



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

RICHARD H. MOORE
STATE TREASURER

November 13, 2008

325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603-1385

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

Re: Quarterly report on Investment Funds for the period
ended September 30, 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 4.40% for the participants. Short-term interest rates were lower during the current quarter. The investable balances earning income for the General Fund were \$1.1 billion lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$63.7 million lower 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 4.38% for its participants through September 30, 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 2.69%, 3.77%, 3.69% and 3.97% respectively. Assets of the fund (based on market value) ended the quarter approximately \$1.6 billion lower than at the end of the prior reporting period. Approximately \$1.0 billion was used to pay benefits or was reallocated to other investment funds this quarter. The LTIF's realized earnings for the fiscal year are \$371 million.

The equity market as measured by the DJIA was 499.35 points lower than at the beginning of the quarter. During this period, assets of the EIF at market value decreased by approximately \$4.8 billion. The EIF generated a 12, 24, 36 and 60 month trailing returns of -23.73%, -5.12%, -0.11% and 6.37% respectively.

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The Trust Funds Investment Program, on a composite basis, generated a 12, 24, 36 and 60-month trailing returns of -12.14%, -0.28%, 2.52% and 5.97% on behalf of its participants through September 30, 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. 147-69.2. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending September 30, 2008, the \$389 million invested in domestic and international equity accounts returned -9.81% and -22.61% 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 September 30, 2008, \$40 million has been invested in equity; \$20 million has been invested in real estate, and \$27.1 million in private equity.

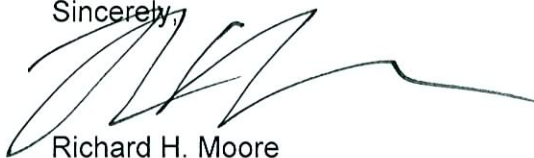
Pursuant to G.S. 147-69.4 deposits are held for the Local Government Other Post-Employment Benefits Fund, all subject to compliance with G.S. 147-69.2. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending September 30, 2008, the \$16 million invested in domestic and international equity accounts returned -9.81% and -22.61% respectively.

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 black ink, appearing to read 'R. Moore', with a long horizontal flourish extending to the right.

Richard H. Moore

Attachments

cc: Pamela J. Wortham, CPA, Deputy Treasurer
Financial Operations Division
Patricia Gerrick, Deputy Treasurer - Investments

