



# NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

November 6, 2009

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, 2009.

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.

### Short Term Investment Fund

<u>Historical T-Bill rates</u>	<u>09/30/08</u>	<u>6/30/09</u>	<u>9/30/09</u>
3-Mo. T-Bill	0.90%	0.18%	0.11%
6-Mo. T-Bill	1.60%	0.34%	0.17%

The Short-Term Investment Fund (STIF), which comprises the vast majority of the assets of the Cash Management Program, produced a fiscal year return of 1.78% for the participants. The investable balances earning income for the General Fund were \$1.7 billion lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$318 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 return of 1.76% for its participants through September 30, 2009.

### Trust Fund

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).

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Total Trust Returns:	3.31%	-4.73%	0.90%	4.49%

Long Term Investment Fund (LTIF)

US Treasury Yields	<u>5 Year UST</u>	<u>10 Year UST</u>	<u>30 Year UST</u>
As of 6/30/09	2.56%	3.53%	4.33%
As of 9/30/09	2.31%	3.31%	4.05%

- Fixed Income assets (based on market value) ended the quarter approximately \$860 million higher than at the end of the prior reporting period.
- Approximately \$417.7 million was used to pay benefits or was reallocated to other investment funds this quarter.
- The realized earnings for the fiscal year are \$405 million.

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	16.25%	9.26%	7.77%	6.20%

Equity Investment Fund (EIF)

Quarterly Index Returns:	S&P 500	+15.61%	DJIA	+14.98%
	Russell 3000	+16.31%	MSCI EAFE	+19.52%

- Assets of the fund (based on market value) ended the quarter approximately \$4.7 billion higher than at the end of the prior reporting period.
- Approximately 238.7 million was used to pay benefits or was reallocated to other investment funds this quarter.

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	-0.06%	-12.69%	-3.46%	3.17%

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, 2009, the invested assets were valued at \$325 million after returns in the domestic and international accounts of 16.32% and 19.11% 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, 2009, \$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, 33.5 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 September 30, 2009, the invested assets were valued at \$17.2 million after returns in the domestic and international equity accounts of 16.32% and 19.11% 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,



