



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

May 6, 2014

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, 2014.

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 Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund and the Retiree Health Benefit Trust Fund. Collectively, these systems and funds are referred to as the North Carolina Retirement Systems or 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, Public Hospital Funds, CEEF and the Local Government Other Post-Employment Benefits Fund.

Cash Management Program

The Cash Management Program, composed mostly of the Short-Term Investment Fund ("STIF"), produced a one year return of 0.45% 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>3/31/13</u>	<u>9/30/13</u>	<u>3/31/14</u>
3-Mo. T-Bill	0.074%	0.008%	0.033%
6-Mo. T-Bill	0.104%	0.030%	0.056%

The Short-Term Investment Fund produced a one year return of 0.45% for the participants. The investable balances earning income for the General Fund were \$618 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$244 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 is 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:	10.70%	9.75%	8.22%	12.38%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	-0.71%	2.80%	5.58%	7.06%

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

US Treasury Yields	<u>5 Year UST</u>	<u>10 Year UST</u>	<u>30 Year UST</u>
As of 3/31/14	1.719%	2.719%	3.559%
As of 12/31/13	1.743%	3.029%	3.969%

- Long Term assets (based on market value) ended the quarter approximately \$787 million higher than at the end of the prior reporting period.
- The realized earnings for the fiscal year to date are \$947 million.

Equity Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	19.46%	15.39%	10.12%	18.79%

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

Quarterly Index Returns:	S&P 500	1.81%	DJIA	-0.72%
	Russell 3000	1.97%	MSCI EAFE	0.66%

- Assets of the fund (based on market value) ended the quarter approximately \$204 million lower than at the end of the prior reporting period.
- Approximately \$750 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 authorized to invest in credit and inflation-linked strategies. These classifications are reflected in the attached report.

Ancillary Investment Programs

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

Pursuant to G.S. 116-37, deposits are held for the Watauga Medical Center, New Hanover Memorial Hospital, Margaret R. Pardee Hospital, and Columbus Regional Healthcare System, 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, 2014, the invested assets were valued at \$123 million after returns in the domestic and international equity accounts of 2.12% and 1.54% 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, 2014, \$40 million has been invested in equity, of which \$40.8 million has been received in distributions; \$20 million has been invested in real estate, of which \$16.5 million has been returned; and commitments totaling \$57.1 million have been made to private equity, of which \$51.3 million has been contributed.

Pursuant to G.S. 159-30.1, 147-69.2(a)(17g), and 147-69.2(b4), deposits are held for the Local Government Other Post-Employment Benefits Fund. The assets are allocated as follows: STIF, LTIF, and authorized Equity funds. For the quarter ending March 31, 2014, the externally invested assets were valued at \$97.2 million after returns in the domestic and international equity accounts of 2.12% and 1.54% respectively.

Other Reporting Requirements

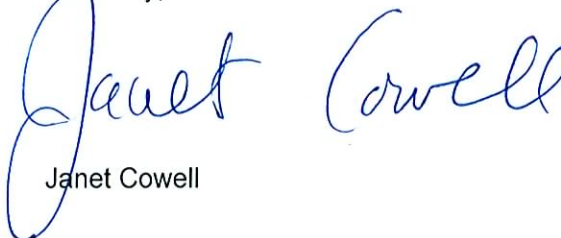
Pursuant to Session Law 2007-323 Sec. 13.2.(b), G.S. 147-68(d1), the Treasurer "shall include a specific listing of all investments made with certified green managers and companies and funds that support sustainable practices, including the names of the companies, managers, and funds, the amount invested, 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

Government Operations Report
March 31, 2014

companies and funds would fall under this provision. Thus, it is not possible to report any relevant data at this time.

