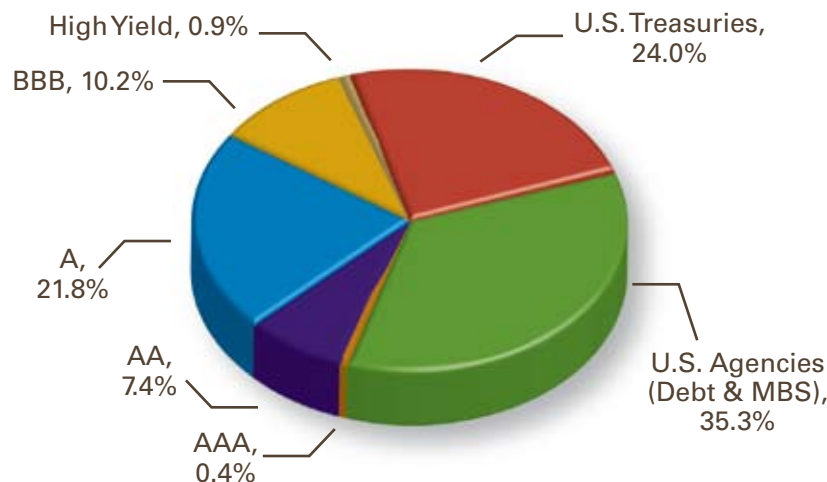
Core Fixed Income Structure

The LTIP is an internally managed investment grade fixed income portfolio that takes an enhanced approach of generating excess returns versus an assigned benchmark. The portfolio is structured to provide an intermediate duration profile that better matches the Pension Fund's longer duration liability stream versus a short duration fixed income portfolio. Because of this approach, the duration of the portfolio tends to be relatively long. Duration is a measure of a bond's price sensitivity to changes in interest rates. The portfolio is comprised of U.S. Treasuries, Agencies, Corporate Bonds, and GNMA mortgage-backed securities. The following charts display the allocation of the LTIP by investment and by quality, or credit rating, of investments.

LTIP Sector Allocation as of June 30, 2009



LTIP Quality* Allocation as of June 30, 2009



*Credit Quality based on Moody's Ratings

Fixed Income continued

Fixed Income Market Overview

The fiscal year began in an environment where the credit crisis was intensifying, providing a sudden tightening of the conditions required to obtain a loan from the banks, and cash flow conditions were deteriorating rapidly. Investors began to sell what they perceived to be higher-risk investments and purchase safer investments, as liquidity and event risk fears gripped the market. Before the end of the calendar year, the Treasury Department and Federal Reserve were compelled to inject massive amounts of liquidity into the system in an effort to stabilize the markets. The Federal Open Markets Committee cut rates three times during the fourth quarter, down from 2.0 percent to between 0.0 percent and 0.25 percent. U.S. Treasury yields declined roughly 175 basis points across the curve during the last six months of 2008. While rates fell and the government took unprecedented actions, the consumer retrenched on a bleak economic outlook and rapidly deteriorating housing market. Markets began to stabilize in the second quarter of 2009 as liquidity began to improve and government intervention added a level of stability to the credit markets. While rates on the short end remained low, intermediate and long U.S. Treasury rates bounced off their historical lows from late 2008. It was a tale of two halves for corporate bonds, with credit spreads hitting record wide levels during 2008, before tightening significantly during the second quarter of 2009. Below are lists of the top ten corporations within the LTIP and a summary of brokers utilized to trade securities for the portfolio.

LTIP Top 10 Corporate Positions as of June 30, 2009

CORPORATE ISSUER	% OF LTIP
Bank of America	2.1%
JPMorgan Chase	1.5%
Wells Fargo	1.2%
AT&T Inc.	1.2%
General Electric	1.2%
Citigroup	1.1%
Goldman Sachs	1.0%
Verizon Communications	0.9%
Wal-Mart	0.9%
Morgan Stanley	0.9%

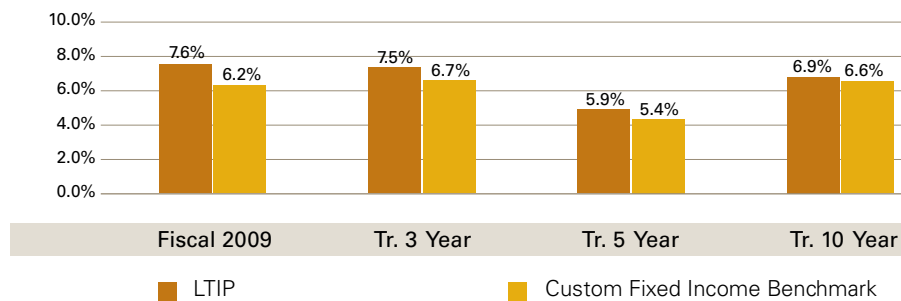
LTIP Summary of Brokers Utilized During Fiscal Year 2009

Bank of America	HSBC Securities	RBC Capital Markets
Barclays Capital	JPMorgan Chase	RBS Greenwich Capital
Carolina Capital Markets	Jefferies & Company	Stifel Nicolaus
Castle Oak Securities	Lehman Brothers	Suntrust Capital Markets
Citigroup	KeyBanc Capital Markets	UBS Securities
Credit Suisse Securities	Merrill Lynch	Wachovia Capital Markets
Deutsche Bank Securities	Mizuho Securities	Williams Capital Group
First Tennessee Bank	Morgan Keegan	
Goldman Sachs	Morgan Stanley	

Core Fixed Income Performance

For the fiscal year, the LTIP returned 7.6 percent, net of fees, outperforming the benchmark return of 6.2 percent performance. The record excess returns for the fiscal year built upon the portfolio's history of strong performance across all respective time periods. The quality bias in corporate bond exposure was a driving factor in the relative performance of the portfolio in the first half of the fiscal year. Once credit spreads spiked to record levels, moving to an overweight on corporate bonds provided significant value in the second quarter of 2009.

Long Term Investment Portfolio Annualized Performance



Non-Core Fixed Income Structure

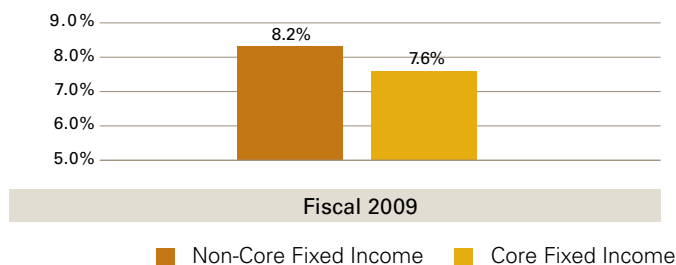
There were several modest tactical changes made in response to the financial market turmoil of the last twelve months. To protect liquidity and hedge against rate increases, a small portion of the core fixed income assets was allocated to the Short-Term Investment Fund. In addition, opportunistic allocations to externally managed high quality investment grade RMBS and AAA-rated CMBS strategies were executed in response to historically cheap valuations in those markets. The strategy was designed to take advantage of temporary dislocations that provide attractive risk/return opportunities in high quality mortgage debt.

The non-core strategies include allocations to STIF (\$0.3 billion), Timber (\$0.6 billion), and investment grade RMBS (\$1.0 billion) and CMBS (\$0.3 billion).

Non-Core Fixed Income Performance

The non-core fixed income composite posted a return of 8.2 percent for the fiscal year. The new mortgage-backed securities strategies produced strong results since their inception, with the RMBS and CMBS portfolios producing returns of 19.2 percent and 22.6 percent, respectively, over the first six months of 2009.

Non-Core Relative to Core Fixed Income Performance



EXTERNALLY MANAGED FIXED INCOME
AS OF 6/30/2009

Manager	Vintage Year	Market Value	Time Weighted 1 yr Performance	Time Weighted 3 yr Performance	Management Fees 1 yr ending 6/30/09	Fees			% mgmt fees/market value	
						Base	Incentive			
ANGELO GORDON										
ANGELO GORDON OPPORTUNITY C	2008	\$ 281,740,760	N/A	N/A	\$ 82,383	\$ 82,383	\$ -		0.03%	
ANGELO GORDON OPPORTUNITY R	2008	\$ 1,028,108,729	N/A	N/A	\$ 214,117	\$ 214,117	\$ -		0.02%	

Global Equity

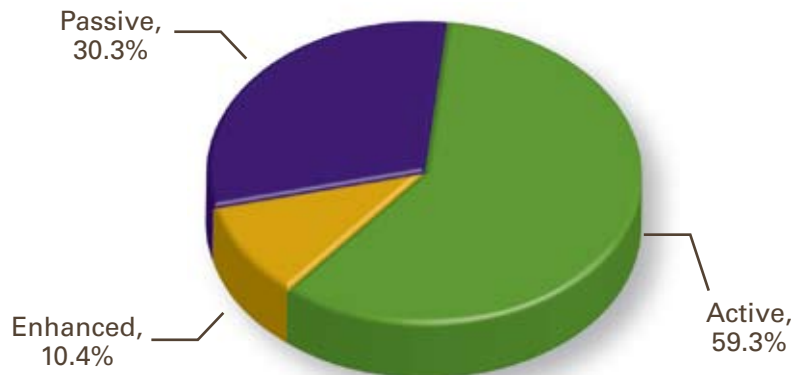
Global Equity Structure

The Global Equity portfolio ended fiscal year June 30, 2009 at \$28.4 billion, with \$19.6 billion in U.S. equity and \$8.7 billion in non-U.S. equity. As a percentage of the Pension Fund's assets, the Global Equity allocation was 47.1 percent on June 30, 2009 versus 49.9 percent on June 30, 2008. However, these endpoints do not reflect the significant movement of markets and the reallocation of funds throughout the year. The fiscal year of 2009 provided massive market volatility and was additionally marked by internal movements in the Global Equity portfolio weighting. By September 30, 2008, the Global Equity portfolio had dropped to 47.3 percent of the Pension Fund. Continued market movements brought the portfolio down to 41.2 percent by calendar year end 2008. Intraday market volatility hit a high in October 2008. The CBOE Volatility Index (VIX), a measure of U.S. equity market volatility, hit an astonishing high of 89.5 on October 24, 2008 versus a daily average of 18.3 for the prior five years. During the first

quarter of 2009, the Global Equity portfolio held relatively steady at a 41.1 percent weight. However, during the final fiscal quarter of the year, through a combination of rebalancing and market reflation the portfolio arrived at the 47.1 percent weight. The manager composition of the portfolio during the year remained relatively constant. During the final fiscal quarter, allocations were made both in U.S. and international segments of the portfolio.

All investments of the Global Equity portfolio are managed externally according to one of three different strategies: passive, enhanced or active. Passive investments track existing indexes in relatively efficient markets. Enhanced indexes allow managers some flexibility to make decisions that deviate from the index, but maintain more control of market risk than active management. Actively managed portfolios give the manager discretion to make investment decisions within the parameters of the portfolio's mandate. The following chart provides percentage of distribution between these types of strategies.

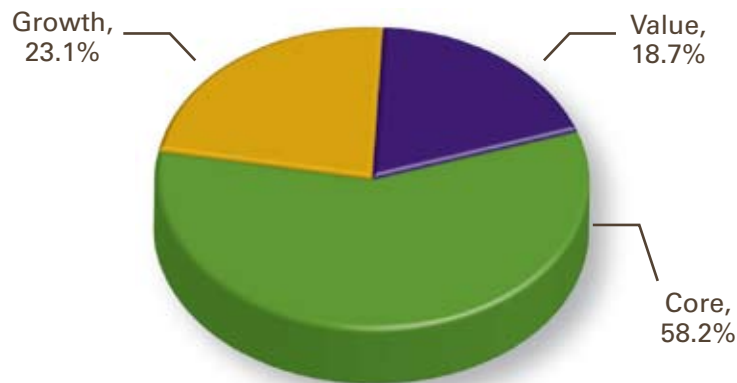
Global Equity Strategy Allocation



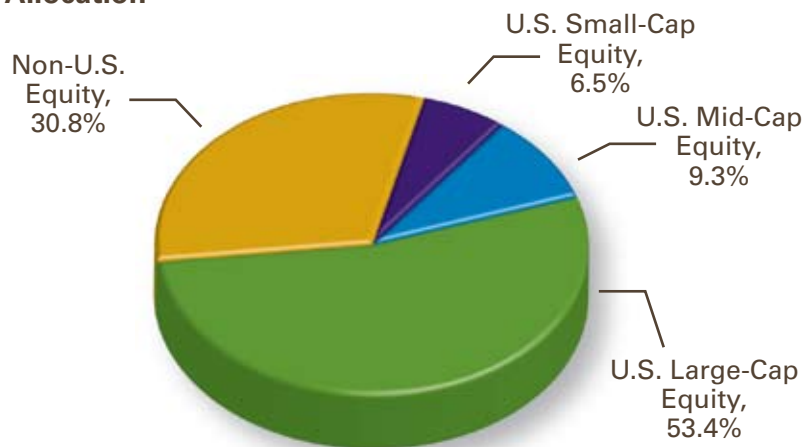
The Global Equity portfolio maintains prudent diversification within the broad equity market. The Global Equity portfolio is also categorized into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap, and Non-U.S. investments. Companies are usually classified as either large cap, medium cap, small cap, or micro cap, depending on the value of a

company or stock. U.S. investments make up the large majority of equity investments, though the international investments have grown in recent years. The charts below provide equity style and size allocations within the overall diversification model for the global equity portfolio.

Global Equity Style Allocation



Global Equity Size Allocation



Global Equity continued

Global Equity Market Overview

To offer perspective on the fiscal year's events, investors experienced the collapse of multiple major financial institutions (Lehman Brothers, AIG, Fannie Mae, Freddie Mac), the absorption of financial institutions in distress (Wachovia, Merrill Lynch, Washington Mutual), the collapse of credit markets, a Presidential election, and economic stimulus not seen since the Great Depression. Market volatility, liquidity and structure were all challenged throughout the year, often simultaneously.