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**  
**SEPTEMBER 30, 2009**

	*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	OPEB External Investments	Hospital Investment Fund	Intrafund Eliminations	Total
<b>Net Assets:</b>													
<b>Investment Securities:</b>													
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 14,048,926	\$ -	\$ -	\$ -	\$ 14,048,926	\$ -	\$ -	\$ -	\$ -	\$ 14,048,926
Certificates of Deposit	206,600,000	-	206,600,000	-	-	-	-	-	-	-	-	-	206,600,000
Repurchase Agreements	1,740,000,000	-	1,740,000,000	-	-	-	-	-	-	-	-	-	1,740,000,000
Discount Notes/Bills	-	-	-	-	-	-	-	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	2,986,533,602	-	2,986,533,602	5,873,708,431	-	-	-	5,873,708,431	-	-	-	-	8,860,242,033
U.S. Government Agency Notes/ Bonds	6,148,798,206	-	6,148,798,206	2,710,590,091	-	-	-	2,710,590,091	-	-	-	-	8,859,388,297
GNMA Certificates	-	-	-	5,979,192,261	-	-	-	5,979,192,261	-	-	-	-	5,979,192,261
Corporate Obligations	404,625,156	-	404,625,156	11,082,586,183	-	-	-	11,082,586,183	-	-	-	-	11,487,211,339
Investments in Equity Securities	-	-	-	-	-	-	7,058,543	7,058,543	-	-	-	-	7,058,543
Bond proceeds Advisory	-	122,448,342	122,448,342	-	-	-	-	-	-	-	-	-	122,448,342
Investments in Equity Trusts	-	-	-	-	33,056,170,872	-	-	33,056,170,872	-	-	-	-	33,056,170,872
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	-	3,537,734,291	-	3,537,734,291	-	-	-	-	3,537,734,291
Investments in Alternative Partnerships	-	-	-	-	-	-	3,515,430,670	3,515,430,670	-	-	-	-	3,515,430,670
<b>Total Investment Securities</b>	<u>11,486,556,964</u>	<u>122,448,342</u>	<u>11,609,005,306</u>	<u>25,660,125,892</u>	<u>33,056,170,872</u>	<u>3,537,734,291</u>	<u>3,522,489,213</u>	<u>65,776,520,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,385,525,574</u>
<b>Cash in Bank</b>	86,608,830	-	86,608,830	-	-	-	-	-	-	-	-	-	86,608,830
Deposits in Equity Investment Fund	-	-	-	-	-	-	-	-	34,910,835	17,250,836	325,267,715	(377,429,386)	(17,250,836)
Deposits in Real Estate Investment Fund	-	-	-	-	-	-	-	-	12,724,164	-	-	(12,724,164)	-
Deposits in Alternative Investment Fund	-	-	-	-	-	-	-	-	27,804,828	-	-	(27,804,828)	-
Deposits in Short-term Investment Fund	-	-	-	824,548,820	15,752,659	5,601,563	41,948,353	887,851,395	-	-	-	(887,851,395)	-
Other Assets, Net of Liabilities	(252,126,944)	-	(252,126,944)	167,480,005	-	-	-	167,480,005	-	-	-	-	(84,646,939)
<b>Total Net Assets</b>	<u>\$ 11,321,038,850</u>	<u>\$ 122,448,342</u>	<u>\$ 11,443,487,192</u>	<u>\$ 26,652,154,717</u>	<u>\$ 33,071,923,531</u>	<u>\$ 3,543,335,854</u>	<u>\$ 3,564,437,566</u>	<u>\$ 66,831,851,668</u>	<u>\$ 75,439,827</u>	<u>\$ 17,250,836</u>	<u>\$ 325,267,715</u>	<u>\$ (1,305,809,773)</u>	<u>\$ 77,370,236,629</u>
<b>Participant Equity:</b>													
General Fund	\$ 1,402,226,962	\$ -	\$ 1,402,226,962	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,402,226,962
Other Funds Which Earn Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
for General Fund	1,451,414,525	122,448,342	1,573,862,867	-	-	-	-	-	-	-	-	-	1,573,862,867
Highway Fund	988,154,061	-	988,154,061	-	-	-	-	-	-	-	-	-	988,154,061
Highway Trust Fund	22,447,274	-	22,447,274	-	-	-	-	-	-	-	-	-	22,447,274
University Trust Funds	2,124,662,942	-	2,124,662,942	-	-	-	-	-	-	-	-	-	2,124,662,942
Pension Trust Funds	220,814,846	-	220,814,846	25,701,215,034	33,071,923,531	3,543,335,854	3,564,437,566	65,880,911,985	-	-	-	-	66,101,726,831
Other Independent Trust Funds	3,662,688,463	-	3,662,688,463	950,939,683	-	-	-	950,939,683	-	-	-	-	4,613,628,146
Local Political Subdivisions	530,787,320	-	530,787,320	-	-	-	-	-	-	-	-	-	530,787,320
Licensing Boards	29,991,062	-	29,991,062	-	-	-	-	-	-	-	-	-	29,991,062
Other Investment Funds	887,851,395	-	887,851,395	-	-	-	-	-	75,439,827	17,250,836	325,267,715	(1,305,809,773)	-
<b>Total Participant Equity</b>	<u>\$ 11,321,038,850</u>	<u>\$ 122,448,342</u>	<u>\$ 11,443,487,192</u>	<u>\$ 26,652,154,717</u>	<u>\$ 33,071,923,531</u>	<u>\$ 3,543,335,854</u>	<u>\$ 3,564,437,566</u>	<u>\$ 66,831,851,668</u>	<u>\$ 75,439,827</u>	<u>\$ 17,250,836</u>	<u>\$ 325,267,715</u>	<u>\$ (1,305,809,773)</u>	<u>\$ 77,387,487,465</u>
<b>Percent of Total</b>	14.63	0.16	14.79	34.44	42.74	4.58	4.61	86.36	0.10	0.02	0.42	-1.69	100.00

