



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

May 12, 2010

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, 2010.

Commission Members:

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

- The Cash Management Program – responsible for managing the operating funds of the State. The primary participants in this program are the State's General Fund and Highway Funds.
- The Trust Funds Investment Program – 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 of the Pension Fund. The Trust Funds Investment Program also includes other participants such as, the State Health Plan, the Disability Income Plan, and the State Educational Assistance Authority.
- The Ancillary Investment Programs - as authorized by the General Assembly, responsible for managing assets for the Escheats Fund, UNC and Public Hospital Funds, and the Local Government Other Post-Employment Benefits Fund.

Cash Management Program

The Short-Term Investment Fund ("STIF"), comprises the vast majority of the assets of the Cash Management Program, and produced a fiscal year to date return of 1.65% for the participants. It also includes the Bond Proceeds Fund which is a separate investment account for each state bond issue to comply with Internal Revenue Service regulations on bond arbitrage.

Short Term Investment Fund

<u>Historical T-Bill rates</u>	<u>3/31/09</u>	<u>12/31/09</u>	<u>3/31/10</u>
3-Mo. T-Bill	0.20%	0.05%	0.15%
6-Mo. T-Bill	0.42%	0.19%	0.23%

The Short-Term Investment Fund produced a fiscal year return of 1.65% for the participants. The investable balances earning income for the General Fund were \$21 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$256 million higher than at the same time last year.

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 Bond Proceeds Fund are managed by a private investment company under contract with the Department of State Treasurer. The investments are valued at amortized cost, which approximates fair value.

Trust Funds Investment Program

The investment results for the Trust Funds Investment Program ("Trust Funds") 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 assets. They are the Long-Term Investment Fund ("LTIF") and the Equity Investment Fund ("EIF").

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Total Trust Returns:	26.72%	-0.04%	0.66%	4.54%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	11.09%	6.88%	7.50%	6.36%

The below table provides a trend comparison of the current Treasury yields to the previous quarter.

<u>US Treasury Yields</u>	<u>5 Year UST</u>	<u>10 Year UST</u>	<u>30 Year UST</u>
As of 12/31/09	2.68%	3.84%	4.64%
As of 3/31/10	2.54%	3.83%	4.71%

- Long Term assets (based on market value) ended the quarter approximately \$228 million higher than at the end of the prior reporting period.
- Approximately \$326 million was used to pay benefits or was reallocated to other investment funds this quarter.
- The realized earnings for the fiscal year to date are \$1.1 billion.

Equity Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	53.93%	-2.68%	-3.10%	3.38%

The below table provides first quarter equity market returns as measured by major indices.

Quarterly Index Returns:	S&P 500	+5.39%	DJIA	+4.11%
	Russell 3000	+5.94%	MSCI EAFE	+0.87%

- Assets of the fund (based on market value) ended the quarter approximately \$1.4 billion higher than at the end of the prior reporting period.
- Approximately \$254 million was used to pay benefits or was reallocated to other investment funds this quarter.

Pursuant to Session Law 2009-98 and G.S.147-69.2, the Treasurer is now authorized to invest in credit and inflation-linked strategies. These new classifications are reflected in the attached report.

Ancillary Investment Programs

The Ancillary Investment Programs, as authorized by the General Assembly, is responsible for managing assets for the Escheats Fund, UNC and Public Hospital Funds, the Local Government Other Post-Employment Benefits Fund.

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. 147-69.2. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending March 31, 2010, the invested assets were valued at \$356 million after returns in the domestic and international accounts of 5.08% and 1.67% 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, 2010, \$40 million has been invested in equity; \$20 million has been invested in real estate, and commitments totaling \$67 million have been made to private equity, of which, \$40 million has been contributed.

Pursuant to G.S. 147-69.4, deposits are held for the Local Government Other Post-Employment Benefits Fund, all subject to compliance with G.S. 147-69.2. The assets are allocated as follows: STIF, LTIF, and authorized Equity funds. For the Quarter ending March 31, 2010, the externally invested assets were valued at \$26 million after returns in the domestic and international equity accounts of 5.08% and 1.67% respectively.

Other Reporting Requirements

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.