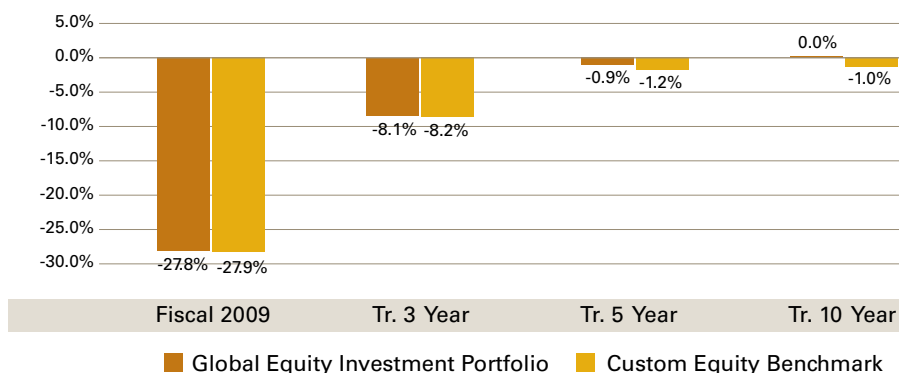
Global equity markets saw their worst performance in a generation, with the U.S. equity market down 26.6 percent (S&P 500) and international markets down -30.9 percent (MSCI ACWI Ex-U.S.) for the fiscal year end. While working through that environment, portfolio managers were faced with a number of daunting decisions. Defensive positions and high quality bias securities provided relative, but not absolute, protection in the third and fourth quarters of 2008 and for a portion of the first quarter of 2009. As global government stimulus packages were enacted, the markets began a rally off the bottom, beginning the first week of March 2009. Both developed and emerging market nations stepped in with stimulus to protect against a potential global market collapse. A segment of

global market participants assessed that the world's governments were going to do "anything necessary" to prevent a collapse. Consequently, the risk appetite for equity securities improved in the second quarter of 2009. The types of securities that benefitted the most from this perceived floor in the market were those that had been damaged the most in the prior quarters. The rally during this short period was evidenced by companies with little to no earnings significantly outperforming companies with better fundamentals. Additionally, companies affected by higher degrees of volatility outperformed their peers. As the fiscal year drew to a close, the global equity markets had reinflated to their "pre-Lehman" levels and valuations had returned from cataclysmic levels. Both of these levels, however, were well below the prior year's numbers.

Global Equity Performance

For the fiscal year, the Global Equity investment portfolio returned -27.8 percent, net of fees, outperforming its benchmark return of -27.9 percent. The attribution of the performance can be further dissected as the international segment of the portfolio outperformed its benchmark by 27 basis points while the U.S. portfolio lagged its benchmark by 4 basis points. The below graph illustrates the fiscal year performance against the benchmark, as well as the three-, five- and ten-year trailing returns.

Global Equity Investment Portfolio Annualized Performance



Global Equity Portfolio Investment Advisors (FY ending 2009)

Below is a list of the Global Equity investment advisor relationships and top ten holdings as of June 30, 2009.

Global Equity Portfolio Investment Advisors (FY ending 2009)

U.S. EQUITY INVESTMENT ADVISORS	STYLE	MARKET VALUE
Wellington Biotechnology	Small-Cap Active	467,089,957
Earnest Partners Small-Cap Value	Small-Cap Active	301,516,686
Sterling Small-Cap Value	Small-Cap Active	234,367,120
Brown Small-Cap Growth	Small-Cap Active	149,413,607
Numeric Small-Cap Value	Small-Cap Active	144,127,454
Turner Quant Micro-Cap	Small-Cap Active	126,940,796
Numeric Small-Cap Growth	Small-Cap Active	51,194,063
SSGA S&P 600	Small-Cap Passive	366,975,346
Wellington Mid-Cap Intersection	Mid-Cap Active	559,527,873
Hotchkis Mid-Cap Value	Mid-Cap Active	275,711,525
TimesSquare Mid-Cap Growth	Mid-Cap Active	166,224,479
TimesSquare Mid-Cap Focused	Mid-Cap Active	152,633,446
Evergreen Mid-Cap	Mid-Cap Passive	1,029,266,308
Columbia Mid-Cap	Mid-Cap Passive	442,064,491
BGI Russell 3000 Alpha Tilts	Large-Cap Active	1,457,687,892
Alliance Relative Value	Large-Cap Active	1,348,826,700
Hotchkis Large-Cap Value	Large-Cap Active	1,130,083,006
Wellington Growth	Large-Cap Active	980,191,856
Wellington Technical Equity	Large-Cap Active	890,614,306
Evergreen Russell 200 Enhanced	Large-Cap Active	637,742,507
Sands Large-Cap Growth	Large-Cap Active	609,954,554
Turner Large-Cap Growth	Large-Cap Active	518,184,126
Piedmont Strategic Core	Large-Cap Active	437,396,495
Relational Investors Large-Cap	Large-Cap Active	434,245,851
First Citizens Large-Cap	Large-Cap Passive	2,218,873,563

Global Equity continued

Non-U.S. Global Equity Portfolio Investment Advisors

The list below includes investment style and market value. Active investing is highly involved, while passive investing focuses more on the potential for long-term appreciation. The second list details the top holdings in the portfolio and the percentage of each.

Non-U.S. Equity Investment Advisors

NON-U.S. EQUITY INVESTMENT ADVISORS	STYLE	MARKET VALUE
GMO Int'l	Non-U.S. Active	1,062,308,767
Capital Guardian Int'l	Non-U.S. Active	867,229,331
Wellington Int'l	Non-U.S. Active	857,878,879
BGI Non-US Alpha Tilts	Non-U.S. Active	852,931,409
Alliance ACWI ex-US	Non-U.S. Active	801,787,993
Baillie Gifford EAFE	Non-U.S. Active	691,820,672
Oeschle EAFE Growth	Non-U.S. Active	525,818,028
Invesco Int'l	Non-U.S. Active	521,829,578
Mondrian EAFE Value	Non-U.S. Active	508,899,002
Alliance Emerging Markets	Non-U.S. Active	397,706,211
Walter Scott Int'l	Non-U.S. Active	367,616,546
Baillie Gifford Emerging Markets	Non-U.S. Active	217,911,119
BGI Frontier Markets	Non-U.S. Active	70,531,191
BGI Emerging Markets	Non-U.S. Active	50,040,928
BGI EAFE Index Fund	Non-U.S. Passive	498,318,952
Brandes Global Equity	Global Active	518,077,218
AGA Global Strategy	Global Active	178,355,300

Global Equity Top 10 Holdings (FY ending 2009)

COMPANY	% of EIP
Exxon Mobil	1.4%
Microsoft	1.0%
Apple	0.9%
Google	0.9%
JPMorgan Chase	0.7%
Chevron	0.6%
Qualcomm	0.6%
Wells Fargo	0.6%
Bank of America	0.6%
Philip Morris Int'l	0.6%

**PUBLIC EQUITY
AS OF 6/30/2009**

Manager	Inception Year	Market Value	Time Weighted 1 yr Performance	Time Weighted 3 yr Performance	Management Fees 1 yr ending 6-30-09	Fees		% mgmt fees/market value	% AUM EIF
						Base	Incentive		
ALLIANCE									
ALLIANCE DISCIPLINED VALUE	1987	\$ 1,348,826,700	(25.99)	(8.70)	\$ 827,575	\$ 827,575	\$ -	0.06%	4.76%
ALLIANCE INTERNATIONAL	1994	\$ 801,787,993	(42.28)	(9.84)	\$ 839,631	\$ 839,631	\$ -	0.10%	2.83%
ALLIANCE EMERGING	1994	\$ 397,706,211	(34.61)	0.23	\$ 369,821	\$ 369,821	\$ -	0.09%	1.40%
ANGELO GORDON									
AG GLOBAL STRATEGY PARTNERS	2007	\$ 178,355,300	(24.53)	NA	\$ 1,103,278	\$ 1,103,278	\$ -	0.00%	0.63%
AG SMID GROWTH*	2007	-	NA	NA	\$ 524,674	\$ 524,674	\$ -	N/A	0.00%
BAILLIE GIFFORD									
BAILLIE GIFFORD EMERGING	2008	\$ 217,911,119	(27.31)	NA	\$ 1,266,551	\$ 1,266,551	\$ -	0.58%	0.77%
BAILLIE GIFFORD EAFE	2007	\$ 691,820,672	(30.49)	NA	\$ 2,302,768	\$ 2,302,768	\$ -	0.33%	2.44%
BANK OF AMERICA									
BOA LARGE CAP PASSIVE	1981	\$ 1,540,422,341	(26.18)	(8.22)	\$ 325,091	\$ 325,091	\$ -	0.02%	5.43%
BOA MID CAP PASSIVE	2001	\$ 442,064,491	(28.11)	(7.58)	\$ 179,435	\$ 179,435	\$ -	0.04%	1.56%
BARCLAYS GLOBAL INVESTORS									
BGI RUSSELL 3000 ALPHA TILTS	2006	\$ 1,457,687,892	(29.12)	NA	\$ 4,802,768	\$ 4,802,768	\$ -	0.33%	5.14%
BGI EAFE INDEX FUND	2007	\$ 498,318,952	(30.99)	NA	\$ -	\$ -	\$ -	0.00%	1.76%
BGI NON US EQUITY	2006	\$ 852,931,409	(32.93)	NA	\$ 3,414,147	\$ 3,414,147	\$ -	0.40%	3.01%
BGI FRONTIER MARKETS	2009	\$ 70,531,191	NA	NA	\$ 74,537	\$ 74,537	\$ -	0.11%	0.25%
BGI EMERGING MARKET	2009	\$ 50,040,928	NA	NA	\$ 22,574	\$ 22,574	\$ -	0.05%	0.18%
BGI TRANSITION (S&P Futures)	2007	\$ 573,147,735	(28.76)	NA	\$ -	\$ -	\$ -	0.00%	2.02%
BRANDES INVESTMENT PARTNERS									
BRANDES GLOBAL EQUITY	2009	\$ 518,077,218	NA	NA	\$ 293,076	\$ 293,076	\$ -	0.06%	1.83%
BROWN ADVISORY									
BROWN SMALL CAP GROWTH	2008	\$ 149,413,607	NA	NA	\$ 793,745	\$ 793,745	\$ -	0.53%	0.53%
CAPITAL GUARDIAN									
CAPITAL GUARDIAN INTERNATIONAL	2002	\$ 867,229,331	(31.49)	(5.13)	\$ 2,961,556	\$ 2,961,556	\$ -	0.34%	3.06%
EARNEST PARTNERS									
EARNEST PARTNERS SMALL CAP VALUE	2002	\$ 301,516,686	(29.15)	(11.05)	\$ 1,642,262	\$ 1,642,262	\$ -	0.54%	1.06%
FIRST CITIZENS									
FIRST CITIZENS LARGE CAP PASSIVE	2001	\$ 2,218,873,563	(26.14)	(8.20)	\$ 571,109	\$ 571,109	\$ -	0.03%	7.83%
GMO									
GMO INTERNATIONAL	2002	\$ 1,062,308,767	(31.47)	(7.98)	\$ 9,141,487	\$ 2,375,271	\$ 6,766,216	0.22%	3.75%
HOTCHKIS & WILEY									
HOTCHKIS & WILEY LARGE CAP VALUE	2008	\$ 1,130,083,006	(25.57)	NA	\$ 3,392,063	\$ 3,392,063	\$ -	0.30%	3.99%
HOTCHKIS & WILEY MID CAP VALUE	2003	\$ 275,711,525	(18.91)	(13.16)	\$ 1,422,670	\$ 1,422,670	\$ -	0.52%	0.97%
INVESCO									
INVESCO EAFE CORE	2007	\$ 521,829,578	(24.42)	NA	\$ 1,825,834	\$ 1,825,834	\$ -	0.35%	1.84%
LONGVIEW									
LONGVIEW GLOBAL EQUITY	2007	\$ 171,976,525	(21.57)	NA	\$ 1,290,973	\$ 1,290,973	\$ -	0.75%	0.61%
MONDRIAN									
MONDRIAN EAFE VALUE	2007	\$ 508,899,002	(27.48)	NA	\$ 1,590,974	\$ 1,590,974	\$ -	0.31%	1.79%
NUMERIC									
NUMERIC SMALL CAP VALUE	2007	\$ 144,127,454	(31.34)	NA	\$ 1,313,000	\$ 1,313,000	\$ -	0.91%	0.51%
NUMERIC SMALL CAP GROWTH	2007	\$ 51,194,063	(35.93)	NA	\$ 492,401	\$ 492,401	\$ -	0.96%	0.18%
OECHSLE									
OECHSLE EAFE GROWTH	2007	\$ 525,818,028	(19.45)	NA	\$ 2,389,788	\$ 2,389,788	\$ -	0.45%	1.85%
PIEDMONT									
PIEDMONT LARGE CAP	2002	\$ 437,396,495	(29.14)	(7.15)	\$ 767,224	\$ 767,224	\$ -	0.18%	1.54%
RELATIONAL									
RELATIONAL INVESTORS LARGE CAP	2008	\$ 434,245,851	NA	NA	\$ 3,656,774	\$ 3,656,774	\$ -	0.84%	1.53%
SANDS									
SANDS LARGE CAP GROWTH	2006	\$ 609,954,554	(26.39)	NA	\$ 3,052,636	\$ 3,052,636	\$ -	0.50%	2.15%
SSGA									
SSGA SMALL CAP PASSIVE**	2003	\$ 366,975,646	NA	NA	\$ 171,155	\$ 171,155	\$ -	0.05%	1.29%
STERLING									
STERLING SMALL CAP VALUE	2002	\$ 234,367,120	(10.40)	(6.95)	\$ 1,183,015	\$ 1,183,015	\$ -	0.50%	0.83%

