



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

RICHARD H. MOORE
STATE TREASURER

325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603-1385

May 8, 2008

Joint Legislative Commission
on Governmental Operations
North Carolina General Assembly
Raleigh, North Carolina 27601

Re: Quarterly report on Investment Funds for the period
ended March 31, 2008.

Gentlemen and Ladies:

Pursuant to G.S.147-68, we are providing a report on the investment activities of the State Treasurer. The report is in summary form.

The Short-Term Investment Fund (STIF), which comprises the vast majority of the assets of the Cash Management Program, produced a fiscal year-to-date annualized cash return of 5.34% for the participants. Short-term interest rates were lower during the current quarter. The investable balances earning income for the General Fund were \$27 million lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$192 million higher than at the same time one year earlier.

The investments held by the STIF on a particular date may be accruing income at different levels from current short-term interest rates. For example, if the investments were made when interest rates were lower, the earnings would continue to be at the lower rates of return, even though current interest rates may have moved higher. This happens in reverse as well.

The Cash Management Program had generated a fiscal year-to-date annualized cash return of 5.31% for its participants through March 31, 2008.

The investment results for the Trust Funds Investment Program are managed and reported on a cumulative total return basis. Total return includes realized income and the appreciation or depreciation of fair market value. Two funds comprise the vast majority of the Trust Funds Investment Program assets. They are the Long-Term Investment Fund (LTIF) and the Equity Investment Fund (EIF).

The interest rate environment was such that longer term interest rates were lower during the current quarter. The LTIF generated a 12, 24, 36 and 60 month trailing returns of 8.75%, 7.89%, 6.00% and 5.23% respectively. Assets of the fund (based on market value) ended the quarter approximately \$717 million higher than at the end of the prior reporting period. The LTIF's realized earnings for the fiscal year-to-date are \$1.2 billion.

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The equity market as measured by the DJIA was 1,001.93 points lower than at the beginning of the quarter. Approximately \$808 million was used to pay benefits or was reallocated to other investment funds this quarter. During this period, assets of the EIF at market value decreased by approximately \$4.97 billion. The EIF generated a 12, 24, 36 and 60 month trailing returns of -3.94%, 2.94%, 7.63% and 14.10% respectively.

The Trust Funds Investment Program, on a composite basis, generated a 12, 24, 36 and 60-month trailing returns of 1.99%, 5.69%, 7.74% and 10.41% on behalf of its participants through March 31, 2008.

Pursuant to G.S. 116-37, deposits are held for the University of North Carolina Hospitals at Chapel Hill Trust, New Hanover Memorial Hospital, and Margaret R. Pardee Hospital, all subject to compliance with G.S. 147-69. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending March 31, 2008, the \$389 million invested in domestic and international equity accounts returned -9.31% and -8.25% respectively.

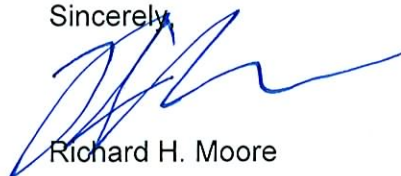
Pursuant to G.S. 147-69.2(b)(12), up to 20% of the Escheat Fund's assets can be invested in authorized Equity, Real Estate, and Alternative Investments. For the Quarter ending March 31, 2008, \$40 million has been invested in equity; \$20 million has been invested in real estate, and \$25.4 million in private equity.

Pursuant to Session Law 2007-323 Sec. 13.2.(b), G.S. 147-68(d1), the Treasurer "shall include a specific listing of all investments made with certified green managers and companies and funds that support sustainable practices, including the names of the companies, managers, and funds, the amount invested, and the State's return on investment." Based on currently available research, there is no validation group or process that certifies green managers for investments, and the statute provides no definition of the term "sustainable practices" that would enable the Treasurer to determine which companies and funds would fall under this provision. Thus, it is not possible to report any relevant data at this time.

No changes in investment policy were made during the last quarter.

It is our pleasure to present this quarterly report to you and we offer additional information upon request.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. H. Moore", is written over the typed name.