Thank you for your attention. Please feel free to contact the Department of State Treasurer if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Janet Cowell". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Janet Cowell

Attachments

cc: Kevin SigRist, Chief Investment Officer
Fran Lawrence, Chief Financial Officer

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET POSITION - ALL POOLS AND ACCOUNTS
MARCH 31, 2014**

	*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	13,600,000	-	13,600,000	-	13,600,000
Repurchase Agreements	1,855,000,000	-	1,855,000,000	-	1,855,000,000
Discount Notes/Bills	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	6,003,574,187	-	6,003,574,187	-	14,692,030,007
U.S. Government Agency Notes/ Bonds	5,640,983,975	-	5,640,983,975	-	7,457,142,586
GNMA Certificates	-	-	-	-	7,270,819,798
Corporate Obligations	4,992,747	-	4,992,747	-	10,201,353,207
Other Investments	-	-	21,371,401	-	21,371,401
Investments in RMBS and CMBS	-	-	337,596,063	-	337,596,063
Investments in Equity Securities	-	-	3,215,066	-	3,215,066
Bond proceeds Advisory	39,248,238	-	39,248,238	-	39,248,238
Investments in Equity Trusts	-	-	41,286,906,265	-	41,286,906,265
Investments in Real Estate Trust Funds & Partnerships	-	-	7,378,850,939	-	7,378,850,939
Investments in Alternative Partnerships	-	-	3,983,059,711	-	3,983,059,711
Investments in Credit Partnerships	-	-	4,321,464,022	-	4,321,464,022
Investments in Inflation Partnerships	-	-	1,819,183,924	-	1,819,183,924
Total Investment Securities	\$ 13,518,152,909	\$ 39,248,238	\$ 13,557,401,147	\$ -	\$ 100,680,841,227
Cash in Bank	217,247,683	-	217,247,683	-	217,247,683
Deposits in Short-term Investment Fund	-	-	-	(1,273,331,802)	-
Other Assets, Net of Liabilities	19,513,121	-	19,513,121	-	269,894,611
Total Net Assets	\$ 13,754,913,713	\$ 39,248,238	\$ 13,794,161,951	\$ (1,273,331,802)	\$ 101,167,983,521
Participant Equity:					
General Fund	\$ 2,134,923,607	\$ -	\$ 2,134,923,607	\$ -	\$ 2,134,923,607
Other Funds Which Earn Interest for General Fund	1,445,461,870	39,248,238	1,484,710,108	-	1,484,710,108
Highway Fund	542,863,645	-	542,863,645	-	542,863,645
Highway Trust Fund	796,236,814	-	796,236,814	-	796,236,814
University Trust Funds	2,686,059,245	-	2,686,059,245	-	2,686,059,245
Pension Trust Funds	120,173,097	-	120,173,097	-	87,407,367,274
Other Independent Trust Funds	3,899,670,442	-	3,899,670,442	-	5,139,456,540
Local Political Subdivisions	825,910,376	-	825,910,376	-	825,910,376
Licensing Boards	30,282,815	-	30,282,815	-	30,282,815
Other Investment Funds	1,273,331,802	-	1,273,331,802	(1,273,331,802)	-
Total Participant Equity	\$ 13,754,913,713	\$ 39,248,238	\$ 13,794,161,951	\$ (1,273,331,802)	\$ 101,167,983,521
Percent of Total	13.60	0.04	13.64	-1.26	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 Position.