**PUBLIC EQUITY
AS OF 6/30/2009**

Manager	Inception Year	Market Value	Time Weighted 1 yr Performance	Time Weighted 3 yr Performance	Management Fees 1 yr ending 6-30-09	Fees		% mgmt fees/market value	% AUM EIF
						Base	Incentive		
TIMESQUARE									
TIMESQUARE MID CAP GROWTH	2007	\$ 166,224,479	(21.58)	NA	\$ 1,137,580	\$ 1,137,580	\$ -	0.68%	0.59%
TIMESQUARE MID CAP FOCUSED	2007	\$ 152,633,446	(12.00)	NA	\$ 956,246	\$ 956,246	\$ -	0.63%	0.54%
TURNER INVESTMENTS									
TURNER QUANT MICROCAP	2007	\$ 126,940,796	(26.82)	NA	\$ 1,133,523	\$ 1,133,523	\$ -	0.89%	0.45%
TURNER LARGE CAP GROWTH	2006	\$ 518,184,126	(36.49)	NA	\$ 3,362,138	\$ 3,362,138	\$ -	0.65%	1.83%
WACHOVIA									
EVERGREEN MID CAP PASSIVE	2001	\$ 1,029,266,308	(28.05)	(7.56)	\$ 343,903	\$ 343,903	\$ -	0.03%	3.63%
EVERGREEN RUSSELL 200 ENHANCED	2007	\$ 637,742,507	(24.24)	NA	\$ 456,695	\$ 456,695	\$ -	0.07%	2.25%
EVERGREEN LARGE CAP PASSIVE	2002	\$ 1,903,733,900	(26.19)	(8.23)	\$ 491,326	\$ 491,326	\$ -	0.03%	6.71%
WALTER SCOTT									
WALTER SCOTT INTERNATIONAL	2002	\$ 367,616,546	(19.01)	(1.62)	\$ 1,366,984	\$ 1,366,984	\$ -	0.37%	1.30%
WELLINGTON									
WELLINGTON MID CAP	1988	\$ 559,527,873	(36.04)	(12.66)	\$ 1,768,491	\$ 1,768,491	\$ -	0.32%	1.97%
WELLINGTON BIOTECH	1999	\$ 467,089,957	(14.99)	(3.11)	\$ 1,836,196	\$ 1,836,196	\$ -	0.39%	1.65%
WELLINGTON INTERNATIONAL	1987	\$ 857,878,879	(28.15)	(6.44)	\$ 2,173,260	\$ 2,173,260	\$ -	0.25%	3.03%
WELLINGTON GROWTH	1999	\$ 980,191,856	(28.24)	(6.23)	\$ 3,458,967	\$ 3,458,967	\$ -	0.35%	3.46%
WELLINGTON SMALL CAP INTERSECTION ***	1999	-	NA	NA	\$ 80,340	\$ 80,340	\$ -	N/A	0.00%
WELLINGTON TECHNICAL EQUITY	2007	\$ 890,614,306	(21.86)	NA	\$ 6,476,532	\$ 6,476,532	\$ -	0.73%	3.14%

* Terminated in 2009

** Converted from a passive growth to a passive core portfolio in July 2008

*** Terminated in 2008

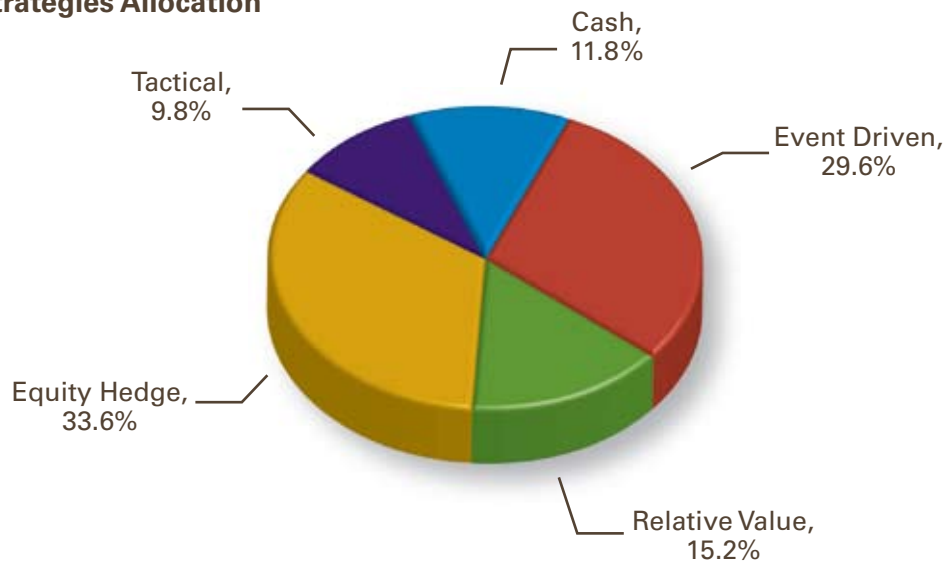
Hedged Strategies

Hedging techniques are used to reduce exposure to various risks. Hedging against investment risk means strategically using instruments in the market to offset the risk of any adverse price movements. In other words, investors hedge one investment by making another.

Hedged Strategies Structure

The market value of the Hedged Strategies portfolio at fiscal year end was \$648 million, representing 1.1 percent of the Pension Fund. As of June 30, 2009, the allocation of the hedge portfolio was dominated by a 33.6 percent weight to long/short equity hedge strategies, a 29.6 percent weight to event driven strategies (predominantly credit), and a 15.2 percent weight to relative value strategies. The following chart displays these allocations.

Hedged Strategies Allocation



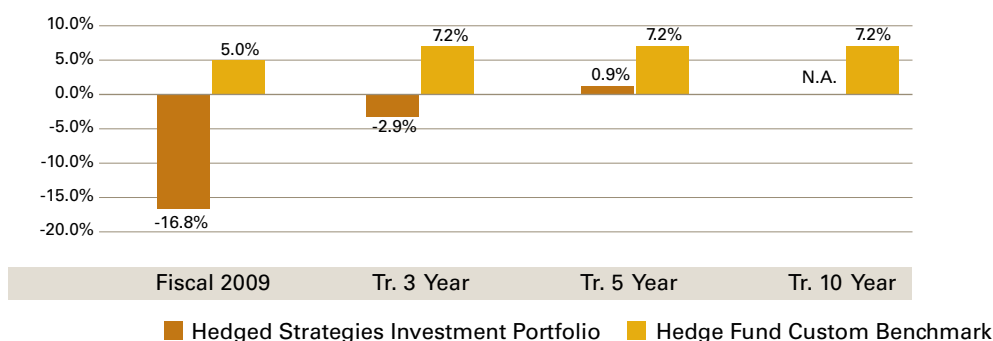
Investment Management Division

Hedged Strategies continued

Hedged Strategies Performance

For the fiscal year, the Hedged Strategies investment portfolio returned -16.8 percent, net of fees, underperforming its custom benchmark, the 90-Day U.S. Treasury Bill + 400 basis points, by 21.7 percent; however, the portfolio outperformed the HFRX Investable Global Hedge Fund Index by 1.4 percent. In evaluating the attribution of portfolio performance, net long exposures in the equity portion of the portfolio were not offset by the short side of the portfolio. Event driven managers began to layer in credit exposure and establish positions in senior credit structures as the opportunity set expanded and valuations moved to favorable levels. During the second quarter of 2009, credit managers benefited from tightening credit spreads in these positions. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

Hedged Strategies Investment Portfolio Annualized Performance



Hedged Strategies Investment Advisors (FY ending 2009)

Below is a list of the Hedged Strategies investment advisor relationships as of June 30, 2009.

Hedged Strategies Investment Advisors (FY ending 2009)

HEDGED STRATEGY ADVISORS AND FUNDS	MARKET VALUE (\$)
Franklin Street Partners	396,233,600
BlackRock	123,285,728
SCS Global Series I	107,015,100
DKR Relative Value	11,022,892
Broyhill Fund	10,974,447
Taconic	263,115

ABSOLUTE RETURN PORTFOLIO
AS OF 6/30/2009

Manager/Fund Name	Vintage/ Inception ¹	Commitment ² (\$000)	Market Value as of 6/30/09 ³ (\$000)	3-Year Performance as of 6/30/09	1-Year Performance as of 6/30/09 ⁴	Management Fees 1 yr ending 6/30/09 ⁵	Incentives Payments 1 yr ending 6/30/09 ⁶	management fees/ market value
BROYHILL ASSET MANAGEMENT								
BROYHILL FUND	2002	\$ 10,000	\$ 10,974	(2.15)	(13.42)	\$95,625	\$0	0.87%
DKR CAPITAL INC.								
DKR RELATIVE VALUE FUND	2002	\$ 35,000	\$ 11,023	(3.07)	(20.08)	\$0	\$0	0.00%
FRANKLIN STREET PARTNERS								
FRANKLIN STREET PARTNERS	2002	\$ 335,000	\$ 396,234	(1.64)	(14.78)	\$2,934,163	\$0	0.74%
BLACKROCK ALTERNATIVE ADVISORS								
CARS	2002	\$ 335,000	\$ 123,286	(5.38)	(21.29)	\$1,132,105	\$0	0.92%
SCS								
SCS INSTL GLOBAL SERIES I	2008	\$ 100,000	\$ 107,015	N/A	N/A	\$579,684	\$199,676	0.54%
TACONIC INVESTMENT PARTNERS								
TACONIC OPPORTUNITY FUND ⁷	2004	\$ 7,000	\$ 263	N/A	N/A	\$2,216	\$3,042	0.84%

1. Represents the inception date of the investment by the North Carolina Retirement System (NCRS)

2. Commitment is the total amount of capital NCRS funded.

3. Market value is the current value of a fund.

4. Returns are calculated on a time weighted basis.

5. For absolute return strategies, management fees are based on the average market value for the assets over the previous 12 months.

6. Incentive payments are paid after a fund has achieved a specific threshold return. Represents the NCRS pro rata portion of incentive payments from the fund as reported by the fund manager.

7. Fund is being liquidated, therefore performance is not available

Real Estate

Real Estate Structure

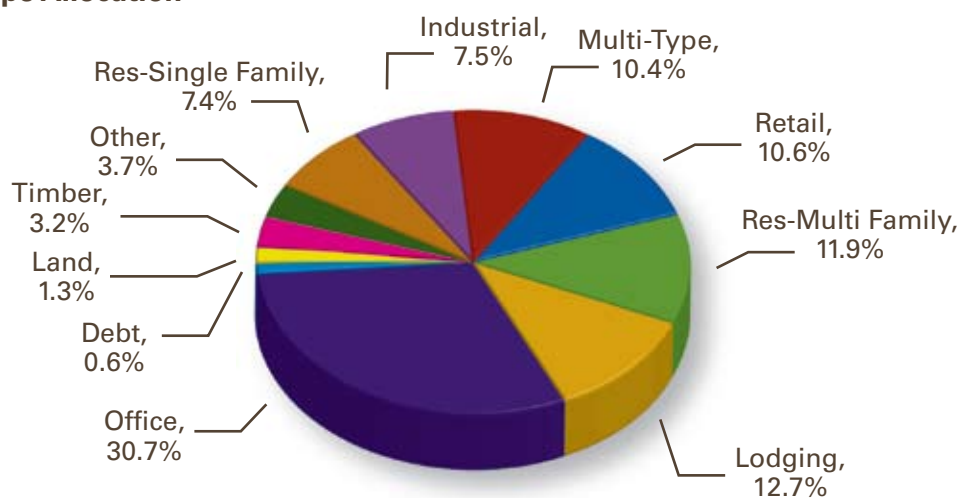
As of June 30, 2009, the Real Estate Investment Portfolio (REIP) was valued at \$3.2 billion. The REIP is an actively managed portfolio of both open-end and closed-end commingled funds as well as separate account mandates. The REIP allocation as a percent of Pension Fund assets has grown to 5.4 percent at fiscal year end, compared to 1.9 percent at the 2001 fiscal year end. The target allocation is 6.0 percent of Pension Fund assets, in line with the peer universe as corporate defined benefit plans average a 4.1 percent allocation to real estate and endowments a 6.5 percent allocation, according to the National Association of College and University Business Officers.

The REIP maintains a “Core Plus” strategy, seeking the majority of returns from income as opposed to capital appreciation. Core real estate is represented by well-located, stable properties with high occupancy levels. Core investment returns are primarily driven by property income with debt levels typically at 0 percent to 50 percent of property value.

Value-Add real estate generally requires some additional leasing and moderate tenant improvements to improve value before the properties are sold. Returns are derived from both income and capital appreciation with debt levels ranging from 50 percent to 65 percent of property value. Opportunistic real estate investments require significant capital expenditures and returns are derived from capital appreciation due to the lack of “going-in” cash flows. These investments have high debt levels typically between 65 percent and 80 percent of property value. At fiscal year end, the REIP’s exposure to Core and Value-Add strategies was 66 percent versus 34 percent in Opportunistic funds.

In addition, the analysis of new investments focuses on location and property types and employs a moderate level of risk. The REIP continues its objective by expanding into a variety of property types including debt, industrial, land, lodging, multi-type, office, multi-family residential, single-family residential, retail, and timber. The chart below displays the percentage of each property type allocation as of June 30, 2009.

Property Type Allocation

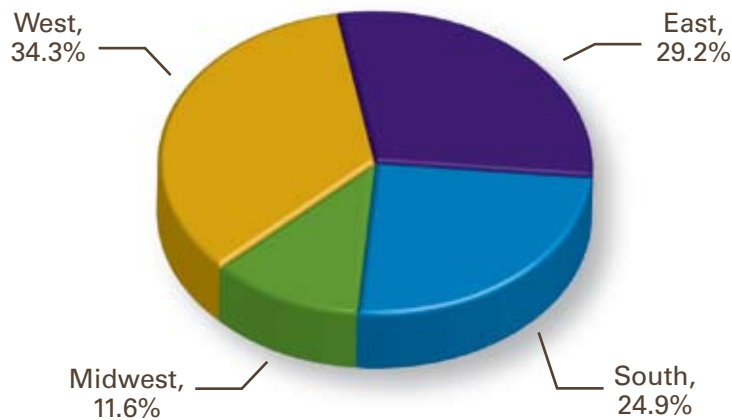


Investment Management Division

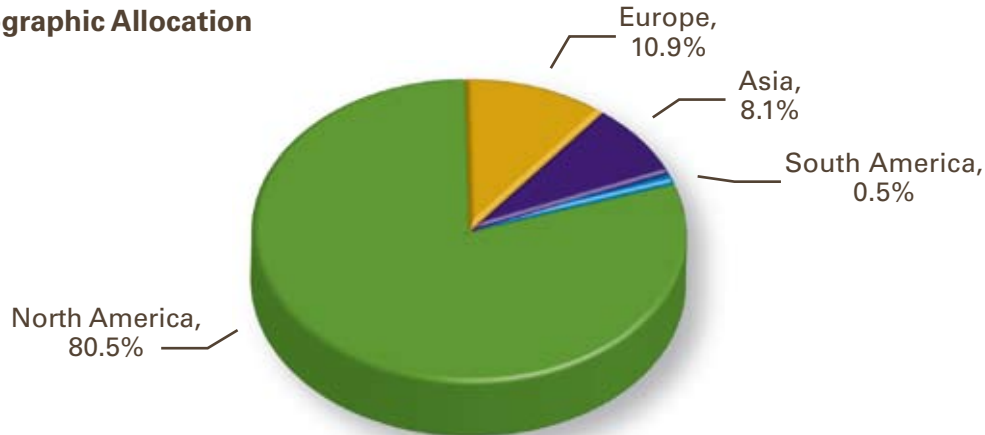
Real Estate continued

Geographically, the REIP has a North American focus, yet is diversified among the South, East, West, and Midwest regions. International investment exposure is approximately 19.0 percent with the majority in Europe. The following charts show the U.S. and global geographic allocations as of June 30, 2009.

