



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

August 5, 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
June 30, 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>6/30/13</u>	<u>12/31/13</u>	<u>6/30/14</u>
3-Mo. T-Bill	0.033%	0.068%	0.023%
6-Mo. T-Bill	0.094%	0.089%	0.063%

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 \$27 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$188 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:	15.73%	12.49%	9.01%	11.40%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	6.05%	2.41%	5.55%	6.99%

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 6/30/14	1.631%	2.531%	3.360%
As of 3/31/14	1.719%	2.719%	3.559%

- Long Term assets (based on market value) ended the quarter approximately \$211 million lower than at the end of the prior reporting period.
- The realized earnings for the fiscal year to date are \$1.4 billion.
- Approximately \$950 million was used to pay benefits or was reallocated to other investment funds this quarter.

Equity Investment Fund

EIF Returns:	<u>1 Year</u> 24.66%	<u>2 Year</u> 21.69%	<u>3 Year</u> 11.66%	<u>5 Year</u> 15.79%
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The below table provides third quarter equity market returns as measured by major indices.

Quarterly Index Returns:	S&P 500	5.23%	DJIA	2.24%
	Russell 3000	4.87%	MSCI EAFE	4.09%

- Assets of the fund (based on market value) ended the quarter approximately \$934 million higher than at the end of the prior reporting period.
- Approximately \$800 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 June 30, 2014, the invested assets were valued at \$145 million after returns in the domestic and international equity accounts of 4.69% and 4.93% 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 June 30, 2014, \$40 million has been invested in equity, of which \$41 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 \$53.5 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 June 30, 2014, the externally invested assets were valued at \$103 million after returns in the domestic and international equity accounts of 4.69% and 4.93% 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

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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,



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
JUNE 30, 2014

	*Cash Management Program			**Trust Funds Investment Program		All Pools
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Subtotal	Intrafund Eliminations	Total
Net Assets:						
Investment Securities:						
Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	13,600,000	-	13,600,000	-	-	13,600,000
Repurchase Agreements	2,225,000,000	-	2,225,000,000	-	-	2,225,000,000
Discount Notes/Bills	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	6,404,349,921	-	6,404,349,921	8,300,432,729	-	14,704,782,650
U.S. Government Agency Notes/ Bonds	5,591,326,453	-	5,591,326,453	1,422,953,627	-	7,014,280,080
GNMA Certificates	-	-	-	7,935,078,038	-	7,935,078,038
Corporate Obligations	54,919,962	-	54,919,962	10,067,710,160	-	10,122,630,122
Other Investments	-	-	-	4,169,929	-	4,169,929
Investments in RMBS and CMBS	-	-	-	262,629,263	-	262,629,263
Investments in Equity Securities	-	-	-	5,402,267	-	5,402,267
Bond proceeds Advisory	-	38,414,261	38,414,261	-	-	38,414,261
Investments in Equity Trusts	-	-	-	42,221,069,866	-	42,221,069,866
Investments in Real Estate Trust Funds & Partnerships	-	-	-	7,558,972,373	-	7,558,972,373
Investments in Alternative Partnerships	-	-	-	4,283,090,691	-	4,283,090,691
Investments in Credit Partnerships	-	-	-	4,768,746,712	-	4,768,746,712
Investments in Inflation Partnerships	-	-	-	2,084,171,981	-	2,084,171,981
Total Investment Securities	\$ 14,289,196,336	\$ 38,414,261	\$ 14,327,610,597	\$ 88,914,427,636	\$ -	\$ 103,242,038,233
Cash in Bank	196,061,518	-	196,061,518	-	-	196,061,518
Deposits in Short-term Investment Fund	-	-	-	2,215,320,290	(2,215,320,290)	-
Other Assets, Net of Liabilities	22,558,265	-	22,558,265	260,449,488	-	283,007,753
Total Net Assets	\$ 14,507,816,119	\$ 38,414,261	\$ 14,546,230,380	\$ 91,390,197,414	\$ (2,215,320,290)	\$ 103,721,107,504
Participant Equity:						
General Fund	\$ 2,245,103,481	-	\$ 2,245,103,481	\$ -	\$ -	\$ 2,245,103,481
Other Funds Which Earn Interest	-	-	-	-	-	-
for General Fund	1,308,772,287	38,414,261	1,347,186,548	-	-	1,347,186,548
Highway Fund	436,843,847	-	436,843,847	-	-	436,843,847
Highway Trust Fund	857,997,762	-	857,997,762	-	-	857,997,762
University Trust Funds	2,437,318,254	-	2,437,318,254	-	-	2,437,318,254
Pension Trust Funds	182,698,909	-	182,698,909	90,140,310,992	-	90,323,009,901
Other Independent Trust Funds	4,042,032,504	-	4,042,032,504	1,249,886,422	-	5,291,918,926
Local Political Subdivisions	751,671,834	-	751,671,834	-	-	751,671,834
Licensing Boards	30,056,951	-	30,056,951	-	-	30,056,951
Other Investment Funds	2,215,320,290	-	2,215,320,290	-	(2,215,320,290)	-
Total Participant Equity	\$ 14,507,816,119	\$ 38,414,261	\$ 14,546,230,380	\$ 91,390,197,414	\$ (2,215,320,290)	\$ 103,721,107,504
Percent of Total	13.99	0.04	14.03	88.11	-2.14	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
JUNE 30, 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		7,686,851,091						613,581,638	8,300,432,729
U.S. Government Agency Notes/ Bonds		1,062,510,867	10,837,690					349,605,070	1,422,953,627
GNMA Certificates		7,935,078,038							7,935,078,038
Corporate Obligations		10,067,710,160							10,067,710,160
Other Investments			4,169,929						4,169,929
Investments in RMBS and CMBS			262,629,263						262,629,263
Investments in Equity Securities						5,402,267			5,402,267
Bond Proceeds Advisory									-
Investments in Equity Trusts				42,221,069,866					42,221,069,866
Investments in Real Estate Trust Funds & Partnerships					7,558,972,373				7,558,972,373
Investments in Alternative Partnerships						4,283,090,691			4,283,090,691
Investments in Credit Partnerships							4,768,746,712		4,768,746,712
Investments in Inflation Partnerships & Other Invest								2,084,171,981	2,084,171,981
Total Investment Securities	\$	26,752,150,156	\$ 277,636,882	\$ 42,221,069,866	\$ 7,558,972,373	\$ 4,288,492,958	\$ 4,768,746,712	\$ 3,047,358,689	\$ 88,914,427,636
Cash in Bank									-
Deposits in Short-term Investment Fund	840,647,644	819,629,112	555,043,534						2,215,320,290
Other Assets, Net of Liabilities	712,870	255,809,595	549,810					3,377,213	260,449,488
Total Net Assets	\$ 841,360,514	27,827,588,863	\$ 833,230,226	\$ 42,221,069,866	\$ 7,558,972,373	\$ 4,288,492,958	\$ 4,768,746,712	\$ 3,050,735,902	\$ 91,390,197,414
Participant Equity:									
Pension Trust Funds	\$ 841,360,514	26,577,702,441	833,230,226	42,221,069,866	7,558,972,373	4,288,492,958	4,768,746,712	3,050,735,902	90,140,310,992
Other Independent Trust Funds		1,249,886,422							1,249,886,422
Total Participant Equity	\$ 841,360,514	27,827,588,863	\$ 833,230,226	\$ 42,221,069,866	\$ 7,558,972,373	\$ 4,288,492,958	\$ 4,768,746,712	\$ 3,050,735,902	\$ 91,390,197,414
Percent of Total	0.92	30.45	0.91	46.20	8.27	4.69	5.22	3.34	100.00