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

Sincerely,



Janet Cowell

Attachments

cc: Pamela J. Wortham, CPA, Deputy Treasurer - Financial Operations Division
Michael Williamson, Interim Chief Investment Officer

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
MARCH 31, 2010**

	*Cash Management Program		**Trust Funds Investment Program		All Pools Total
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Intrafund Eliminations	
Net Assets:					
Investment Securities:					
Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	42,600,000	-	42,600,000	-	42,600,000
Repurchase Agreements	1,620,000,000	-	1,620,000,000	-	1,620,000,000
Discount Notes/Bills	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	3,596,119,400	-	3,596,119,400	-	9,519,314,511
U.S. Government Agency Notes/ Bonds	6,240,893,732	-	6,240,893,732	-	8,896,820,271
GNMA Certificates	-	-	-	-	6,261,320,846
Corporate Obligations	404,708,464	-	404,708,464	-	9,491,396,340
Investments in RMBS and CMBS	-	-	-	-	1,554,608,334
Investments in Equity Securities	-	-	-	-	8,563,799
Bond proceeds Advisory	-	87,195,790	87,195,790	-	87,195,790
Investments in Equity Trusts	-	-	-	-	35,379,875,793
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	2,926,129,885
Investments in Alternative Partnerships	-	-	-	-	3,139,337,197
Investments in Credit Partnerships	-	-	-	-	722,614,716
Investments in Inflation Partnerships	-	-	-	-	704,527,034
Total Investment Securities	\$ 11,904,321,596	\$ 87,195,790	\$ 11,991,517,386	\$ -	\$ 80,354,304,516
Cash in Bank	111,483,418	-	111,483,418	-	111,483,418
Deposits in Short-term Investment Fund	-	-	-	-	-
Other Assets, Net of Liabilities	(338,943,975)	-	(338,943,975)	(971,493,536)	(12,866,597)
Total Net Assets	\$ 11,676,861,039	\$ 87,195,790	\$ 11,764,056,829	\$ (971,493,536)	\$ 80,452,921,337
Participant Equity:					
General Fund	\$ 1,319,579,976	\$ -	\$ 1,319,579,976	\$ -	\$ 1,319,579,976
Other Funds Which Earn Interest for General Fund	1,367,754,971	87,195,790	1,454,950,761	-	1,454,950,761
Highway Fund	945,687,891	-	945,687,891	-	945,687,891
Highway Trust Fund	122,206,458	-	122,206,458	-	122,206,458
University Trust Funds	2,344,211,877	-	2,344,211,877	-	2,344,211,877
Pension Trust Funds	173,004,661	-	173,004,661	-	68,861,547,896
Other Independent Trust Funds	3,739,185,153	-	3,739,185,153	-	4,710,999,962
Local Political Subdivisions	662,540,441	-	662,540,441	-	662,540,441
Licensing Boards	31,196,075	-	31,196,075	-	31,196,075
Other Investment Funds	971,493,536	-	971,493,536	(971,493,536)	-
Total Participant Equity	\$ 11,676,861,039	\$ 87,195,790	\$ 11,764,056,829	\$ (971,493,536)	\$ 80,452,921,337
Percent of Total	14.51	0.11	14.62	-1.21	100.00

*The Cash Management Program is presented at book value.

**The Trust Funds Investment Program is presented at market value. Trust Funds detail is included on Combining Statement of Net Assets and Participant Equity.

**DEPARTMENT OF STATE TREASURER
COMBINING STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - TRUST FUNDS INVESTMENT PROGRAM
MARCH 31, 2010**