U.S. Geographic Allocation



Global Geographic Allocation



Real Estate Market Overview

As the fiscal year began, market consensus forecasts for a shallow recession remained, despite the Federal Government's efforts to rescue Bear Stearns. These hopes were soon shattered following the government aid to Fannie Mae and Freddie Mac, the collapse of Lehman Brothers, and the AIG bailout in late 2008. Commercial real estate was not immune to the subsequent global repricing of risk, evidenced by rapid cap rate expansion (price declines). The magnitude of prospective real estate asset value declines was difficult to determine since transactional evidence was limited due to wide bid-ask spreads between buyers and sellers and/or a lack of available financing. Lenders to the asset class were showing a propensity to modify terms rather than foreclose, further delaying price discovery.

Throughout the fiscal year, commercial real estate was caught in a downward spiral. Bank balance sheet issues reduced lending volumes; reduction in lending caused a dearth of transactions except for distressed “fire-sales”; distressed pricing served as the only market comparables. These declines further impaired bank balance sheets and the spiral continued. With the massive amount of loan maturities through 2012 at over \$1 trillion (for the banks alone), banks are seeking to enhance their capitalization ratios rather than originate new loans.

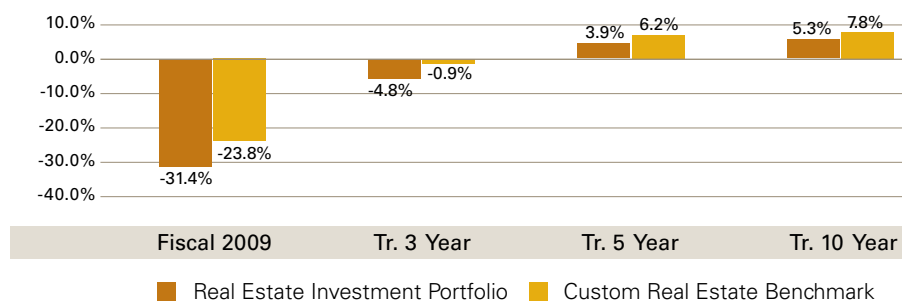
There was a precipitous decline of transactions in commercial real estate throughout the fiscal year. Sellers were hesitant to transact as buyers sought to ensure that future rent declines and rising vacancy levels had been adequately factored into the purchase price. These buyers were also weighing higher interest rates, larger equity requirements and longer hold periods.

On a positive note, the battered U.S. REIT market posted a 49 percent gain (as measured by the FTSE EPRA/NAREIT Index) from its early March bottom through June 30, 2009. However, the implied REIT cap rate, which indicates the required return for REIT-owned properties, stood at 8.8 percent at the end of the fiscal year versus the private sector cap rate of 8.1 percent, per NCREIF.

Real Estate Performance

For the fiscal year 2009, the REIP returned -31.4 percent, net of fees, underperforming its custom benchmark return of -23.8 percent. The majority of the REIP’s growth as a percent of the Pension Fund occurred during fiscal years 2006 through 2008. Private equity real estate investments of such vintages have few realizations this soon after commencement and most are still in their investment period. These commitments and their corresponding management fees translate to large capital outflows until realizations occur and sale proceeds are distributed, causing returns to be negative in early years to produce a J-shaped series of returns. This is known as the “J-curve effect.” Underperformance relative to the benchmark can be further attributed to leverage. At the beginning of the fiscal year, benchmark leverage was 25 percent versus the Real Estate portfolio leverage level of 45 percent, consistent with the portfolio’s Core Plus strategy. By fiscal year end, property value declines increased benchmark leverage to 34 percent versus the REIP leverage of 60 percent. Leverage magnifies returns in both up and down markets and negatively impacted the Real Estate Investment Portfolio performance for the fiscal year. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

Real Estate Investment Portfolio Annualized Performance



Investment Management Division

Real Estate continued

Real Estate Investment Advisors (FY ending 2009)

Below is a list of the real estate investment advisors and fund relationships as of June 30, 2009.

REIP Investment Advisors and Fund Relationships as of June 30, 2009

REIP ADVISORS AND FUNDS	MARKET VALUE (\$)	REIP ADVISORS AND FUNDS	MARKET VALUE (\$)
Timberland Inv Res – Nahele	234,126,800	DB RE Global Opportunity	22,446,470
MS Global RE Securities	208,035,629	Angelo Gordon Core Plus	20,080,928
JPMorgan Strategic Property	143,274,252	CBRE Strategic V	18,594,000
MSREF VI INTL	123,511,446	DLJ RECP IV	18,072,948
RREEF Global Opp II	122,750,906	Shorenstein IX	17,842,189
CBRE Strategic IV	116,008,000	Penwood CSIP I	17,440,939
Starwood SOF VII Co-Inv	108,575,997	DRA Growth & Income VI	16,504,461
Sentinel RE Fund	105,314,352	LEM RE Mezzanine II	15,477,624
DLJ RECP III	103,718,048	Crow Holdings Realty IV-A	15,083,950
Prudential PRISA	101,851,968	Rockpoint RE I	13,879,736
USB Trumbull Ppty	100,690,074	Security Cap Focus Select	13,035,287
Starwood SOF VII	99,568,757	Value Enhancement II	12,928,075
DRA Growth & Income V	89,151,399	Paladin Realty Latin Am Inv III	9,048,789
UBS Trumbull Ppty Income	88,005,503	American Value Partners	8,879,584
Shorenstein VII	84,698,116	Cherokee III	8,553,910
Keystone Industrial Fund	75,614,202	RMK Emerging Timberland	7,477,897
Warburg Pincus RE I	72,469,917	Rockpoint RE III	6,922,141
CIM URBAN REIT	66,091,424	DLJ RECP II	6,828,379
Rockpoint RE II	65,881,459	DRA Growth & Income III	6,301,201
Blackstone RE V	65,814,659	Westbrook RE III	4,456,771
Rockwood VI	63,065,551	Frogmore RE Fund 1	4,166,287
Crow Holdings Realty IV	60,483,100	Hawkeye Scout I-A	2,641,113
Stag II	59,520,437	Penwood PSIP II	1,800,028
Terra Firma Deutsche	56,481,295	Westbrook RE IV	1,762,377
Shorenstein VIII	53,727,321	Westbrook RE II	1,556,290
Blackstone RE VI	51,391,778	RLJ RE Fund III	1,196,695
Value Enhancement IV	50,735,397	Crow Holdings Realty V	535,146
JER REP III	46,228,390	Rockwood VIII	367,240
Rockwood VII	44,558,907	CIGNA Open End Fund	296,941
DRA Growth & Income IV	42,657,888	DLJ RECP	281,787
JER REP IV	41,176,233	Westbrook RE I	158,687
MSREV V INTL	40,316,855	Cherokee IV	1
RLJ RE Fund II	37,920,829	RLJ Urban Lodging I	1
Angelo Gordon Core Plus II	31,328,052	Benson Elliot RE Fund III	–
Sentinel Realty V	29,410,644	Frogmore RE Fun II	–
Crossharbor Instl PT	25,996,622	Keystone Industrial Fund II	–

REAL ESTATE HOLDINGS AS OF 6/30/09											
MANAGER / FUND NAME	Vintage/ Inception ¹	Commitment ² (\$000)	Market Value as of 6/30/09 (\$000) ³	3-Year Performance as of 6/30/09 ⁴	1-Year Performance as of 6/30/09 ⁴	Capital Drawn as of 6/30/09 (\$000)	Distributions as of 6/30/09 (\$000)	Remaining Commitment as of 6/30/09 (\$000)	Management Fees 1 yr ending 6/30/2009 ⁵	Incentives Payments 1 yr ending 6/30/2009 ⁶	management fees/ commitment ¹⁰
ANGELO, GORDON & CO											
ANGELO GORDON CORE PLUS REALTY FUND I, LP	2003	\$75,000	\$20,081	21.46	(20.31)	\$71,250	\$85,442	\$3,750	\$360,885	\$0	0.48%
ANGELO GORDON CORE PLUS REALTY FUND II, LP	2006	\$100,000	\$31,328	NA	(13.90)	\$38,500	\$2,542	\$61,500	\$557,730	\$0	0.56%
AMERICAN VALUE PARTNERS											
AMERICAN VALUE PARTNERS FUND I, LP	2007	\$50,000	\$8,880	NA	(74.07)	\$16,714	\$0	\$33,286	\$500,000	\$0	1.00%
BENSON ELLIOT CAPITAL MANAGEMENT											
BENSON ELLIOT REAL ESTATE PARTNERS II, LP	2006	\$62,935	\$25,540	(11.08)	(40.49)	\$36,128	\$0	\$33,618	\$1,659,250	\$0	2.64%
BENSON ELLIOT REAL ESTATE PARTNERS III, LP ⁸	2008	\$69,503	\$0	NA	NA	\$0	\$0	\$70,133	\$0	\$0	0.00%
THE BLACKSTONE GROUP											
BLACKSTONE REAL ESTATE PARTNERS V, LP	2006	\$102,836	\$65,815	2.78	(43.35)	\$87,599	\$25,198	\$15,237	\$1,079,605	\$0	1.05%
BLACKSTONE REAL ESTATE PARTNERS VI, LP	2007	\$200,000	\$51,392	NA	(49.27)	\$82,597	\$772	\$117,403	\$3,000,000	\$0	1.50%
CAMBELL GROUP											
CAMBELL TIMBER FUND III	2007	\$505,000	\$553,180	NA	1.41	\$505,000	\$0	\$0	\$5,435,734	\$0	1.08%
CB RICHARD ELLIS GROUP INC											
CBRE STRATEGIC PARTNERS US IV, LP	2005	\$150,000	\$116,008	(6.65)	(31.49)	\$150,000	\$0	\$0	\$1,489,971	\$0	0.99%
CBRE STRATEGIC PARTNERS US V, LP	2007	\$100,000	\$18,594	NA	(24.25)	\$24,529	\$365	\$75,471	\$894,930	\$0	0.89%
CHEROKEE INVESTMENT PARTNERS											
CHEROKEE INV PARTNERS III, LP	2002	\$50,000	\$8,554	(55.68)	(88.48)	\$41,342	\$7,303	\$8,658	\$201,172	\$0	0.40%
CHEROKEE INV PARTNERS IV LP ¹⁴	2005	\$100,000	\$0	NA	NA	\$6,277	\$37	\$93,723	\$1,500,000	\$0	1.50%
CIGNA REALTY INVESTORS											
CIGNA REALTY INVESTORS OPEN-END FUND ^{7,9}	1987	\$243,938	\$297	7.48	0.56	\$243,939	\$282,013	\$0	\$0	\$0	0.00%
CIM GROUP											
CIM URBAN REIT LLC	2006	\$100,000	\$66,091	3.42	(3.62)	\$69,760	\$5,283	\$30,240	\$764,669	\$0	0.76%
CROSSHARBOR CAPITAL PARTNERS											
CROSSHARBOR INSTITUTIONAL PARTNERS, LP	2006	\$50,000	\$25,997	NA	(4.42)	\$27,740	\$985	\$22,260	\$564,533	\$0	1.13%
CROW HOLDINGS											
CROW HOLDINGS REALTY PARTNERS IV, LP	2005	\$80,000	\$60,483	0.54	(0.56)	\$65,255	\$5,381	\$14,745	\$196,223	\$0	0.25%
CROW HOLDINGS REALTY PARTNERS IV-A, LP	2005	\$20,000	\$15,084	0.43	(0.68)	\$16,314	\$1,301	\$3,686	\$49,056	\$0	0.25%
CROW HOLDINGS REALTY PARTNERS V, LP ¹²	2008	\$100,000	\$535	NA	NA	\$770	\$0	\$99,230	\$131,428	\$0	0.13%
DEUTSCHE BANK/REEF											
DB REAL ESTATE GLOBAL OPP IA&IB LP	2003	\$156,430	\$22,446	30.92	(22.21)	\$152,061	\$182,005	\$4,369	\$76,681	(\$5,094,241)	0.05%
RREEF GLOBAL OPPORTUNITY FUND II LLC	2006	\$200,000	\$122,751	(17.76)	(37.47)	\$200,000	\$1,010	\$0	\$1,923,268	\$0	0.96%
DLJ REAL ESTATE CAPITAL PARTNERS											
DLJ REAL ESTATE CAPITAL PARTNERS I, LP	1996	\$25,000	\$282	48.75	17.96	\$23,667	\$37,981	\$1,457	\$0	\$0	0.00%
DLJ REAL ESTATE CAPITAL PARTNERS II, LP	2000	\$50,000	\$6,828	2.68	(34.38)	\$45,650	\$68,696	\$4,350	\$151,104	\$149,723	0.30%
DLJ REAL ESTATE CAPITAL PARTNERS III, LP	2005	\$150,000	\$103,718	(0.11)	(20.31)	\$134,003	\$40,782	\$15,997	\$1,203,278	\$2,702,415	0.80%
DLJ REAL ESTATE CAPITAL PARTNERS IV, LP	2007	\$100,000	\$18,073	NA	(50.46)	\$30,482	\$375	\$69,518	\$1,250,000	\$25,373	1.25%
DRA ADVISORS											
DRA GROWTH & INCOME FUND III LLC	2000	\$25,000	\$6,301	12.44	1.54	\$25,000	\$64,826	\$0	\$60,475	\$443,352	0.24%
DRA GROWTH & INCOME FUND IV LLC	2003	\$50,000	\$42,658	11.78	(3.97)	\$50,000	\$43,196	\$0	\$683,898	\$0	1.37%
DRA GROWTH & INCOME FUND V LLC ¹¹	2005	\$100,000	\$89,151	5.57	(8.80)	\$93,194	\$16,786	\$6,806	\$2,606,401	\$0	2.61%
DRA GROWTH & INCOME FUND V CO-INVESTMENT LLC ¹¹	2005	\$25,000	\$23,631	9.92	0.00	\$21,770	\$4,617	\$3,230	\$400,252	\$0	1.60%
DRA GROWTH & INCOME FUND VI LLC	2007	\$50,000	\$16,504	NA	(6.77)	\$18,945	\$2,024	\$31,055	\$700,412	\$0	1.40%
FROGMORE PROPERTY COMPANY LTD											
FROGMORE REAL ESTATE PARTNERS, LP	2006	\$45,477	\$4,166	NA	(85.93)	\$39,504	\$0	\$5,701	\$450,875	\$0	0.99%
FROGMORE REAL ESTATE PARTNERS II, LP ⁸	2008	\$49,700	\$0	NA	NA	\$0	\$0	\$41,171	\$280,337	\$0	0.56%
HAWKEYE PARTNERS											
HAWKEYE PARTNERS' SCOUT FUND I, LP	2006	\$50,000	\$2,641	NA	(99.99)	\$7,792	\$37	\$42,208	\$436,512	\$0	0.87%
JER REAL ESTATE ADVISORS											
JER REAL ESTATE PARTNERS FUND III, LP	2005	\$100,000	\$46,228	(4.14)	(36.61)	\$68,036	\$34,846	\$31,964	\$528,592	\$0	0.53%
JER REAL ESTATE PARTNERS FUND IV, LP	2007	\$100,000	\$41,176	NA	(47.27)	\$77,636	\$109	\$22,364	\$880,406	\$0	0.88%
JP MORGAN											
JP MORGAN STRATEGIC PROPERTY FUND ⁷	1989	\$155,133	\$143,274	(2.98)	(27.20)	\$155,133	\$240,898	\$0	\$1,668,003	\$0	1.16%