**DEPARTMENT OF STATE TREASURER
 ANCILLARY INVESTMENT PROGRAMS
 JUNE 30, 2014**

	<u>Escheats External Investments</u>	<u>OPEB External Investments</u>	<u>Hospital External Investments</u>	<u>Totals</u>
Net Assets:				
Deposits in Equity Investment Fund	\$	103,080,521	145,602,765	\$ 248,683,286
Deposits in Alternative Investment Fund	40,284,545			40,284,545
Total Net Assets	<u>\$ 40,284,545</u>	<u>\$ 103,080,521</u>	<u>\$ 145,602,765</u>	<u>\$ 288,967,831</u>

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED JUNE 30, 2014**

	Cash Management Program			*Trust Funds Investment Program	Memorandum	
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Subtotal	Intrafund Eliminations	Total
Revenues:						
Investment Income:						
Investment Earnings	\$ 67,665,591	20,277	\$ 67,685,868	\$ 7,497,669,560	\$ -	\$ 7,565,355,428
Intra-Pool Interest Earnings	-	-	-	3,074,464	(3,074,464)	-
Income from Security Lending	-	-	-	13,092,066	-	13,092,066
Commission Recapture	-	-	-	82,075	-	82,075
Other Income	-	-	-	3,276,202	-	3,276,202
Subtotal	67,665,591	20,277	67,685,868	7,517,194,367	(3,074,464)	7,581,805,771
Net Unrealized Appreciation/Depreciation	-	-	-	5,627,035,457	-	5,627,035,457
Total Investment Income	67,665,591	20,277	67,685,868	13,144,229,824	(3,074,464)	13,208,841,228
Expenditures:						
Treasurer's Allocated Cost	(1,942,407)	-	(1,942,407)	(5,625,892)	-	(7,568,299)
Management Fees	-	(16,669)	(16,669)	(471,104,021)	-	(471,120,690)
Placement Fees	-	-	-	-	-	-
Dividend Withholding Tax	-	-	-	(27,449,189)	-	(27,449,189)
Other Cost	(2,633,058)	-	(2,633,058)	(43,741,163)	-	(46,374,221)
Total Expenditures	(4,575,465)	(16,669)	(4,592,134)	(547,920,265)	-	(552,512,399)
Net Investment Income (Loss)	\$ 63,090,126	\$ 3,608	\$ 63,093,734	\$ 12,596,309,559	\$ (3,074,464)	\$ 12,656,328,829
Total Investment Income Allocated:						
General Fund	\$ 17,460,072	-	17,460,072	\$ -	\$ -	\$ 17,460,072
Highway Fund	1,716,337	-	1,716,337	-	-	1,716,337
Highway Trust Fund	3,237,232	-	3,237,232	-	-	3,237,232
University Trust Funds	12,039,803	-	12,039,803	-	-	12,039,803
Pension Trust Funds	1,807,730	-	1,807,730	12,523,640,976	-	12,525,448,706
Other Independent Trust Funds	17,661,733	-	17,661,733	72,668,583	-	90,330,316
Local Political Subdivisions	3,538,350	-	3,538,350	-	-	3,538,350
Licensing Boards	129,128	-	129,128	-	-	129,128
Other Investment Funds	5,499,741	3,608	5,503,349	-	(3,074,464)	2,428,885
Total Investment Income Allocated	\$ 63,090,126	\$ 3,608	\$ 63,093,734	\$ 12,596,309,559	\$ (3,074,464)	\$ 12,656,328,829