**DEPARTMENT OF STATE TREASURER
COMBINING STATEMENT OF NET POSITION - TRUST FUNDS INVESTMENT PROGRAM
MARCH 31, 2014**

	Cash Investment Fund	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:									
Cash and Cash Equivalents									
U.S. Treasury Bills/ Notes/ Bonds		8,068,954,113						619,501,707	\$ 8,688,455,820
U.S. Government Agency Notes/ Bonds		1,462,703,363	11,727,771					341,725,477	1,816,156,611
GNMA Certificates		7,270,819,798							7,270,819,798
Corporate Obligations		10,196,360,460							10,196,360,460
Other Investments			21,371,401						21,371,401
Investments in RMBS and CMBS			337,596,063						337,596,063
Investments in Equity Securities									3,215,066
Bond Proceeds Advisory						3,215,066			3,215,066
Investments in Equity Trusts				41,286,906,265					41,286,906,265
Investments in Real Estate Trust Funds & Partnerships					7,378,850,939				7,378,850,939
Investments in Alternative Partnerships						3,983,059,711			3,983,059,711
Investments in Credit Partnerships							4,321,464,022		4,321,464,022
Investments in Inflation Partnerships & Other Invest.								1,819,183,924	1,819,183,924
Total Investment Securities		26,998,837,734	370,695,235	41,286,906,265	7,378,850,939	3,986,274,777	4,321,464,022	2,780,411,108	\$ 87,123,440,080
Cash in Bank	479,264,938	794,066,864							1,273,331,802
Deposits in Short-term Investment Fund	2,812,710	245,463,187	815,509					1,290,084	250,381,490
Other Assets, Net of Liabilities	482,077,648	28,038,367,785	371,510,744	41,286,906,265	7,378,850,939	3,986,274,777	4,321,464,022	2,781,701,192	\$ 88,647,153,372
Total Net Assets	\$ 482,077,648	\$ 28,038,367,785	\$ 371,510,744	\$ 41,286,906,265	\$ 7,378,850,939	\$ 3,986,274,777	\$ 4,321,464,022	\$ 2,781,701,192	\$ 88,647,153,372
Participant Equity:									
Pension Trust Funds	482,077,648	26,798,581,687	371,510,744	41,286,906,265	7,378,850,939	3,986,274,777	4,321,464,022	2,781,701,192	\$ 87,407,367,274
Other Independent Trust Funds		1,239,786,098							1,239,786,098
Total Participant Equity	\$ 482,077,648	\$ 28,038,367,785	\$ 371,510,744	\$ 41,286,906,265	\$ 7,378,850,939	\$ 3,986,274,777	\$ 4,321,464,022	\$ 2,781,701,192	\$ 88,647,153,372
Percent of Total	0.54	31.63	0.42	46.58	8.32	4.50	4.87	3.14	100.00

**DEPARTMENT OF STATE TREASURER
ANCILLARY INVESTMENT PROGRAMS
MARCH 31, 2014**

	Escheats External Investments	OPEB External Investments	Hospital External Investments	Totals
Net Assets:				
Deposits in Equity Investment Fund	\$ 7,041	97,225,488	123,320,443	\$ 220,552,972
Deposits in Alternative Investment Fund	38,871,508			38,871,508
Total Net Assets	\$ 38,878,549	\$ 97,225,488	\$ 123,320,443	\$ 259,424,480

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED MARCH 31, 2014**

	Cash Management Program			*Trust Funds		Memorandum	
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Investment Program	Eliminations	Total	
Revenues:							
Investment Income:							
Investment Earnings	\$ 51,025,811	15,453	\$ 51,041,264	\$ 5,945,197,043	\$ -	\$ 5,996,238,307	
Intra-Pool Interest Earnings	-	-	-	2,267,895	(2,267,895)	-	
Income from Security Lending	-	-	-	8,615,356	-	8,615,356	
Commission Recapture	-	-	-	64,446	-	64,446	
Other Income	-	-	-	2,080,923	-	2,080,923	
Subtotal	51,025,811	15,453	51,041,264	5,958,225,663	(2,267,895)	6,006,999,032	
Net Unrealized Appreciation/Depreciation	51,025,811	15,453	51,041,264	3,539,162,164	-	3,539,162,164	
Total Investment Income	(2,207,228)	(11,519)	(2,207,228)	9,497,387,827	(2,267,895)	9,546,161,196	
Expenditures:							
Treasurer's Allocated Cost				(3,734,021)	-	(5,941,249)	
Management Fees				(250,390,387)	-	(250,401,906)	
Dividend Withholding Tax				(15,313,128)	-	(15,313,128)	
Other Cost				(1,350,470)	-	(35,290,043)	
Total Expenditures	(3,557,698)	(11,519)	(3,569,217)	(303,377,109)	-	(306,946,326)	
Net Investment Income (Loss)	\$ 47,468,113	\$ 3,934	\$ 47,472,047	\$ 9,194,010,718	\$ (2,267,895)	\$ 9,239,214,870	
Total Investment Income Allocated:							
General Fund	\$ 13,176,450		\$ 13,176,450	\$ -	\$ -	\$ 13,176,450	
Highway Fund	1,218,668		1,218,668	-	-	1,218,668	
Highway Trust Fund	2,339,579		2,339,579	-	-	2,339,579	
University Trust Funds	9,342,761		9,342,761	-	-	9,342,761	
Pension Trust Funds	1,369,563		1,369,563	9,155,097,258	-	9,156,466,821	
Other Independent Trust Funds	13,271,270		13,271,270	38,913,460	-	52,184,730	
Local Political Subdivisions	2,675,431		2,675,431	-	-	2,675,431	
Licensing Boards	96,074		96,074	-	-	96,074	
Other Investment Funds	3,978,317	3,934	3,982,251	-	(2,267,895)	1,714,356	
Total Investment Income Allocated	\$ 47,468,113	\$ 3,934	\$ 47,472,047	\$ 9,194,010,718	\$ (2,267,895)	\$ 9,239,214,870	
Cash Return, Fiscal Year-to-Date (Annualized)	0.45%	0.01%	0.45%				