REAL ESTATE HOLDINGS AS OF 6/30/09											
MANAGER / FUND NAME	Vintage/ Inception ¹	Commitment ² (\$000)	Market Value as of 6/30/09 (\$000) ³	3-Year Performance as of 6/30/09 ⁴	1-Year Performance as of 6/30/09 ⁴	Capital Drawn as of 6/30/09 (\$000)	Distributions as of 6/30/09 (\$000)	Remaining Commitment as of 6/30/09 (\$000)	Management Fees 1 yr ending 6/30/2009 ⁵	Incentives Payments 1 yr ending 6/30/2009 ⁶	management fees/ commitment ¹⁰
KTR CAPITAL PARTNERS											
KEYSTONE INDUSTRIAL FUND I, LP	2006	\$100,000	\$75,614	(3.19)	(23.96)	\$88,549	\$7,617	\$11,451	\$1,456,732	\$0	1.46%
KEYSTONE INDUSTRIAL FUND II, LP ¹²	2007	\$150,000	\$0	NA	NA	\$2,935	\$0	\$147,065	\$2,250,000	\$0	1.50%
LEM ASSOCIATES											
LEM REAL ESTATE MEZZANINE FUND II, LP	2006	\$50,000	\$15,478	(4.86)	(9.93)	\$23,000	\$5,796	\$27,000	\$750,000	\$0	1.50%
MORGAN STANLEY											
MS GLOBAL RE SECURITIES	2007	\$400,000	\$208,036	NA	(29.47)	\$400,000	\$0	\$0	\$1,255,502	\$0	
MORGAN STANLEY REAL ESTATE FUND V	2005	\$100,000	\$40,317	(4.43)	(60.53)	\$100,000	\$66,259	\$0	\$993,871	\$0	0.99%
MORGAN STANLEY REAL ESTATE FUND VI	2007	\$440,000	\$123,511	NA	(76.11)	\$440,000	\$5,853	\$0	\$1,248,896	\$0	
PALADIN REAL ESTATE FUND											
PALADIN REALTY LATIN AM INV III ⁹	2008	\$50,000	\$9,049	NA	NA	\$11,622	\$0	\$38,378	\$344,044		0.69%
PENWOOD REAL ESTATE INVESTMENT MANAGEMENT											
CALIFORNIA SELECT INDUSTRIAL PARTNERS I LP	2005	\$50,000	\$17,441	(9.99)	(30.05)	\$24,347	\$2,243	\$25,653	\$611,040	\$0	1.22%
PENWOOD SELECT INDUSTRIAL PARTNERS II LP	2007	\$100,000	\$1,800	NA	(93.12)	\$5,653	\$0	\$94,347	\$1,500,001	\$0	1.50%
PRUDENTIAL REAL ESTATE INVESTORS											
PRUDENTIAL PROPERTY INVESTMENT SEPARATE ACCT	2004	\$204,935	\$101,852	(0.30)	(27.22)	\$204,935	\$183,820	\$0	\$950,377	\$0	0.46%
RLJ DEVELOPMENT LLC											
RLJ URBAN LODGING FUND LP ¹³	2005	\$50,000	\$0	NA	NA	\$50,000	\$99,306	\$0	\$0	\$0	0.00%
RLJ LODGING FUND II LP	2006	\$50,000	\$37,921	(2.19)	(13.22)	\$50,000	\$9,060	\$0	\$228,656	\$0	0.46%
RLJ REAL ESTATE FUND III LP	2007	\$50,000	\$1,197	NA	(70.26)	\$2,846	\$0	\$47,154	\$625,000	\$0	1.25%
RMK TIMBERLAND GROUP											
RMK EMERGING GROWTH TIMBERLAND FUND	1993	\$15,000	\$7,478	10.00	(10.29)	\$15,000	\$37,350	\$0	\$78,299	\$0	0.52%
ROCKPOINT GROUP											
ROCKPOINT REAL ESTATE FUND I, LP	2004	\$100,000	\$13,880	(16.28)	(52.88)	\$90,524	\$101,854	\$9,476	\$390,837	\$0	0.39%
ROCKPOINT REAL ESTATE FUND II, LP	2005	\$150,000	\$65,881	(11.85)	(42.93)	\$135,787	\$42,671	\$14,213	\$1,394,918	\$0	0.93%
ROCKPOINT REAL ESTATE FUND III, LP	2007	\$100,000	\$6,922	NA	(71.22)	\$12,313	\$4	\$87,687	\$1,497,934	\$0	1.50%
ROCKWOOD CAPITAL											
ROCKWOOD CAPITAL R.E. PARTNERS VI, LP	2005	\$90,000	\$63,066	(2.50)	(26.61)	\$76,732	\$6,575	\$13,268	\$935,000	\$0	1.04%
ROCKWOOD CAPITAL R.E. PARTNERS VII, LP	2006	\$125,000	\$44,559	NA	(65.14)	\$104,978	\$7	\$20,022	\$1,497,500	\$0	1.20%
ROCKWOOD CAPITAL R.E. PARTNERS VIII, LP ¹²	2008	\$50,000	\$367	NA	NA	\$1,038	\$0	\$48,962	\$342,500	\$0	0.69%
NORTHROCK CORE FUND, LP ⁸	2008	\$400,000	\$0	NA	NA	\$0	\$0	\$400,000	\$0	\$0	0.00%
SECURITY CAPITAL											
SECURITY CAPITAL FOCUS SELECT	2007	\$30,000	\$13,035	NA	(50.06)	\$30,000	\$0	\$0	\$154,912	\$0	1.19%
SENTINEL REAL ESTATE CORPORATION											
SENTINEL REAL ESTATE FUND ⁷	1985	\$65,000	\$105,314	(4.42)	(25.68)	\$65,000	\$99,777	\$0	\$1,139,981	\$0	1.08%
SENTINEL REALTY V	1998	\$50,000	\$29,411	6.41	(22.99)	\$50,000	\$81,518	\$0	\$381,830	\$197,085	0.76%
SHORENSTEIN PROPERTIES LLC											
SHORENSTEIN REALTY INVESTORS VII, LP	2004	\$75,000	\$84,698	5.60	(19.50)	\$67,003	\$8,444	\$7,997	\$999,966	\$245,052	1.33%
SHORENSTEIN REALTY INVESTORS VIII, LP	2006	\$100,000	\$53,727	NA	(23.76)	\$69,654	\$4,102	\$30,346	\$987,507	\$159,941	0.99%
SHORENSTEIN REALTY INVESTORS IX, LP	2007	\$75,000	\$17,842	NA	(35.53)	\$30,824	\$1,687	\$44,176	\$1,125,000	\$146,288	1.50%
STAG CAPITAL PARTNERS											
STAG INVESTMENTS II LLC	2005	\$75,000	\$59,520	21.92	18.73	\$75,000	\$47,665	\$0	\$514,511	\$0	0.69%
STARWOOD CAPITAL GROUP											
STARWOOD SDL/SOF VII CO INV FUND	2005	\$55,000	\$108,576	38.31	(8.04)	\$42,443	\$0	\$12,557	\$982,450	\$0	1.79%
STARWOOD OPPORTUNITY FUND VII, LP	2005	\$150,000	\$99,569	(9.00)	(38.37)	\$150,000	\$0	\$0	\$1,849,697	\$0	1.23%
TERRA FIRMA CAPITAL PARTNERS											
TERRA FIRMA DEUTSCHE ANNINGTON, LP	2006	\$63,695	\$56,481	8.69	(28.53)	\$44,816	\$0	\$20,946	\$0	\$0	0.00%
TIMBERLAND INVESTMENT RESOURCES LLC											
NAHELE LLC	2006	\$200,000	\$234,127	8.45	1.57	\$200,000	\$0	\$0	\$1,947,163	\$0	0.97%
UBS REALTY INVESTORS LLC											
UBS TRUMBULL PROPERTY INCOME FUND ⁷	1984	\$120,995	\$88,006	3.91	(16.11)	\$120,995	\$205,590	\$0	\$810,791	\$0	0.67%
UBS TRUMBULL PROPERTY FUND ⁷	1984	\$215,000	\$100,690	0.28	(23.59)	\$215,000	\$293,777	\$0	\$840,638	\$0	0.39%

REAL ESTATE HOLDINGS AS OF 6/30/09											
MANAGER / FUND NAME	Vintage/ Inception ¹	Commitment ² (\$000)	Market Value as of 6/30/09 (\$000) ³	3-Year Performance as of 6/30/09 ⁴	1-Year Performance as of 6/30/09 ⁴	Capital Drawn as of 6/30/09 (\$000)	Distributions as of 6/30/09 (\$000)	Remaining Commitment as of 6/30/09 (\$000)	Management Fees 1 yr ending 6/30/2009 ⁵	Incentives Payments 1 yr ending 6/30/2009 ⁶	management fees/ commitment ¹⁰
VEF ADVISORS											
VALUE ENHANCEMENT FUND II, LLC	1996	\$25,000	\$12,928	(8.64)	(17.00)	\$25,000	\$24,311	\$0	\$128,151	\$0	0.51%
VALUE ENHANCEMENT FUND III, LLC ¹³	1998	\$25,000	\$0	NA	NA	\$25,000	\$43,225	\$0	\$0	\$0	0.00%
VALUE ENHANCEMENT FUND IV, LP	1999	\$100,000	\$50,735	8.48	(9.64)	\$100,000	\$39,774	\$0	\$342,064	\$0	0.34%
WARBURG PINCUS LLC											
WARBURG PINCUS REAL ESTATE I, LP	2006	\$100,000	\$72,470	NA	(10.64)	\$81,500	\$0	\$18,500	\$999,800	\$0	1.00%
WESTBROOK PARTNERS LLC											
WESTBROOK REAL ESTATE FUND I, LP	1995	\$10,000	\$159	(42.51)	(22.58)	\$10,000	\$23,215	\$0	\$0	\$0	0.00%
WESTBROOK REAL ESTATE FUND II, LP	1997	\$50,000	\$1,556	(33.77)	(49.56)	\$50,000	\$78,218	\$0	\$8,854	\$0	0.02%
WESTBROOK REAL ESTATE FUND III, LP	1998	\$100,000	\$4,457	(15.59)	10.83	\$96,373	\$134,576	\$3,627	\$17,850	\$0	0.02%
WESTBROOK REAL ESTATE FUND IV, LP	2000	\$100,000	\$1,762	(32.64)	(78.67)	\$89,645	\$145,454	\$10,355	\$86,070	\$0	0.09%
<div> <div>1. The year in which the North Carolina Retirement System (NCRS) made its initial commitment to the fund.</div> <div>2. Commitment is the maximum amount of capital that a Fund may call.</div> <div>3. Market value is the current value of a fund. In the years immediately following the vintage year, the base market value will be a fraction of the commitment, in later years the market value may exceed the commitment due to appreciation, but will, over the life of the fund, fall to zero as capital is returned to NCRS.</div> <div>4. Returns are calculated on a time weighted basis, one of two recognized methods of calculating investment returns. Time weighted returns may be difficult to interpret where there have been significant contributions to or distributions from a Fund. During the first three to five years, return data may also be difficult to interpret because most investments are held at cost, and fees have been deducted from the Fund.</div> <div>5. Management Fees are based on the commitment Value during the commitment period of the fund, thereafter management fees are typically reduced. For open end funds, management fees are based on the average market value over the previous 12 months.</div> <div>6. Incentive payments are paid after a fund has achieved a specific threshold return. Represents the NCRS's pro rata portion of incentive payments from the fund as reported by the fund manager.</div> <div>7. Open-End Fund</div> <div>8. Investment commitment made in 2nd half of 2008/1st half of 2009. Therefore, performance is not available.</div> <div>9. The Times Square investment was originally made in 1987 with CIGNA, but the Fund was purchased by Prudential in 2004. A large portion of the CIGNA portfolio moved to the PRISA Fund at time of purchase, and the less desirable properties were left in CIGNA Times Square Fund to be liquidated. Therefore, the performance is not available.</div> <div>10. Fees for all open end funds are calculated using market value, not commitment.</div> <div>11. Fees calculated based on weighted average purchase price, not market value.</div> <div>12. Initial capital drawn in 2nd half of 2008/1st half of 2009. Therefore, performance is not available.</div> <div>13. Fund liquidated in 2008, therefore time weighted return not available as of 6-30-09</div> <div>14. Fund value at zero, therefore time-weighted performance is not available.</div> </div>											

Private Equity

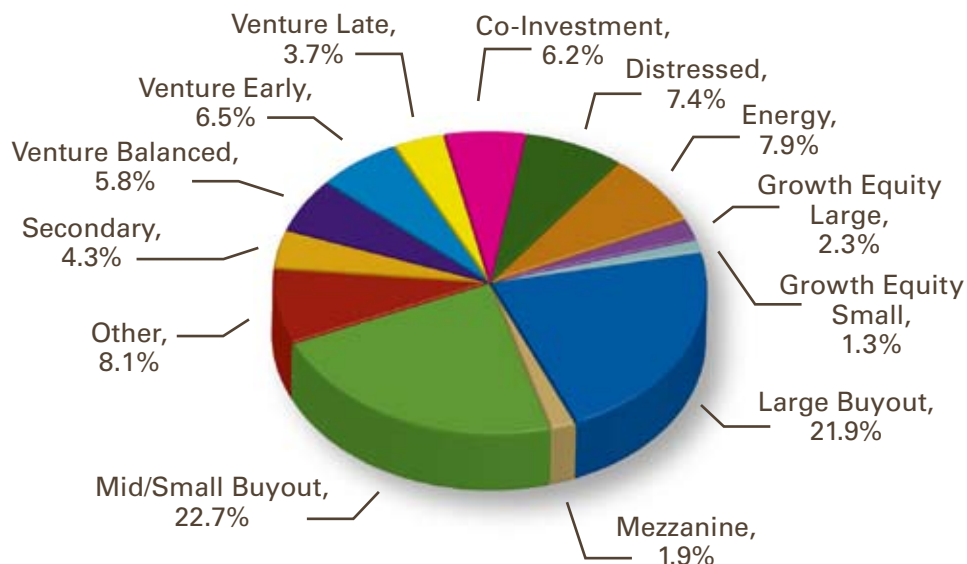
Private Equity Structure

As of June 30, 2009, the Private Equity investment portfolio maintained a market value of approximately \$2.6 billion, representing 4.4 percent of the Pension Fund. The portfolio invests in limited partnerships which are externally managed by experienced private equity investment professionals.