Cash Return, Fiscal Year-to-Date (Annualized) 0.447% 0.005% 0.446%

*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 JUNE 30, 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	\$ 2,502,528	1,414,007,407	33,023,898	5,170,796,851	421,109,673	312,027,736	66,048,353	78,153,114	\$ 7,497,669,560
Intra-Pool Interest Earnings		3,030,930	43,534						3,074,464
Income from Security Lending				13,092,066					13,092,066
Commission Recapture				82,075					82,075
Other Income				3,276,202					3,276,202
Subtotal	2,502,528	1,417,038,337	33,067,432	5,187,247,194	421,109,673	312,027,736	66,048,353	78,153,114	7,517,194,367
Net Unrealized Appreciation/Depreciation		229,451,178	(5,615,027)	3,726,471,381	494,056,933	414,454,748	581,277,095	186,939,149	5,627,035,457
Total Investment Income	2,502,528	1,646,489,515	27,452,405	8,913,718,575	915,166,606	726,482,484	647,325,448	265,092,263	13,144,229,824
Expenditures									
Treasurer's Allocated Cost	(24,706)	(1,787,693)	(20,821)	(2,579,061)	(481,353)	(261,580)	(291,331)	(179,347)	(5,625,892)
Management Fees			(8,321,019)	(107,484,519)	(103,358,149)	(75,400,699)	(129,743,509)	(46,796,126)	(471,104,021)
Placement Fees				(27,199,781)	(249,408)				(27,449,189)
Dividend Withholding Tax				(2,093,397)	(1,967,080)	(21,769,006)	(7,251,477)	(8,540,113)	(43,741,163)
Other Cost	(101)	(1,559,538)	(560,451)	(139,356,758)	(106,055,990)	(97,431,285)	(137,286,317)	(55,515,586)	(547,920,265)
Total Expenditures	(24,807)	(3,347,231)	(8,902,291)	(8,774,361,817)	(809,110,616)	(629,051,199)	(510,039,131)	(209,576,677)	(12,596,309,559)
Net Investment Income (Loss)	\$ 2,477,721	1,643,142,284	18,550,114	8,774,361,817	809,110,616	629,051,199	510,039,131	209,576,677	\$ 12,596,309,559
Total Investment Income Allocated:									
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highway Fund	-	-	-	-	-	-	-	-	-
Highway Trust Fund	-	-	-	-	-	-	-	-	-
University Trust Funds	-	-	-	-	-	-	-	-	-
Pension Trust Funds	2,477,721	1,570,473,701	18,550,114	8,774,361,817	809,110,616	629,051,199	510,039,131	209,576,677	12,523,640,976
Other Independent Trust Funds	-	72,668,583	-	-	-	-	-	-	72,668,583
Local Political Subdivisions	-	-	-	-	-	-	-	-	-
Licensing Boards	-	-	-	-	-	-	-	-	-
Other Investment Funds	-	-	-	-	-	-	-	-	-
Total Investment Income Allocated	\$ 2,477,721	1,643,142,284	18,550,114	8,774,361,817	809,110,616	629,051,199	510,039,131	209,576,677	\$ 12,596,309,559
Total Return, 12, 24, and 36 and 60 months:									
12 months	N/A	6.05%	4.99%	24.66%	12.03%	17.41%	12.90%	8.21%	15.73%
24 months	N/A	2.41%	7.85%	21.69%	11.46%	11.46%	15.15%	2.48%	12.49%
36 months	N/A	5.55%	7.28%	11.66%	10.26%	9.40%	10.00%	-2.11%	9.01%
60 months	N/A	6.99%	9.31%	15.79%	5.69%	10.95%	N/A	N/A	11.40%