	Long-term Investment Fund	External Fixed Inc. Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Credit Investment Fund	Inflation Investment Fund	Totals
Net Assets:								
Investment Securities:								
U.S. Treasury Bills/ Notes/ Bonds	\$ 5,923,195,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	5,923,195,111
U.S. Government Agency Notes/ Bonds	2,624,402,053	31,524,486	-	-	-	-	-	2,655,926,539
GNMA Certificates	6,261,320,846	-	-	-	-	-	-	6,261,320,846
Corporate Obligations	9,086,687,876	-	-	-	-	-	-	9,086,687,876
Investments in RMBS and CMBS	-	1,554,608,334	-	-	-	-	-	1,554,608,334
Investments in Equity Securities	-	-	-	-	8,563,799	-	-	8,563,799
Bond proceeds Advisory	-	-	-	-	-	-	-	-
Investments in Equity Trusts	-	-	35,379,875,793	-	-	-	-	35,379,875,793
Investments in Real Estate Trust Funds & Partnerships	-	-	-	2,926,129,885	-	-	-	2,926,129,885
Investments in Alternative Partnerships	-	-	-	-	3,139,337,197	-	-	3,139,337,197
Investments in Credit Partnerships	-	-	-	-	-	722,614,716	-	722,614,716
Investments in Inflation Partnerships	-	-	-	-	-	-	704,527,034	704,527,034
Total Investment Securities	\$ 23,895,605,886	\$ 1,586,132,820	\$ 35,379,875,793	\$ 2,926,129,885	\$ 3,147,900,996	\$ 722,614,716	\$ 704,527,034	\$ 68,362,787,130
Cash in Bank	-	-	-	-	-	-	-	-
Deposits in Short-term Investment Fund	439,356,710	456,924,416	7,272,674	4,721,869	53,998,183	5,234,908	3,984,776	971,493,536
Other Assets, Net of Liabilities	292,636,748	33,440,630	-	-	-	-	-	326,077,378
Total Net Assets	\$ 24,627,599,344	\$ 2,076,497,866	\$ 35,387,148,467	\$ 2,930,851,754	\$ 3,201,899,179	\$ 727,849,624	\$ 708,511,810	\$ 69,660,358,044
Participant Equity:								
Pension Trust Funds	23,655,784,535	2,076,497,866	35,387,148,467	2,930,851,754	3,201,899,179	727,849,624	708,511,810	68,688,543,235
Other Independent Trust Funds	971,814,809	-	-	-	-	-	-	971,814,809
Total Participant Equity	\$ 24,627,599,344	\$ 2,076,497,866	\$ 35,387,148,467	\$ 2,930,851,754	\$ 3,201,899,179	\$ 727,849,624	\$ 708,511,810	\$ 69,660,358,044
Percent of Total	35.35	2.98	50.80	4.21	4.60	1.04	1.02	100.00

DEPARTMENT OF STATE TREASURER
 ANCILLARY INVESTMENT PROGRAMS

MARCH 31, 2010

	Escheats External Investments	OPEB External Investments	Hospital Investment Fund	Totals
Net Assets:				
Deposits in Equity Investment Fund	\$ 37,129,880	\$ 25,990,760	\$ 355,926,421	\$ 419,047,061
Deposits in Real Estate Investment Fund	12,703,849	-	-	12,703,849
Deposits in Alternative Investment Fund	33,634,493	-	-	33,634,493
Other Assets, Net of Liabilities	-	-	-	-
Total Net Assets	<u>\$ 83,468,222</u>	<u>\$ 25,990,760</u>	<u>\$ 355,926,421</u>	<u>\$ 465,385,403</u>

Participant Equity:			
General Fund	\$ -	\$ -	\$ -
Other Investment Funds	83,468,222	25,990,760	355,926,421
Total Participant Equity	<u>\$ 83,468,222</u>	<u>\$ 25,990,760</u>	<u>\$ 355,926,421</u>
			<u>\$ 465,385,403</u>

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED MARCH 31, 2010**

	Cash Management Program		*Trust Funds Investment Program	Memorandum	
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Intrafund Eliminations	Total
Revenues:					
Investment Income:					
Investment Earnings	\$ 146,243,378	\$ 101,397	\$ 146,344,775	\$ -	\$ 146,344,775
Intra-Pool Interest Earnings	-	-	-	(11,875,703)	-
Income from Security Lending	-	-	-	-	26,081,914
Commission Recapture	-	-	-	-	98,768
Other Income	-	-	-	-	11,231,016
Subtotal	146,243,378	101,397	146,344,775	(11,875,703)	134,469,072
Net Unrealized Appreciation/Depreciation					
Total Investment Income	146,243,378	101,397	146,344,775	(11,875,703)	124,469,072
Expenditures:					
Treasurer's Allocated Cost	(1,615,214)	-	(1,615,214)	-	(21,978,125)
Management Fees	-	(45,270)	(45,270)	-	(192,548,112)
Foreign Income Tax	-	-	-	-	(10,453,676)
Other Cost	(661,013)	-	(661,013)	-	(5,957,732)
Total Expenditures	(2,276,227)	(45,270)	(2,321,497)	-	(230,937,645)
Net Investment Income (Loss)	143,967,151	56,127	144,023,278	(11,875,703)	10,286,667,745
Total Investment Income Allocated:					
General Fund	\$ 31,575,439	-	\$ 31,575,439	-	\$ 31,575,439
Highway Fund	12,303,933	-	12,303,933	-	12,303,933
Highway Trust Fund	572,515	-	572,515	-	572,515
University Trust Funds	27,894,690	-	27,894,690	-	27,894,690
Pension Trust Funds	4,915,444	-	4,915,444	-	10,086,872,860
Other Independent Trust Funds	47,701,102	-	47,701,102	-	120,263,856
Local Political Subdivisions	6,735,860	-	6,735,860	-	6,735,860
Licensing Boards	392,466	-	392,466	-	392,466
Other Investment Funds	11,875,702	56,127	11,931,829	(11,875,703)	56,126
Total Investment Income Allocated	143,967,151	56,127	144,023,278	(11,875,703)	10,286,667,745

Cash Return, Fiscal Year-to-Date (Annualized) 1.654% 0.110% 1.653%

*Trust Funds detail is included on the Combining Statement of Operations-Trust Funds Investment Program.