Richard H. Moore

Attachments

cc: Pamela J. Wortham, CPA, Deputy Treasurer
Financial Operations Division
Patricia Gerrick, Chief Investment Officer

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED MARCH 31, 2008**

	Cash Management Program			Trust Funds Investment Program					Memorandum	
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Long-term Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Subtotal	Intrafund Eliminations	Total
Revenues:										
Investment Income:										
Investment Earnings	\$ 447,041,576	\$ 15,797,938	\$ 462,839,514	\$ 1,129,098,453	\$ 3,586,355,836	\$ 203,729,026	\$ 120,138,729	\$ 5,039,322,045	\$	\$ 5,502,161,559
Intra-Pool Interest Earnings				3,750,357	37,927,926	3,736,300	2,357,151	47,771,735	(47,771,735)	-
Income from Security Lending	31,557,393		31,557,393	62,014,927	28,992,084			91,007,011		122,564,404
Commission Recapture					359,489			359,489		359,489
Other Income					14,183,077			14,183,077		14,183,077
Subtotal	478,598,969	15,797,938	494,396,907	1,194,863,738	3,667,818,412	207,465,327	122,495,880	5,192,643,357	(47,771,735)	5,639,268,529
Net Unrealized Appreciation/Depreciation				1,406,969,910	(7,699,622,382)	214,585,286	71,950,302	(6,006,116,884)		(6,006,116,884)
Total Investment Income	478,598,969	15,797,938	494,396,907	2,601,833,648	(4,031,803,970)	422,050,612	194,446,182	(813,473,528)	(47,771,735)	(366,848,355)
Expenditures:										
Treasurer's Allocated Cost	(481,515)		(481,515)	(1,288,640)	(2,051,869)	(4,530,307)	(7,942,802)	(15,813,618)		(16,295,133)
Management Fees		(192,371)	(192,371)		(59,014,594)	(46,589,385)	(32,292,874)	(137,896,854)		(138,089,225)
Foreign Income Tax					(12,291,654)			(12,291,654)		(12,291,654)
Other Cost	(74,824)		(74,824)	(332,793)	(287,566)	(446,212)	(511,751)	(1,578,321)		(1,653,145)
Total Expenditures	(556,339)	(192,371)	(748,710)	(1,621,433)	(73,645,683)	(51,565,904)	(40,747,427)	(167,580,447)		(168,329,156)
Net Investment Income (Loss)	<u>478,042,630</u>	<u>15,605,567</u>	<u>493,648,198</u>	<u>2,600,212,215</u>	<u>(4,105,449,652)</u>	<u>370,484,708</u>	<u>153,698,755</u>	<u>(981,053,974)</u>	<u>(47,771,735)</u>	<u>(535,177,511)</u>
Total Investment Income Allocated:										
General Fund	194,273,948		194,273,948							194,273,948
Highway Fund	29,268,784		29,268,784							29,268,784
Highway Trust Fund	1,407,090		1,407,090							1,407,090
University Trust Funds	72,254,541		72,254,541							72,254,541
Pension Trust Funds	13,019,773		13,019,773	2,505,304,730	(4,105,449,652)	370,484,708	153,698,755	(1,075,961,459)		(1,062,941,686)
Other Independent Trust Funds	110,764,608		110,764,608	94,907,484				94,907,484		205,672,093
Local Political Subdivisions	10,834,089		10,834,089							10,834,089
Licensing Boards	714,573		714,573							714,573
Other Investment Funds	45,505,225	15,605,567	61,110,792						(47,771,735)	13,339,057
Total Investment Income Allocated	<u>478,042,630</u>	<u>15,605,567</u>	<u>493,648,198</u>	<u>2,600,212,215</u>	<u>(4,105,449,652)</u>	<u>370,484,708</u>	<u>153,698,755</u>	<u>(981,053,974.07)</u>	<u>(47,771,735)</u>	<u>(535,177,511)</u>
Cash Return, Fiscal Year-to-Date (Annualized)	5.335%	4.200%	5.309%							
Total Return, 12, 24, and 36 and 60 months:										
12 months				8.75%	-3.94%	11.68%	10.72%	1.99%		
24 months				7.89%	2.94%	16.29%	11.54%	5.69%		
36 months				6.00%	7.63%	18.61%	11.06%	7.74%		
60 months				5.23%	14.10%	14.23%	9.07%	10.41%		