During the course of fiscal year 2009, the combination of new accounting initiatives instituted by the Financial Accounting Standards Board (FASB) and the turmoil witnessed in the credit markets has had a direct impact on the allocation of the Private Equity portfolio. The global financial crisis and worldwide economic slowdown resulted in a dramatic decline in equity values.

Private equity investments are unlikely to provide positive returns in early years. Investment gains in private equity are typically realized in later years as assets of funds mature and increase in value due to the efforts of the management company. The effect of this timing on fund returns is referred to as the "J-Curve" effect. Specifically, the cost of management fees and write-downs of underperforming assets are borne by funds early, while the realization of gains comes with the eventual sale of assets after their value has increased. Private equity investments may be categorized into various sub-strategies. The Private Equity investment portfolio's allocation to these sub-strategies is displayed below.

Property Type Allocation



Private Equity Market Overview

Throughout the fiscal year 2009, the enduring credit crunch continued to hinder the ability for private equity buyout investors to borrow. Venture capital firms turned away from new deals and focused on keeping their portfolio companies afloat during the economic slowdown. As mergers and acquisition activity slowed dramatically, private equity investors saw limited returns as exit opportunities lessened. Buyout purchase multiples dropped significantly throughout the year as access to credit was considerably more difficult to achieve. Capital called for investment was down significantly year-over-year, and realizations (sales of portfolio investments) were minimal.

Private Equity continued

The number of investment transactions completed by private equity funds significantly declined throughout the fiscal year. Despite the drop in purchase prices, private equity funds grew more conservative and refrained from potentially stepping into investments still on the decline. The assumption for investors was that better entry prices were on the horizon. The lack of available credit also caused a decrease in investment transactions, as private equity funds were no longer able to rely on borrowing and financial engineering to create investor returns.

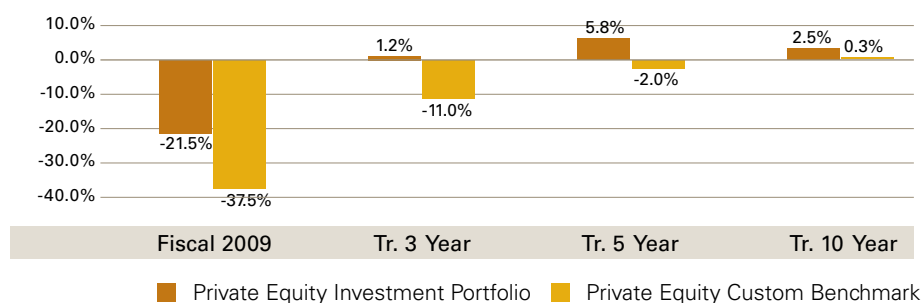
Realizations were weak as a result of the recession restricting strategic investors from making capital outlays, a severely limited Initial Public Offering market, and low amount of sales to other private equity investors. The focus of private equity funds shifted to the operations of existing portfolio companies, the preservation of capital, recruiting strong management teams and restructuring outstanding debt.

Liquidity constraints and disappointing fund performance for recent vintage years combined to dampen investor appetite for new buyout and venture capital funds. At the same time, these factors led to a dramatic increase in private equity interests available for sale in the secondary market as investors attempted to rebalance their asset allocations and address liquidity issues. The combination of greater supply of interests and more modest available capital contributed to discounts in the secondary market. The shortage of liquidity in the system compounded by the weakened economy created significant financial distress for many companies. These companies are now looking for capital to remain viable or to pursue strategic acquisitions and related growth opportunities.

Private Equity Performance

For the fiscal year, the Private Equity investment portfolio returned -21.5 percent, outperforming its benchmark return of -37.5 percent. The overall performance can be attributed to the deteriorating comparable valuations (FAS No. 157 – Fair Value Measurement) and the weakening economy. However, in terms of the stronger than benchmark performance, private companies are normally purchased below public company comparable prices to account for their illiquid nature. Though the public companies traded lower, the Private Equity portfolio was already being carried at a cost below market peers. Thus, it had further to decline than the public comparables to reach a market valuation. The chart below illustrates returns and benchmarks for the fiscal and trailing years.

Private Equity Investment Portfolio Annualized Performance



Private Equity Investment Advisors (FY ending 2009)

Following is a list of the Private Equity investment advisors and fund relationships as of June 30, 2009.

Private Equity Advisors and Fund Relationships as of June 30, 2009

PRIVATE EQUITY FUNDS	MARKET VALUE (\$)	PRIVATE EQUITY FUNDS	MARKET VALUE (\$)
AG Cap Recovery VI	149,933,532	TPG Biotech II	13,838,225
Credit Suisse NC Fund 2006	136,492,503	Quintana Energy II	13,448,611
AG Global Debt Strategy	110,336,849	Synergy Life Science	13,272,739
WLR Recovery Fund IV	93,466,709	Tudor Ventures III	12,223,652
Parish Capital I	92,446,054	KRG Capital IV	11,517,318
LG & Bessemer II	79,598,962	CVE Kauffman I	11,059,370
Terra Firma III	77,282,267	Apollo Investment VII	9,649,891
Apollo Investment Fund VI	75,179,712	Novak Biddle III	8,695,010
AG TALF Partners	73,214,286	Lexington Middle Mkt II	8,471,912
Parish Capital Europe I	71,709,995	Catterton Growth Partners	8,272,469
Terra Firma II	69,741,085	Robeco Clean Tech II	8,008,985
TPG Partners IV	67,149,139	Halifax Capital Partners II	7,533,888
GSO Capital Opportunity Fund	63,600,903	Pappas Ventures III	7,118,790
Warburg Pincus X	63,125,917	Highland Consumer I	6,391,982
TPG Partners V	58,110,305	Harvest Partners IV	6,283,543
Quintana Energy I	56,567,054	AG Private Equity IV	6,244,175
CVC Euro Eq IV	55,885,522	Aurora Ventures IV	6,074,255
Avista Capital Partners	53,760,563	Highland Capital VII	5,724,499
KRG Capital III	53,723,724	NCEF Liquidating Trust	5,724,146
Lexington Middle Market	51,794,862	KRG Capital II	5,527,239
Parish Capital II	51,581,729	TPG Biotech III	5,287,625
Elevation Partners	42,907,365	Novak Biddle IV	4,994,644
Warburg Pincus IX	42,533,812	Aurora Ventures V	4,961,982
WLR AHM Co-Inv	39,900,232	Horsley Bridge IX	4,612,068
Longreach Capital I	37,689,837	Intersouth Partners VI	4,417,667
Coller International IV	36,607,451	Hatteras Venture Partners III	3,815,558
Castle Harlan Partners IV	34,475,622	ARCH Fund VII	3,573,990
Francisco Partners II	33,388,785	Lindsay Goldberg III	3,534,408
Sheridan Partners	32,622,047	NC Economic Opp Fund	3,505,467
Matlin Patterson Global Opp III	32,504,877	Starvest Partners II	3,227,149
Markstone Capital Partners	30,213,307	Harvest Partners V	2,712,924
Perseus Market Opp Fund	29,575,074	Novak Biddle V	2,525,918
Perseus Partners VII	29,190,670	WLR AGO Co-Inv	2,091,032
Chapter IV Special Situations	28,456,694	AV Mgmt IV	2,059,074
Avista Capital Partners II	27,834,350	Highland Capital VI	2,006,468
Access Capital II	21,959,404	Pappas Ventures II	1,600,874
Credit Suisse NC Fund 2008	21,188,036	Pappas Ventures IV	1,546,363
Burrill Life Sciences	20,760,548	DLJ Merchant Banking II	1,503,454
Angeleno Inv II	19,960,625	Charterhouse Capital IX	1,158,677
Carousel Capital III	18,372,668	TPG Partners IV	961,645
PCA SYN Investments	18,022,523	Horsley Bridge Intl V	784,238
AG Commercial RE Debt Fund	17,837,006	Franklin Fairview I	211,310
Quaker Bioventures II	17,438,564	Sprout Capital VI	108,140
Ampersand 2006	17,192,714	Intersouth Partners III	97,369
Quintana Energy I Co-Inv	16,946,636	Sprout Capital II	88,419
Robeco Clean Tech II Co-Inv	16,673,979	Kitty Hawk Capital III	47,605
Horsley Bridge Int'l IV	16,411,790	Academy Venture Fund	43,420
AG Capital Recovery V	16,167,214	Crestview Partners Fund II	–

PRIVATE EQUITY HOLDINGS
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Manager/Fund Name	Vintage Year	Commitment ¹ (\$000)	Market Value as of 6/30/09 (\$000) ²	3-Year Performance as of 6/30/09	1-Year Performance as of 6/30/09 ³	Capital Drawn as of 6/30/09 (\$000)	Distributions as of 6/30/09 (\$000)	Remaining Commitment as of 6/30/09 (\$000)	Management Fees 1 yr ending 6/30/09 ⁴	Incentives Payments 1 yr ending 6/30/09 ⁵	Management fees/ commitment
ACADEMY FUNDS											
ACADEMY VENTURE FUND	1999	\$5,000	\$43	(71.73)	(67.81)	\$4,966	\$557	\$34	\$44,374	-	0.89%
ACCESS CAPITAL PARTNERS											
ACCESS CAPITAL LP II D	2002	\$29,328	\$21,959	8.55	(25.60)	\$26,225	\$15,207	\$12,528	\$282,627	-	0.96%
ANGELO, GORDON & CO.											
AG CAPITAL RECOVERY PARTNERS V LP	2005	\$25,000	\$16,167	(10.96)	(29.55)	\$23,375	-	\$1,625	\$276,424	-	1.11%
AG CAPITAL RECOVERY PARTNERS VI LP	2008	\$200,000	\$149,934	NA	(22.77)	\$180,000	-	\$20,000	\$2,239,557	-	1.12%
AG GLOBAL DEBT STRATEGY PARTNERS LP ⁶	2008	\$146,415	\$110,337	NA	NA	\$92,729	-	\$53,686	\$197,213	-	0.13%
AG COMMERCIAL REAL ESTATE DEBT FUND LP	2008	\$73,214	\$17,837	NA	(72.83)	\$71,018	\$3,597	\$2,196	\$1,152,539	-	1.57%
AG PRIVATE EQUITY PARTNERS IV LP ⁶	2008	\$48,810	\$6,244	NA	NA	\$7,810	-	\$41,000	\$476,989	-	0.98%
AG PRIVATE EQUITY PARTNERS IV LP - R ⁶	2008	\$97,620	-	NA	NA	-	-	\$97,620	-	-	-
AG TALF PARTNERS LP ⁶	2009	\$73,214	\$73,214	NA	NA	\$73,214	-	-	\$22,508	-	0.03%
AMPERSAND VENTURES											
AMPERSAND 2006 LP	2006	\$30,000	\$17,193	NA	(8.23)	\$18,600	-	\$11,400	\$587,533	-	1.96%
ANGELENO GROUP											
ANGELENO INVESTORS II LP	2006	\$30,000	\$19,961	15.63	0.44	\$17,614	\$3,765	\$12,386	\$750,000	\$676,315	2.50%
APOLLO INVESTMENT MANAGEMENT											
APOLLO INVESTMENT FUND VI LP	2005	\$150,000	\$75,180	(16.69)	(50.85)	\$135,885	\$2,522	\$14,115	-	-	-
APOLLO INVESTMENT FUND VII LP ⁶	2008	\$75,000	\$9,650	NA	NA	\$17,191	\$35	\$57,809	\$801,182	-	1.07%
ARCH VENTURES											
ARCH VENTURE FUND VII LP	2007	\$50,000	\$3,574	NA	(27.65)	\$5,250	-	\$44,750	\$1,064,654	-	2.13%
AURORA FUNDS											
AURORA VENTURES IV LLC	2002	\$15,000	\$6,074	(24.88)	(41.38)	\$15,000	\$65	-	\$281,250	-	1.88%
AURORA VENTURES V LP	2005	\$15,000	\$4,962	(17.20)	1.20	\$7,913	\$774	\$7,088	\$375,000	-	2.50%
AV MANAGEMENT IV LLC	2002	\$5,000	\$2,059	(24.86)	(40.97)	\$5,000	-	-	\$93,748	-	1.87%
AVISTA CAPITAL PARTNERS											
AVISTA CAPITAL PARTNERS LP	2006	\$50,000	\$53,761	10.25	6.15	\$44,738	\$6,351	\$5,262	-	-	-
AVISTA CAPITAL PARTNERS II LP ⁶	2008	\$100,000	\$27,834	NA	NA	\$30,655	\$48	\$69,345	\$767,123	-	-
BURRILL AND COMPANY											
BURRILL LIFE SCIENCES CAPITAL FUND LP	2002	\$41,727	\$20,761	(12.58)	(26.47)	\$35,852	\$2,694	\$5,875	\$647,990	-	1.55%
BURRILL LIFE SCIENCES CAPITAL FUND III LP	2005	\$50,000	\$15,502	(19.87)	(11.64)	\$18,884	-	\$31,116	\$979,485	-	1.96%
CAROUSEL CAPITAL											
CAROUSEL CAPITAL PARTNERS III LP	2006	\$20,966	\$18,373	22.65	6.12	\$14,802	\$1,333	\$6,164	\$135,407	-	0.65%
CASTLE HARLAN INC.											
CASTLE HARLAN PARTNERS IV LP	2002	\$75,000	\$34,476	22.54	(5.16)	\$58,949	\$56,056	\$16,051	\$297,050	(\$1,113,168)	0.40%
CASTLE HARLAN PARTNERS V LP ⁶	2008	\$100,000	-	NA	NA	-	-	\$100,000	\$1,500,000	-	1.50%
CATTERTON GROWTH PARTNERS											
CATTERTON GROWTH PARTNERS LP	2008	\$30,000	\$8,272	NA	(7.75)	\$9,486	\$4	\$20,514	\$567,283	-	1.89%
CHAPTER IV											
CHAPTER IV INV SPECIAL SITUATIONS FUND LP	2006	\$45,000	\$28,457	NA	(27.05)	\$40,844	\$370	\$4,156	\$220,933	-	0.49%
CHARTERHOUSE CAPITAL											
CHARTERHOUSE CAPITAL PARTNERS IX ⁶	2009	\$137,720	\$1,159	NA	NA	\$1,128	-	\$139,106	\$762,469	-	0.55%
COLLER CAPITAL											
COLLER INTL PARTNERS IV LP	2002	\$100,000	\$36,607	4.73	(27.42)	\$82,569	\$80,229	\$17,431	\$722,376	-	0.72%
CREDIT SUISSE											
CREDIT SUISSE/NC INVESTMENT FUND LP (2006)	2006	\$250,000	\$136,493	(6.07)	(18.97)	\$174,666	\$12,381	\$75,334	\$1,831,730	-	0.73%
CREDIT SUISSE/NC INVESTMENT FUND LP (2008)	2008	\$250,000	\$21,188	NA	(28.49)	\$31,401	\$1,171	\$218,599	\$2,000,000	-	0.80%
CS/NC INVESTMENT FUND LP (2008) - SERIES II	2009	\$50,000	-	NA	NA	-	-	\$50,000	-	-	0.00%
CRESTVIEW PARTNERS											
CRESTVIEW PARTNERS II LP ⁶	2008	\$100,000	-	NA	NA	\$2,135	-	\$97,865	\$1,666,252	-	1.67%
CVC CAPITAL PARTNERS											
CVC EURO EQUITY PARTNERS IV LP	2005	\$78,540	\$55,886	20.83	(29.45)	\$72,975	\$31,177	\$12,539	\$123,204	-	0.16%
DLJ											
DLJ MERCHANT BANKING PARTNERS II LP	1996	\$7,000	\$1,503	(6.77)	(6.08)	\$6,873	\$9,165	\$127	\$13,337	-	0.19%
SPROUT CAPITAL VI LP	1989	\$6,500	\$108	7.61	6.48	\$6,500	\$13,921	-	-	\$1,225	-
SPROUT GROWTH II LP	1993	\$3,000	\$88	113.61	49.39	\$3,000	\$5,801	-	-	\$10,522	-
DOGWOOD EQUITY											
NC ECONOMIC OPPORTUNITIES FUND LP	2001	\$7,500	\$3,505	230.80	306.83	\$5,027	\$6,506	\$2,473	\$193,779	\$892,075	2.58%
NCEF LIQUIDATING TRUST LP	1990	\$10,010	\$5,724	(3.23)	(6.88)	\$10,010	\$55,737	-	\$53,125	-	0.53%