**DEPARTMENT OF STATE TREASURER
COMBINING STATEMENT OF OPERATIONS - TRUST FUNDS INVESTMENT PROGRAM
FOR THE PERIOD ENDED MARCH 31, 2010**

	Trust Funds Investment Program								Totals
	Long-term Investment Fund	External Fixed Inc. Investment Fund	Equity Investment Fund	Real Estate Investment Fund	Alternative Investment Fund	Credit Investment Fund	Inflation Investment Fund	Totals	
Revenues:									
Investment Income:									
Investment Earnings	\$ 1,086,564,268	\$ 206,978,740	\$ 1,677,742,842	\$ 9,933,555	\$ 73,315,099	\$ 8,843,157	\$ -	\$ 3,063,377,661	
Intra-Pool Interest Earnings	3,311,990	7,375,973	113,242	271,473	719,085	65,985	17,955	11,875,703	
Income from Security Lending	-	-	26,081,914	-	-	-	-	26,081,914	
Commission Recapture	-	-	98,768	-	-	-	-	98,768	
Other Income	-	-	11,231,016	-	-	-	-	11,231,016	
Subtotal	1,089,876,258	214,354,713	1,715,267,782	10,205,028	74,034,184	8,909,142	17,955	3,112,665,062	
Net Unrealized Appreciation/Depreciation	737,988,377	93,953,480	6,537,470,362	(475,998,505)	361,628,485	13,964,936	1,464,121	7,270,471,256	
Total Investment Income	1,827,864,635	308,308,193	8,252,738,144	(465,793,477)	435,662,669	22,874,078	1,482,076	10,383,136,318	
Expenditures:									
Treasurer's Allocated Cost	(1,078,463)	(383,522)	(1,490,908)	(9,255,841)	(8,141,106)	(6,163)	(6,908)	(20,362,911)	
Management Fees	-	(40,862,781)	(65,628,286)	(37,725,547)	(45,173,103)	(1,986,035)	(1,127,090)	(192,502,842)	
Foreign Income Tax	-	-	(10,409,977)	(43,699)	-	-	-	(10,453,676)	
Other Cost	(524,552)	(613,342)	(726,691)	(627,373)	(415,730)	(1,652,920)	(756,131)	(5,296,719)	
Total Expenditures	(1,602,995)	(418,559,645)	(78,255,862)	(47,652,460)	(53,729,939)	(3,625,118)	(1,890,129)	(228,616,148)	
Net Investment Income (Loss)	\$ 1,826,261,640	\$ 266,448,548	\$ 8,174,482,282	\$ (513,445,937)	\$ 381,932,730	\$ 19,248,960	\$ (408,053)	\$ 10,154,520,170	
Total Investment Income Allocated:									
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Highway Fund	-	-	-	-	-	-	-	-	
Highway Trust Fund	-	-	-	-	-	-	-	-	
University Trust Funds	-	-	-	-	-	-	-	-	
Pension Trust Funds	1,753,698,885	266,448,548	8,174,482,282	(513,445,937)	381,932,730	19,248,960	(408,053)	10,081,957,415	
Other Independent Trust Funds	72,562,755	-	-	-	-	-	-	72,562,755	
Local Political Subdivisions	-	-	-	-	-	-	-	-	
Licensing Boards	-	-	-	-	-	-	-	-	
Other Investment Funds	-	-	-	-	-	-	-	-	
Total Investment Income Allocated	\$ 1,826,261,640	\$ 266,448,548	\$ 8,174,482,282	\$ (513,445,937)	\$ 381,932,730	\$ 19,248,960	\$ (408,053)	\$ 10,154,520,170	

Total Return, 12, 24, and 60 months:

12 months	11.09%	20.52%	53.93%	-21.97%	8.05%	N/A	N/A	26.72%
24 months	6.88%	13.03%	-2.68%	-23.68%	-5.81%	N/A	N/A	-0.04%
36 months	7.50%	N/A	-3.10%	-13.35%	-0.57%	N/A	N/A	0.66%
60 months	6.36%	N/A	3.38%	-0.56%	3.99%	N/A	N/A	4.54%