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED SEPTEMBER 30, 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	\$ 131,544,256	\$ 1,529,172	\$ 133,073,428	\$ 349,569,490	\$ (779,864,407)	\$ 11,103,659	\$ 33,699,988	\$ (385,491,270)	\$	\$ (252,417,842)
Intra-Pool Interest Earnings				2,019,940	10,042,314	405,540	1,132,196	13,599,990	(13,599,990)	-
Income from Security Lending	7,287,612		7,287,612	20,000,206	13,545,612			33,545,818		40,833,430
Commission Recapture					174,338			174,338		174,338
Other Income					2,076,192			2,076,192		2,076,192
Subtotal	138,831,868	1,529,172	140,361,041	371,589,636	(754,025,951)	11,509,199	34,832,184	(336,094,932)	(13,599,990)	(209,333,881)
Net Unrealized Appreciation/Depreciation				(911,606,940)	(4,290,031,162)	(96,191,439)	(162,158,383)	(5,459,987,924)		(5,459,987,924)
Total Investment Income	138,831,868	1,529,172	140,361,041	(540,017,304)	(5,044,057,112)	(84,682,241)	(127,326,199)	(5,796,082,856)	(13,599,990)	(5,669,321,806)
Expenditures:										
Treasurer's Allocated Cost	555,282		555,282	(406,912)	(534,254)	(2,411,239)	(2,146,862)	(5,499,267)		(4,943,985)
Management Fees		(37,095)	(37,095)		(21,730,251)	(7,534,536)	(7,499,705)	(36,764,492)		(36,801,587)
Foreign Income Tax					(4,280,141)			(4,280,141)		(4,280,141)
Other Cost	(267,949)		(267,949)	(137,374)	(34,065)	(51,376)	(178,917)	(401,733)		(669,681)
Total Expenditures	287,333	(37,095)	250,238	(544,287)	(26,578,711)	(9,997,151)	(9,825,484)	(46,945,633)		(46,695,395)
Net Investment Income (Loss)	<u>139,119,201</u>	<u>1,492,077</u>	<u>140,611,278</u>	<u>(540,561,591)</u>	<u>(5,070,635,824)</u>	<u>(94,679,392)</u>	<u>(137,151,683)</u>	<u>(5,843,028,489)</u>	<u>(13,599,990)</u>	<u>(5,716,017,201)</u>
Total Investment Income Allocated:										
General Fund	48,036,554		48,036,554							48,036,554
Highway Fund	8,587,502		8,587,502							8,587,502
Highway Trust Fund	246,647		246,647							246,647
University Trust Funds	21,727,151		21,727,151							21,727,151
Pension Trust Funds	6,636,202		6,636,202	(520,136,752)	(5,070,635,824)	(94,679,392)	(137,151,683)	(5,822,603,651)		(5,815,967,449)
Other Independent Trust Funds	35,117,717		35,117,717	(20,424,838)				(20,424,838)		14,692,878
Local Political Subdivisions	4,789,318		4,789,318							4,789,318
Licensing Boards	378,121		378,121							378,121
Other Investment Funds	13,599,990	1,492,077	15,092,067						(13,599,990)	1,492,077
Total Investment Income Allocated	139,119,201	1,492,077	140,611,278	(540,561,591)	(5,070,635,824)	(94,679,392)	(137,151,683)	(5,843,028,489.00)	(13,599,990)	(5,716,017,201)
Cash Return, Fiscal Year-to-Date (Annual)	4.401%	2.200%	4.377%							
Total Return, 12, 24, and 36 and 60 months:										
12 months				2.69%	-23.73%	2.25%	0.12%	-12.14%		
24 months				3.77%	-5.12%	9.68%	7.92%	-0.28%		
36 months				3.69%	-0.11%	14.01%	8.85%	2.52%		
60 months				3.97%	6.37%	13.02%	7.91%	5.97%		