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ELEVATION PARTNERS											
ELEVATION PARTNERS LP	2005	\$100,000	\$42,907	(3.23)	(28.30)	\$60,324	\$13,424	\$39,676	\$1,500,000	-	1.50%
FRANCISCO PARTNERS											
FRANCISCO PARTNERS II LP	2006	\$60,000	\$33,389	(1.40)	(1.46)	\$42,000	\$12,712	\$18,000	-	-	-
GREENHAWK PARTNERS											
FRANKLIN FAIRVIEW I LP ⁷	1997	\$2,500	\$211	3.95	14.96	\$2,478	\$918	\$22	-	-	-
GSO CAPITAL PARTNERS											
GSO CAPITAL OPPORTUNITIES FUND LP	2007	\$133,652	\$63,601	NA	3.56	\$63,191	\$10,373	\$70,461	-	\$1,199,596	-
THE HALIFAX GROUP											
HALIFAX CAPITAL PARTNERS II LP	2005	\$15,000	\$7,534	17.30	36.79	\$6,489	\$1,239	\$8,511	\$212,271	\$29,671	1.42%
HARVEST PARTNERS											
HARVEST PARTNERS IV LP	2001	\$50,000	\$6,284	8.89	(24.80)	\$45,267	\$92,698	\$4,733	-	\$1,619,226	-
HARVEST PARTNERS V LP ⁶	2006	\$75,000	\$2,713	NA	NA	\$12,247	\$13,108	\$62,753	\$877,594	\$353,917	1.17%
HATTERAS PARTNERS											
HATTERAS VENTURE PARTNERS III LP	2007	\$16,354	\$3,816	NA	(9.45)	\$4,759	\$3	\$11,595	\$327,295	-	2.00%
HIGHLAND CAPITAL PARTNERS											
HIGHLAND CAPITAL PARTNERS VI LP	2001	\$5,000	\$2,006	1.13	(41.43)	\$4,888	\$3,758	\$113	\$113,964	-	2.28%
HIGHLAND CAPITAL PARTNERS VII LP	2006	\$15,000	\$5,724	NA	(20.36)	\$7,763	\$596	\$7,238	\$355,592	\$11,916	2.37%
HIGHLAND CONSUMER FUND I LP	2007	\$25,000	\$6,392	NA	(26.83)	\$10,250	-	\$14,750	\$594,654	-	2.38%
HORSELY BRIDGE PARTNERS											
HORSELY BRIDGE INT'L IV LP	2006	\$65,000	\$16,412	NA	(24.12)	\$21,585	-	\$43,415	\$512,500	-	0.79%
HORSELY BRIDGE INT'L V LP ⁸	2008	\$75,000	\$784	NA	NA	\$1,238	-	\$73,763	\$281,250	-	0.38%
HORSELY BRIDGE IX LP	2008	\$85,000	\$4,612	NA	(35.89)	\$5,967	-	\$79,033	\$612,500	-	0.72%
INTERSOUTH PARTNERS											
INTERSOUTH PARTNERS III LP	1994	\$1,000	\$97	147.27	0.26	\$1,000	\$2,112	-	\$916	-	0.09%
INTERSOUTH PARTNERS VI LP	2003	\$7,000	\$4,418	(9.48)	(29.22)	\$6,125	\$282	\$875	\$99,224	-	1.42%
KITTY HAWK INC											
KITTY HAWK CAPITAL LP III	1994	\$1,000	\$48	(31.07)	22.91	\$1,000	\$479	-	\$4,790	-	0.48%
KRG CAPITAL PARTNERS LLC											
KRG CAPITAL FUND II LP	2001	\$25,000	\$5,527	26.72	(18.00)	\$19,741	\$28,578	\$5,259	-	-	-
KRG CAPITAL FUND III LP	2005	\$75,000	\$53,724	(0.24)	(14.71)	\$55,873	\$230	\$19,127	-	-	-
KRG CAPITAL FUND IV LP ⁶	2007	\$150,000	\$11,517	NA	(29.75)	\$16,206	-	\$133,794	\$2,461,734	-	1.64%
LEXINGTON PARTNERS											
LEXINGTON MIDDLE MARKET INV LP	2004	\$100,000	\$51,795	4.01	(15.20)	\$70,542	\$24,192	\$29,458	\$481,800	-	0.48%
LEXINGTON MIDDLE MARKET INV II LP ⁹	2008	\$100,000	\$8,472	NA	NA	\$7,845	\$10	\$92,155	\$464,013	-	0.46%
LINDSAY GOLDBERG & BESSEMER											
LINDSAY GOLDBERG & BESSEMER II LP	2006	\$100,000	\$79,599	NA	1.35	\$79,758	\$505	\$20,242	\$304,215	-	0.30%
LINDSAY GOLDBERG III LP ⁶	2008	\$100,000	\$3,534	NA	NA	\$4,748	\$2	\$95,252	\$1,229,515	-	1.23%
LONGREACH CAPITAL PARTNERS											
LONGREACH CAPITAL PARTNERS 1 LP	2006	\$75,000	\$37,690	NA	(1.32)	\$59,357	\$13,402	\$15,643	\$1,312,500	-	1.75%
MARKSTONE CAPITAL											
MARKSTONE CAPITAL PARTNERS LP	2005	\$50,000	\$30,213	8.02	(16.49)	\$35,314	\$13,456	\$14,686	\$1,000,000	-	2.00%
MATLIN PATTERSON											
MATLIN PATTERSON GLOBAL OPP III LP	2007	\$100,000	\$32,505	NA	(56.13)	\$60,100	-	\$39,900	\$1,342,205	-	1.34%
NOVAK BIDDLE VENTURE PARTNERS											
NOVAK BIDDLE VENTURE PARTNERS III LP	2000	\$17,000	\$8,695	(10.64)	(34.11)	\$17,000	\$5,451	-	\$131,866	-	-
NOVAK BIDDLE VENTURE PARTNERS IV LP	2004	\$10,000	\$4,995	(15.71)	(38.39)	\$8,500	-	\$1,500	\$250,000	-	2.50%
NOVAK BIDDLE VENTURE PARTNERS V LP	2007	\$10,000	\$2,526	NA	(31.82)	\$4,054	\$506	\$5,946	\$250,000	-	2.50%
PAPPAS CAPITAL ADVISORS LLC											
A.M. PAPPAS LIFE SCIENCE VENTURES II LP	2000	\$5,000	\$1,601	(1.92)	(31.49)	\$4,875	\$2,631	\$125	\$93,658	-	1.87%
A.M. PAPPAS LIFE SCIENCE VENTURES III LP	2005	\$20,000	\$7,119	(6.12)	(29.40)	\$12,700	\$1,866	\$7,300	\$498,928	-	2.49%
A.M. PAPPAS LIFE SCIENCE VENTURES IV LP ⁶	2009	\$24,457	\$1,546	NA	NA	\$1,712	-	\$22,745	\$227,581	-	0.93%
PARISH CAPITAL ADVISORS LLP											
PARISH CAPITAL I LP	2004	\$140,275	\$92,446	3.19	(7.80)	\$107,625	\$17,004	\$32,650	\$1,188,614	-	0.85%
PARISH CAPITAL EUROPE I LP	2006	\$201,395	\$71,710	1.28	(26.73)	\$89,082	\$854	\$119,572	\$1,049,924	-	0.52%
PARISH CAPITAL II LP	2006	\$125,000	\$51,582	NA	(24.82)	\$69,452	\$370	\$55,548	\$1,021,211	-	0.82%
PCA-SYN INVESTMENTS LLLP	2006	\$30,000	\$18,023	NA	42.27	\$12,812	-	\$17,188	\$49,161	-	0.16%

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PERSEUS LLC											
PERSEUS MARKET OPP FUND LP	2002	\$50,000	\$29,575	(9.10)	(40.14)	\$50,000	\$16,353	-	\$331,976	-	0.66%
PERSEUS PARTNERS VII LP	2006	\$50,000	\$29,191	NA	9.24	\$30,671	\$2,357	\$19,329	\$378,915	\$79,265	0.76%
QUAKER BIOVENTURES											
QUAKER BIOVENTURES II	2007	\$100,000	\$17,439	NA	(12.41)	\$21,000	-	\$79,000	\$1,425,842	-	1.43%
QUINTANA ENERGY PARTNERS											
QUINTANA ENERGY PARTNERS LP	2006	\$100,000	\$56,567	NA	(10.67)	\$69,272	\$93	\$30,728	\$1,997,245	-	2.00%
QUINTANA ENERGY PARTNERS LP CO-INV	2007	\$75,000	\$16,947	NA	(18.13)	\$20,704	-	\$54,296	-	-	-
QUINTANA ENERGY PARTNERS II LP ⁶	2009	\$100,000	\$13,449	NA	NA	\$12,824	-	\$87,176	\$676,759	-	0.68%
QUINTANA ENERGY PARTNERS II LP CO-INV ⁶	2009	\$75,000	-	NA	NA	-	-	\$75,000	-	-	-
ROBECO CLEAN TECH II											
ROBECO CLEAN TECH PRT EQT FUND II LP ⁶	2008	\$75,000	\$8,009	NA	NA	\$9,077	-	\$65,923	\$593,542	-	0.79%
ROBECO CLEAN TECH CO-INV II LP ⁶	2008	\$75,000	\$16,674	NA	NA	\$17,443	-	\$57,557	\$369,267	-	0.49%
SHERIDAN PARTNERS											
SHERIDAN PRODUCTIONS PARTNERS I LP	2007	\$100,000	\$32,622	NA	(21.81)	\$39,000	\$4,750	\$61,000	\$1,500,000	-	1.50%
STARVEST PARTNERS											
STARVEST PARTNERS II LP ⁶	2007	\$30,000	\$3,227	NA	NA	\$4,559	\$23	\$25,441	\$600,000	-	2.00%
SYNERGY LIFE SCIENCE PARTNERS											
SYNERGY LIFE SCIENCE PARTNERS LP	2006	\$38,000	\$13,273	NA	(12.76)	\$15,352	\$160	\$22,648	\$965,205	-	2.54%
TECHNOLOGY CROSSOVER VENTURES											
TCV VI LP	2005	\$30,000	\$15,871	(2.13)	(18.61)	\$23,463	\$7,068	\$6,537	\$575,509	-	1.92%
TENAYA CAPITAL											
TENAYA CAPITAL V LP ⁸	2007	\$75,000	\$15,453	NA	(15.28)	\$19,622	-	\$55,378	\$1,437,500	-	1.92%
TERRA FIRMA CAPITAL PARTNERS											
TERRA FIRMA CAPITAL PARTNERS II LP	2002	\$98,280	\$69,741	47.74	(30.00)	\$124,625	\$106,727	\$1,840	\$1,662,347	-	1.69%
TERRA FIRMA CAPITAL PARTNERS III LP	2006	\$178,875	\$77,282	(69.84)	(43.42)	\$113,501	\$14	\$94,585	\$3,319,003	-	1.86%
TEXAS PACIFIC GROUP											
TPG BIOTECHNOLOGY PARTNERS II LP	2006	\$18,000	\$13,828	NA	(7.17)	\$12,613	\$414	\$5,387	\$536,022	-	2.98%
TPG BIOTECHNOLOGY PARTNERS III LP ⁶	2008	\$50,000	\$5,288	NA	NA	\$6,554	\$6	\$43,446	\$1,132,879	-	2.27%
TPG PARTNERS IV LP	2003	\$100,000	\$67,149	(3.58)	(37.08)	\$91,844	\$46,400	\$8,156	\$208,797	-	0.21%
TPG PARTNERS V LP	2006	\$150,000	\$58,110	(22.66)	(39.70)	\$106,071	\$4,945	\$43,929	\$403,751	-	0.27%
TPG PARTNERS VI LP ⁶	2008	\$75,000	\$962	NA	NA	\$4,691	-	\$70,309	\$728,400	-	0.97%
TRUEBRIDGE CAPITAL PARTNERS											
CVE KAUFFMAN I	2007	\$50,000	\$11,059	NA	(15.63)	\$13,250	\$216	\$36,750	\$491,240	-	0.98%
TUDOR PARTNERS											
TUDOR VENTURES III LP	2006	\$30,000	\$12,224	NA	(18.05)	\$15,540	\$71	\$14,460	\$589,581	-	1.97%
WARBURG PINCUS LLC											
WARBURG PINCUS PRT EQT IX LP	2005	\$50,000	\$42,534	(0.25)	(16.61)	\$50,000	\$4,044	-	\$584,018	-	1.17%
WARBURG PINCUS PRT EQT X LP	2007	\$250,000	\$63,126	NA	(33.77)	\$93,125	\$221	\$156,875	\$3,750,000	-	1.50%
WL ROSS & CO											
WLR RECOVERY FUND IV LP	2007	\$200,000	\$93,467	NA	(1.70)	\$95,698	\$1,538	\$104,302	\$2,880,142	-	1.44%
WLR AHM CO-INV LP	2007	\$28,634	\$39,900	NA	42.06	\$28,634	-	-	-	-	-
WLR AGO CO-INV LP ⁶	2008	\$20,000	\$2,091	NA	(71.48)	\$5,666	-	\$14,334	-	-	-

1. Commitment is the maximum amount of capital that a fund may call.

2. Market value is the current value of a fund. In the years immediately following the vintage year, the base market value will be a fraction of the commitment, in later years the market value may exceed the commitment due to appreciation, but will, over the life of the fund, fall to zero as capital is returned to NCRS.