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

**DEPARTMENT OF STATE TREASURER  
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2009**

	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
<b>Revenues:</b>										
<b>Investment Income:</b>										
Investment Earnings	\$ 51,032,726	\$ 49,845	\$ 51,082,571	\$ 401,877,689	\$ 262,315,611	\$ (1,618,911)	\$ 14,876,597	\$ 677,450,986	\$	\$ 728,533,557
Intra-Pool Interest Earnings				3,496,886	42,388	105,436	348,335	3,993,045	(3,993,045)	-
Income from Security Lending			-		12,853,784			12,853,784		12,853,784
Commission Recapture					45,349			45,349		45,349
Other Income					3,099,898			3,099,898		3,099,898
Subtotal	51,032,726	49,845	51,082,571	405,374,575	278,357,030	(1,513,475)	15,224,932	697,443,062	(3,993,045)	744,532,588
Net Unrealized Appreciation/Depreciation				1,118,343,432	4,694,742,414	(293,082,643)	133,193,062	5,653,196,265		5,653,196,265
<b>Total Investment Income</b>	<b>51,032,726</b>	<b>49,845</b>	<b>51,082,571</b>	<b>1,523,718,007</b>	<b>4,973,099,444</b>	<b>(294,596,118)</b>	<b>148,417,994</b>	<b>6,350,639,327</b>	<b>(3,993,045)</b>	<b>6,397,728,853</b>
<b>Expenditures:</b>										
Treasurer's Allocated Cost	(273,350)		(273,350)	(383,681)	(440,922)	(2,856,063)	(3,013,932)	(6,694,598)		(6,967,948)
Management Fees		(17,538)	(17,538)		(12,850,293)	(6,526,100)	(7,186,638)	(26,563,031)		(26,580,569)
Foreign Income Tax					(4,486,724)			(4,486,724)		(4,486,724)
Other Cost	(138,425)		(138,425)	(201,003)	(139,159)	(207,702)	(42,689)	(590,553)		(728,978)
<b>Total Expenditures</b>	<b>(411,775)</b>	<b>(17,538)</b>	<b>(429,313)</b>	<b>(584,684)</b>	<b>(17,917,098)</b>	<b>(9,589,865)</b>	<b>(10,243,259)</b>	<b>(38,334,906)</b>		<b>(38,764,219)</b>
<b>Net Investment Income (Loss)</b>	<b>50,620,951</b>	<b>32,307</b>	<b>50,653,258</b>	<b>1,523,133,323</b>	<b>4,955,182,346</b>	<b>(304,185,983)</b>	<b>138,174,735</b>	<b>6,312,304,421</b>	<b>(3,993,045)</b>	<b>6,358,964,634</b>
<b>Total Investment Income Allocated:</b>										
General Fund	13,052,262		13,052,262							13,052,262
Highway Fund	4,344,025		4,344,025							4,344,025
Highway Trust Fund	141,079		141,079							141,079
University Trust Funds	9,126,497		9,126,497							9,126,497
Pension Trust Funds	1,663,214		1,663,214	1,468,010,066	4,955,182,346	(304,185,983)	138,174,735	6,257,181,164		6,258,844,378
Other Independent Trust Funds	16,012,608		16,012,608	55,123,257				55,123,257		71,135,865
Local Political Subdivisions	2,144,513		2,144,513							2,144,513
Licensing Boards	143,708		143,708							143,708
Other Investment Funds	3,993,045	32,307	4,025,352						(3,993,045)	32,307
<b>Total Investment Income Allocated</b>	<b>50,620,951</b>	<b>32,307</b>	<b>50,653,258</b>	<b>1,523,133,323</b>	<b>4,955,182,346</b>	<b>(304,185,983)</b>	<b>138,174,735</b>	<b>6,312,304,421.00</b>	<b>(3,993,045)</b>	<b>6,358,964,634</b>
<b>Cash Return, Fiscal Year-to-Date (Annual</b>	1.776%	0.15%	1.758%							
<b>Total Return, 12, 24, and 36 and 60 months:</b>										
12 months				16.25%	-0.06%	-35.42%	-14.85%	3.31%		
24 months				9.26%	-12.69%	-19.08%	-7.67%	-4.73%		
36 months				7.77%	-3.46%	-8.32%	-0.28%	0.90%		
60 months				6.20%	3.17%	1.74%	3.48%	4.49%		