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
SEPTEMBER 30, 2008

	*Cash Management Program			*Trust Funds Investment Program					Memorandum				Total
	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	OPEB External Investments	Hospital Investment Fund	Intrafund Eliminations	
Net Assets:													
Investment Securities:													
Cash Equivalents	\$ 1,407,750,000	\$ -	\$ 1,407,750,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,407,750,000
Discount Notes/Bills	-	-	-	-	-	-	-	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	2,808,183,996	-	2,808,183,996	6,546,468,530	-	-	-	6,546,468,530	-	-	-	-	9,354,652,526
U.S. Government Agency Notes/ Bonds	8,447,088,732	-	8,447,088,732	3,453,564,545	-	-	-	3,453,564,545	-	-	-	-	11,900,653,278
GNMA Certificates	-	-	-	6,832,791,539	-	-	-	6,832,791,539	-	-	-	-	6,832,791,539
Corporate Obligations	59,801,807	-	59,801,807	9,017,792,142	-	-	-	9,017,792,142	-	-	-	-	9,077,593,949
Investments in Equity Securities	-	-	-	-	-	-	7,199,298	7,199,298	-	-	-	-	7,199,298
Bond proceeds Advisory	-	270,400,896	270,400,896	-	-	-	-	-	-	-	-	-	270,400,896
Investments in Equity Trusts	-	-	-	-	31,150,023,778	-	-	31,150,023,778	-	-	-	-	31,150,023,778
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	-	4,629,793,536	-	4,629,793,536	-	-	-	-	4,629,793,536
Investments in Alternative Partnerships	-	-	-	-	-	-	3,501,280,474	3,501,280,474	-	-	-	-	3,501,280,474
Total Investment Securities	<u>12,722,824,535</u>	<u>270,400,896</u>	<u>12,993,225,431</u>	<u>25,850,616,757</u>	<u>31,150,023,778</u>	<u>4,629,793,536</u>	<u>3,508,479,772</u>	<u>65,138,913,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,132,139,274</u>
Cash in Bank	(225,027,330)	-	(225,027,330)	-	-	-	-	-	-	-	-	-	(225,027,330)
Deposits in Equity Investment Fund	-	-	-	-	-	-	-	-	36,199,069	14,125,583	339,753,648	(390,078,300)	(14,125,583)
Deposits in Real Estate Investment Fund	-	-	-	-	-	-	-	-	23,425,744	-	-	(23,425,744)	-
Deposits in Alternative Investment Fund	-	-	-	-	-	-	-	-	22,875,953	-	-	(22,875,953)	-
Deposits in Short-term Investment Fund	-	-	-	330,021,124	1,070,433,967	38,567,540	20,787,607	1,459,810,238	-	-	-	(1,459,810,238)	-
Other Assets, Net of Liabilities	165,494,312	-	165,494,312	322,208,945	-	-	13,980	322,222,925	-	-	-	-	487,717,236
Total Net Assets	<u>\$ 12,663,291,517</u>	<u>\$ 270,400,896</u>	<u>\$ 12,933,692,413</u>	<u>\$ 26,502,846,826</u>	<u>\$ 32,220,457,745</u>	<u>\$ 4,668,361,076</u>	<u>\$ 3,529,281,359</u>	<u>\$ 66,920,947,006</u>	<u>\$ 82,500,767</u>	<u>\$ 14,125,583</u>	<u>\$ 339,753,648</u>	<u>\$ (1,882,064,652)</u>	<u>\$ 78,380,703,598</u>
Participant Equity:													
General Fund	\$ 3,008,169,817	\$ -	\$ 3,008,169,817	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,008,169,817
Other Funds Which Earn Interest for General Fund	1,536,466,777	270,400,896	1,806,867,673	-	-	-	-	-	-	-	-	-	-
Highway Fund	667,622,533	-	667,622,533	-	-	-	-	-	-	-	-	-	1,806,867,673
Highway Trust Fund	24,560,669	-	24,560,669	-	-	-	-	-	-	-	-	-	667,622,533
University Trust Funds	1,951,441,372	-	1,951,441,372	-	-	-	-	-	-	-	-	-	24,560,669
Pension Trust Funds	402,814,412	-	402,814,412	25,506,324,635	32,220,457,745	4,668,361,076	3,529,281,359	65,924,424,815	-	-	-	-	1,951,441,372
Other Independent Trust Funds	3,089,411,885	-	3,089,411,885	996,522,191	-	-	-	996,522,191	-	-	-	-	66,327,239,227
Local Political Subdivisions	487,594,809	-	487,594,809	-	-	-	-	-	-	-	-	-	4,085,934,076
Licensing Boards	35,399,006	-	35,399,006	-	-	-	-	-	-	-	-	-	487,594,809
Other Investment Funds	1,459,810,238	-	1,459,810,238	-	-	-	-	-	-	-	-	-	35,399,006
Total Participant Equity	<u>\$ 12,663,291,517</u>	<u>\$ 270,400,896</u>	<u>\$ 12,933,692,413</u>	<u>\$ 26,502,846,826</u>	<u>\$ 32,220,457,745</u>	<u>\$ 4,668,361,076</u>	<u>\$ 3,529,281,359</u>	<u>\$ 66,920,947,006</u>	<u>\$ 82,500,767</u>	<u>\$ 14,125,583</u>	<u>\$ 339,753,648</u>	<u>\$ (1,882,064,652)</u>	<u>\$ 78,394,829,181</u>
Percent of Total	16.15	0.34	16.49	33.81	41.10	5.95	4.50	85.36	0.10	0.02	0.43	-2.40	100.00

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