3. Returns are calculated on a time weighted basis, one of two recognized methods of calculating investment returns. Time weighted returns may be difficult to interpret where there have been significant contributions to or distributions from a fund. During the first three to five years, return data for private equity investments may also be difficult to interpret because most investments are held at cost, and the fees have been deducted from the fund.

4. For private equity firms, management fees are based on the commitment value during the commitment period, thereafter management fees are typically reduced.

5. Incentive payments are paid after a fund has achieved a specific threshold return. Represents the NCRS pro-rata portion of incentive payments from the fund as reported by the fund manager.

6. Investment commitment made in second half 2008/ first half 2009. Therefore, performance is not available.

7. Venture fund jointly managed by professionals of Franklin Street Partners and Fairview Capital, LLC. Franklin Street/Fairview Capital, based in the Research Triangle area of North Carolina, was formed in November of 1996 when the principals of Franklin Street Partners, a Chapel Hill financial services firm, and Fairview Capital, LLC, a Raleigh private investment company, combined to pursue private investment opportunities.

8. As of 1Q09, Lehman Brothers Venture V changed its name to Tenaya Capital V.

Ancillary Investment Programs Review

The Ancillary Funds Investment Program's objective is to generate returns that match or exceed those of the appropriate benchmarks over a three to five year basis for the Escheats Fund, UNC and Public Hospital Funds, the Local Government Other Post-Employment Benefits Fund, and other non-Pension assets invested in the core fixed income portfolio.

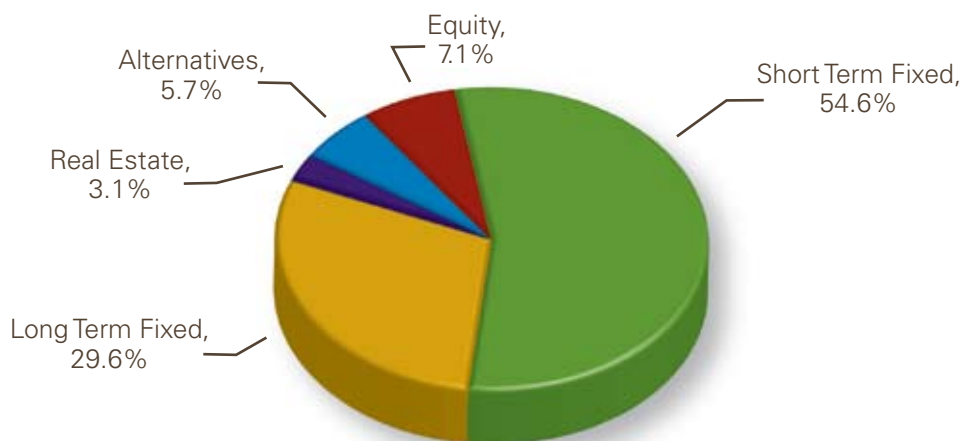
Escheats Investment Fund

Pursuant to G.S. 147-69.2(b)(12), up to 20 percent of the Escheats Fund's assets can be invested in authorized equity, real estate and alternative investments. For the fiscal year ending June 30, 2009, the Escheats Fund maintained a total portfolio market value of \$429.0 million with \$361.1 million invested in fixed income, \$30.3 million invested in equity, \$13.4 million invested in real estate, and \$24.2 million in private equity. The following table and chart provide the Escheats asset allocation and percentage of total fund as of June 30, 2009.

Escheats Asset Allocation as of June 30, 2009

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT
Fixed Income	\$361,059,223	84.2%	80.0%
Total Equity	\$30,275,831	7.1%	12.0%
Real Estate	\$13,384,531	3.1%	4.0%
Alternatives	\$24,240,533	5.7%	4.0%
ESCHEATS FUND	\$428,960,118	100.0%	---

Escheats Asset Allocation



**Escheat Holdings
as of 6/30/2009**

Escheat Holdings	Vintage Year	Total Commitment	Market Value	Time Weighted 1 yr Performance	Fees 1 Yr Ending 6/30/2009	Fees		% mgmt fees/market value (commitment) ¹	% Total Escheats Fund
						Base	Incentive		
<u>Equity</u>									
Franklin Street	2006	\$30,000,000	\$23,086,360	-27.60%	\$116,352	\$116,352	\$0	0.50%	5.38%
AGA Global Strategy	2007	\$10,000,000	\$7,189,471	-24.36%	\$44,633	\$44,633	\$0	0.62%	1.68%
<u>Alternatives</u>									
AG Commercial Real Estate Debt Fund	2008	\$1,785,714	\$435,050	-74.46%	\$28,106	\$28,106	\$0	1.57%	0.10%
AG Global Debt Strategy Partners	2008	\$3,584,640	\$2,701,342	N/A	\$4,808	\$4,808	\$0	0.13%	0.63%
AG Private Equity Partners IV	2008	\$1,190,000	\$152,235	N/A	\$11,629	\$11,629	\$0	0.98%	0.04%
AG Private Equity Partners IV - R	2008	\$2,380,000	\$0	N/A	\$0	\$0	\$0	0.00%	0.00%
AG TALF Partners	2009	\$1,785,714	\$1,785,714	N/A	\$551	\$551	\$0	0.03%	0.42%
Chapter IV Inv Special Situations Fund	2006	\$5,000,000	\$3,161,858	-21.72%	\$24,548	\$24,548	\$0	0.49%	0.74%
CS/NC Investment Fund 2007	2008	\$3,982,076	\$87	-99.99%	\$0	\$0	\$0	0.00%	0.00%
CVE Kauffman I	2007	\$7,500,000	\$1,658,906	-15.27%	\$73,686	\$73,686	\$0	0.98%	0.39%
Dogwood Equity Fund II	2008	\$10,000,000	\$0	N/A	\$0	\$0	\$0	0.00%	0.00%
GSO Capital Opportunity Fund	2007	\$5,000,000	\$2,379,342	3.42%	\$46,775	\$0	\$46,775	0.94%	0.55%
NC Idea	2007	\$2,449,367	\$850,943	4.25%	\$48,988	\$48,988	\$0	2.00%	0.20%
Parish Opportunities Fund II	2007	\$10,000,000	\$6,921,990	2.10%	\$75,000	\$75,000	\$0	0.75%	1.61%
Sheridan Production Partners I-B	2007	\$7,500,000	\$2,446,653	-21.81%	\$112,500	\$112,500	\$0	1.50%	0.57%
Synergy Life Science Partners	2006	\$5,000,000	\$1,746,413	-12.76%	\$119,501	\$119,501	\$0	2.39%	0.41%
<u>Real Estate</u>									
Guggenheim	2006	\$20,000,000	\$13,384,531	-43.52%	\$98,784	\$98,784	\$0	0.74%	3.12%
Equity, Alternatives, and R.E as % of Total Escheats									15.83%
<u>Fixed Income</u>									
LTIF			\$126,799,795	7.69%					
STIF			\$234,259,428						

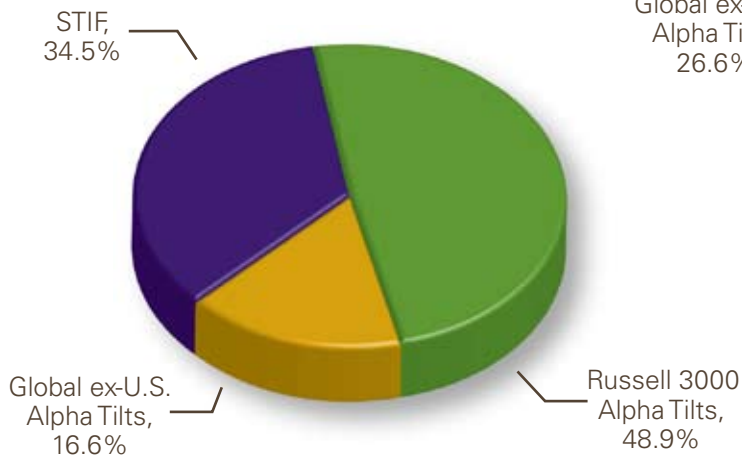
1. Commitment was used for private equity funds to determine percent of management fee, market value was used for equity and real estate funds

UNC and Public Hospitals

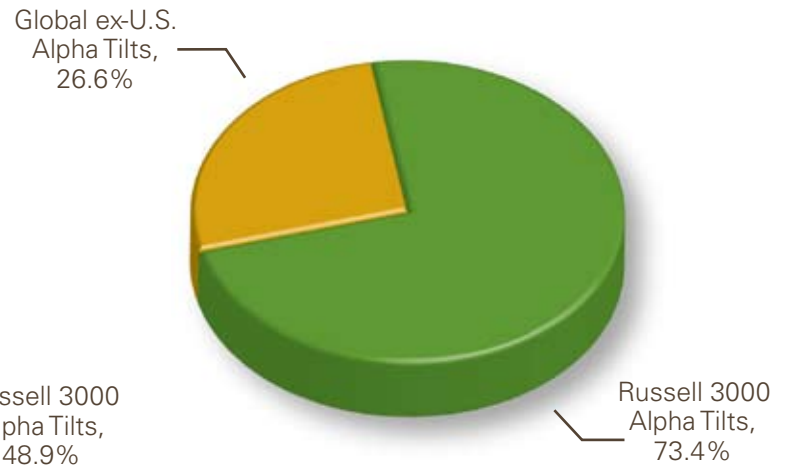
North Carolina Public Hospitals and UNC Hospital are allowed to invest funds with the State Treasurer according to G.S. 147-69.2(b2) and G.S. 147-69.2(b3).

As of June 30, 2009, the UNC Hospital's portfolio maintained a market value of \$359,603,292. The market value for the New Hanover Hospital portfolio was \$39,058,403, and the market value for the Margaret R. Pardee Hospital plan was \$3,707,841. The percentage allocation of funds to the hospital plans are displayed below.

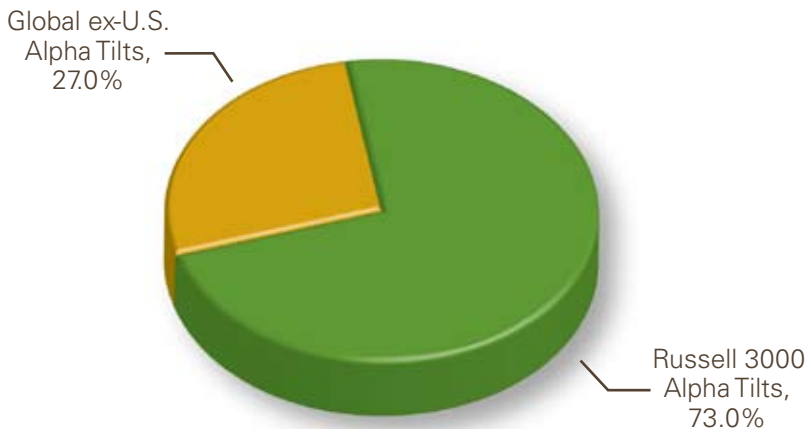
UNC Hospital



New Hanover Hospital



Margaret R. Pardee Hospital



Ancillary Investment Programs Review continued

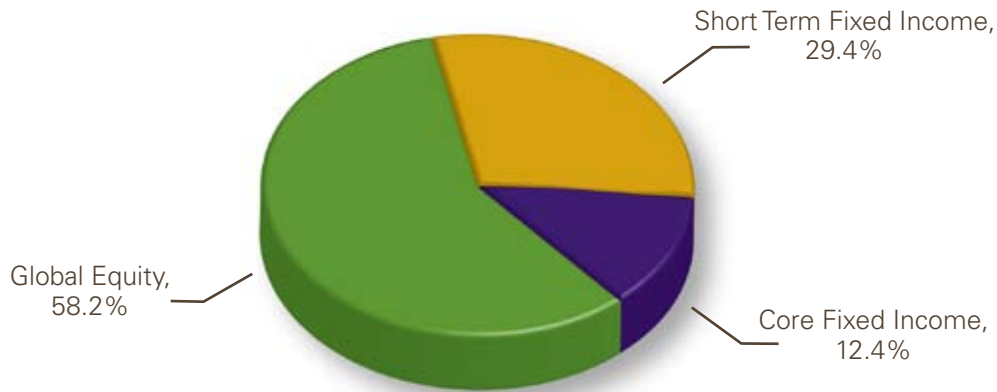
Other Post-Employment Benefits Fund

G.S. 147-69.2(b4) allows the State Treasurer to invest funds deposited in the Local Government Other Post-Employment Benefits Fund (OPEB) into a diversified portfolio. An initial contribution to the OPEB Fund was made on July 1, 2008. As of June 30, 2009, the OPEB portfolio maintained a market value of \$23,881,209. The chart below provides an overview of the OPEB asset classes as of June 30, 2009.

OPEB Asset Allocation as of June 30, 2009

	MARKET VALUE	PORTFOLIO WEIGHT	TARGET WEIGHT
Short Term Fixed Income	\$7,009,255	29.4%	25.0%
Core Fixed Income	\$2,976,054	12.4%	10.0%
Global Equity	\$13,895,900	58.2%	65.0%
OPEB FUND	\$23,881,209	100.0%	---

OPEB Asset Allocation



Other Non-Pension Long-Term Investment Portfolio Participants

As of June 30, 2009, the aggregate market value of other Non-Pension participants invested in the Long-Term Investment Portfolio was \$861,765,577.