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
MARCH 31, 2008

	*Cash Management Program			*Trust Funds Investment Program					Memorandum			
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Long-term Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Subtotal	Escheats External Investments	Hospital Investment Fund	Intrafund Eliminations	Total
Net Assets:												
Investment Securities:												
Cash Equivalents	\$ 260,850,000	\$ -	\$ 260,850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,850,000
Discount Notes/Bills	-	-	-	-	-	-	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	3,172,396,445	-	3,172,396,445	7,159,199,096	-	-	-	7,159,199,096	-	-	-	10,331,595,540
U.S. Government Agency Notes/ Bonds	8,583,435,934	-	8,583,435,934	4,043,264,235	-	-	-	4,043,264,235	-	-	-	12,626,700,169
GNMA Certificates	-	-	-	7,124,049,732	-	-	-	7,124,049,732	-	-	-	7,124,049,732
Corporate Obligations	59,567,681	-	59,567,681	9,825,603,521	-	-	-	9,825,603,521	-	-	-	9,885,171,202
Investments in Equity Securities	-	-	-	-	-	-	7,421,886	7,421,886	-	-	-	7,421,886
Bond proceeds Advisory	-	356,055,059	356,055,059	-	-	-	-	-	-	-	-	356,055,059
Investments in Equity Trusts	-	-	-	-	36,525,962,883	-	-	36,525,962,883	-	-	-	36,525,962,883
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	-	4,559,107,150	-	4,559,107,150	-	-	-	4,559,107,150
Investments in Alternative Partnerships	-	-	-	-	-	-	3,075,139,059	3,075,139,059	-	-	-	3,075,139,059
Total Investment Securities	12,076,250,059	356,055,059	12,432,305,118	28,152,116,583	36,525,962,883	4,559,107,150	3,082,560,945	72,319,747,561	-	-	-	84,752,052,679
Cash in Bank	146,417,000	-	146,417,000	-	-	-	-	-	-	-	-	146,417,000
Deposits in Equity Investment Fund	-	-	-	-	-	-	-	-	41,245,940	392,794,183	(434,040,123)	-
Deposits in Real Estate Investment Fund	-	-	-	-	-	-	-	-	23,337,045	-	(23,337,045)	-
Deposits in Alternative Investment Fund	-	-	-	-	-	-	-	-	24,396,674	-	(24,396,674)	-
Deposits in Short-term Investment Fund	-	-	-	87,193,818	1,529,786,105	42,144,635	58,263,607	1,717,388,166	-	-	(1,717,388,166)	-
Other Assets, Net of Liabilities	315,107,600	-	315,107,600	286,144,805	16	-	(3,151)	286,141,670	-	-	-	601,249,270
Total Net Assets	\$ 12,537,774,659	\$ 356,055,059	\$ 12,893,829,718	\$ 28,525,455,206	\$ 38,055,749,004	\$ 4,601,251,785	\$ 3,140,821,402	\$ 74,323,277,397	\$ 88,979,659	\$ 392,794,183	\$ (2,199,162,007)	\$ 85,499,718,949
Participant Equity:												
General Fund	\$ 2,578,269,482	\$ -	\$ 2,578,269,482	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,578,269,482
Other Funds Which Earn Interest												
for General Fund	1,659,523,919	356,055,059	2,015,578,978	-	-	-	-	-	-	-	-	2,015,578,978
Highway Fund	922,950,494	-	922,950,494	-	-	-	-	-	-	-	-	922,950,494
Highway Trust Fund	2,476,406	-	2,476,406	-	-	-	-	-	-	-	-	2,476,406
University Trust Funds	1,965,407,389	-	1,965,407,389	-	-	-	-	-	-	-	-	1,965,407,389
Pension Trust Funds	226,928,273	-	226,928,273	27,491,915,245	38,055,749,004	4,601,251,785	3,140,821,402	73,289,737,436	-	-	-	73,516,665,709
Other Independent Trust Funds	2,945,287,765	-	2,945,287,765	1,033,539,961	-	-	-	1,033,539,961	-	-	-	3,978,827,725
Local Political Subdivisions	491,356,415	-	491,356,415	-	-	-	-	-	-	-	-	491,356,415
Licensing Boards	29,792,851	-	29,792,851	-	-	-	-	-	-	-	-	29,792,851
Other Investment Funds	1,715,781,666	-	1,715,781,666	-	-	-	-	-	88,979,659	392,794,183	(2,197,555,507)	-
Total Participant Equity	\$ 12,537,774,659	\$ 356,055,059	\$ 12,893,829,718	\$ 28,525,455,206	\$ 38,055,749,004	\$ 4,601,251,785	\$ 3,140,821,402	\$ 74,323,277,397	\$ 88,979,659	\$ 392,794,183	\$ (2,197,555,507)	\$ 85,501,325,449
Percent of Total	14.66	0.42	15.08	33.36	44.51	5.38	3.67	86.92	0.10	0.46	-2.56	100.00

* The Cash Management Program is presented at book value. The Trust Funds Investment Program is presented at market value.