*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, 2014**

	Trust Funds Investment Program								Totals	
	Cash Investment Fund	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		
Revenues:										
Investment Income:										
Investment Earnings	\$ 1,786,807	947,138,293	16,517,524	4,426,891,039	254,352,777	219,402,603	38,575,350	40,532,650	\$ 5,945,197,043	
Intra-Pool Interest Earnings		2,267,895							2,267,895	
Income from Security Lending				8,615,356					8,615,356	
Commission Recapture				64,446					64,446	
Other Income				2,080,923					2,080,923	
Subtotal	1,786,807	949,406,188	16,517,524	4,437,651,764	254,352,777	219,402,603	38,575,350	40,532,650	5,958,225,663	
Net Unrealized Appreciation/Depreciation		(66,829,183)	3,799,856	2,517,446,574	308,236,132	223,600,269	421,319,528	131,588,988	3,539,162,164	
Total Investment Income	1,786,807	882,577,005	20,317,380	6,955,098,338	562,588,909	443,002,872	459,894,878	172,121,638	9,497,387,827	
Expenditures:										
Treasurer's Allocated Cost	(20,091)	(1,204,592)	(19,498)	(1,746,165)	(295,492)	(166,579)	(169,752)	(111,852)	(3,734,021)	
Management Fees			(905,477)	(50,043,784)	(53,735,209)	(47,059,017)	(71,367,945)	(27,278,955)	(250,390,387)	
Dividend Withholding Tax				(15,173,803)	(139,325)				(15,313,128)	
Other Cost	(101)	(1,106,007)	(3,18,686)	(1,484,606)	(1,636,669)	(17,054,439)	(5,476,011)	(6,863,054)	(33,939,573)	
Total Expenditures	(20,192)	(2,310,599)	(1,243,661)	(68,448,358)	(55,806,695)	(64,280,035)	(77,013,708)	(34,253,861)	(303,377,109)	
Net Investment Income (Loss)	\$ 1,766,615	880,266,406	19,073,719	6,886,649,980	506,782,214	378,722,837	382,881,170	137,867,777	9,194,010,718	
Total Investment Income Allocated:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
General Fund	-	-	-	-	-	-	-	-	-	
Highway Fund	-	-	-	-	-	-	-	-	-	
Highway Trust Fund	-	-	-	-	-	-	-	-	-	
University Trust Funds	-	-	-	-	-	-	-	-	-	
Pension Trust Funds	1,766,615	841,352,946	19,073,719	6,886,649,980	506,782,214	378,722,837	382,881,170	137,867,777	9,155,097,258	
Other Independent Trust Funds	-	38,913,460	-	-	-	-	-	-	38,913,460	
Local Political Subdivisions	-	-	-	-	-	-	-	-	-	
Licensing Boards	-	-	-	-	-	-	-	-	-	
Other Investment Funds	-	-	-	-	-	-	-	-	-	
Total Investment Income Allocated	\$ 1,766,615	880,266,406	19,073,719	6,886,649,980	506,782,214	378,722,837	382,881,170	137,867,777	9,194,010,718	

Total Return, 12, 24, and 36 and 60 months:

12 months	N/A	6.95%	19.46%	13.47%	15.31%	0.65%	10.70%
24 months	N/A	8.98%	15.39%	9.21%	15.16%	-1.11%	9.75%
36 months	N/A	5.58%	10.12%	8.78%	9.97%	-3.68%	8.22%
60 months	N/A	7.06%	18.79%	8.93%	N/A	N/A	12.58%