



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

November 4, 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 September 30, 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 Cash Management Program, comprised mostly of the Short-Term Investment Fund ("STIF"), produced a fiscal year return of 1.12% 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>9/30/09</u>	<u>6/30/10</u>	<u>9/30/10</u>
3-Mo. T-Bill	0.11%	0.17%	0.15%
6-Mo. T-Bill	0.17%	0.22%	0.19%

The Short-Term Investment Fund produced a fiscal year return of 1.13% for the participants. The investable balances earning income for the General Fund were \$233 million higher than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$339 million lower 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:	9.47%	6.34%	-0.21%	4.03%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	11.47%	13.83%	9.99%	7.63%

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 6/30/10	1.77%	2.93%	3.89%
As of 9/30/10	1.26%	2.51%	3.69%

- Long Term assets (based on market value) ended the quarter approximately \$866 million higher than at the end of the prior reporting period.
- Approximately \$175 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 \$371 million.

Equity Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	9.81%	4.76%	-5.76%	1.81%

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

Quarterly Index Returns:	S&P 500	11.29%	DJIA	10.37%
	Russell 3000	11.53%	MSCI EAFE	16.48%

- Assets of the fund (based on market value) ended the quarter approximately \$3.8 billion higher than at the end of the prior reporting period.
- Approximately \$268 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, and 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, 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 September 30, 2010, the invested assets were valued at \$356 million after returns in the domestic and international accounts of 11.74% and 16.73% 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, 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, \$42.6 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, 2010, the externally invested assets were valued at \$30.7 million after returns in the domestic and international equity accounts of 11.74% and 16.73% 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: Bob Bazemore, Interim Deputy Treasurer - Financial Operations Division
Shawn Wischmeier, Chief Investment Officer

**DEPARTMENT OF STATE TREASURER
ANCILLARY INVESTMENT PROGRAMS
SEPTEMBER 30, 2010**

	<u>Escheats External Investments</u>	<u>OPEB External Investments</u>	<u>Hospital Investment Fund</u>	<u>Totals</u>
Net Assets:				
Deposits in Equity Investment Fund	\$ 37,066,897	\$ 30,687,162	\$ 355,788,597	\$ 423,542,656
Deposits in Real Estate Investment Fund	12,951,499	-	-	12,951,499
Deposits in Alternative Investment Fund	34,502,429	-	-	34,502,429
Other Assets, Net of Liabilities	-	-	-	-
Total Net Assets	<u>\$ 84,520,825</u>	<u>\$ 30,687,162</u>	<u>\$ 355,788,597</u>	<u>\$ 470,996,584</u>
 Participant Equity:				
General Fund	\$ -	\$ -	\$ -	\$ -
Other Investment Funds	84,520,825	30,687,162	355,788,597	470,996,584
Total Participant Equity	<u>\$ 84,520,825</u>	<u>\$ 30,687,162</u>	<u>\$ 355,788,597</u>	<u>\$ 470,996,584</u>

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
SEPTEMBER 30, 2010

	*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	41,600,000	-	41,600,000	-	-	41,600,000
Repurchase Agreements	1,649,622,000	-	1,649,622,000	-	-	1,649,622,000
Discount Notes/Bills	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	4,163,646,550	-	4,163,646,550	6,746,330,717	-	10,909,977,267
U.S. Government Agency Notes/ Bonds	5,355,727,276	-	5,355,727,276	2,528,480,670	-	7,884,207,946
GNMA Certificates	-	-	-	6,609,321,323	-	6,609,321,323
Corporate Obligations	404,792,390	-	404,792,390	9,778,057,342	-	10,182,849,732
Investments in RMBS and CMBS	-	-	-	1,388,701,730	-	1,388,701,730
Investments in Equity Securities	-	-	-	10,824,707	-	10,824,707
Bond proceeds Advisory	-	382,830,309	382,830,309	-	-	382,830,309
Investments in Equity Trusts	-	-	-	35,031,430,261	-	35,031,430,261
Investments in Real Estate Trust Funds & Partnerships	-	-	-	3,068,401,662	-	3,068,401,662
Investments in Alternative Partnerships	-	-	-	3,499,113,717	-	3,499,113,717
Investments in Credit Partnerships	-	-	-	882,079,579	-	882,079,579
Investments in Inflation Partnerships	-	-	-	565,757,673	-	565,757,673
	-	-	-	-	-	-
Total Investment Securities	\$ 11,615,388,216	\$ 382,830,309	\$ 11,998,218,525	\$ 70,108,499,381	\$ -	\$ 82,106,717,906
Cash in Bank	109,974,060	-	109,974,060	-	-	109,974,060
Deposits in Short-term Investment Fund	-	-	-	405,569,363	(405,569,363)	-
Other Assets, Net of Liabilities	(285,911,923)	-	(285,911,923)	262,218,878	-	(23,693,045)
Total Net Assets	\$ 11,439,450,353	\$ 382,830,309	\$ 11,822,280,662	\$ 70,776,287,622	\$ (405,569,363)	\$ 82,192,998,921
Participant Equity:						
General Fund	\$ 1,630,115,916	\$ -	\$ 1,630,115,916	\$ -	\$ -	\$ 1,630,115,916
Other Funds Which Earn Interest						
for General Fund	1,456,676,694	382,830,309	1,839,507,003	-	-	1,839,507,003
Highway Fund	640,034,655	-	640,034,655	-	-	640,034,655
Highway Trust Fund	31,522,416	-	31,522,416	-	-	31,522,416
University Trust Funds	2,573,807,797	-	2,573,807,797	-	-	2,573,807,797
Pension Trust Funds	160,569,882	-	160,569,882	69,746,450,502	-	69,907,020,384
Other Independent Trust Funds	3,854,738,882	-	3,854,738,882	1,080,468,264	-	4,935,207,146
Local Political Subdivisions	653,994,140	-	653,994,140	-	-	653,994,140
Licensing Boards	32,420,608	-	32,420,608	-	-	32,420,608
Other Investment Funds	405,569,363	-	405,569,363	-	(405,569,363)	-
Total Participant Equity	\$ 11,439,450,353	\$ 382,830,309	\$ 11,822,280,662	\$ 70,826,918,766	\$ (405,569,363)	\$ 82,243,630,065
Percent of Total	13.91	0.47	14.37	86.12	-0.49	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
SEPTEMBER 30, 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:								
Cash and Cash Equivalents	\$	\$	\$	\$	\$	\$	\$	\$
U.S. Treasury Bills/ Notes/ Bonds	6,746,330,717	-	-	-	-	-	-	6,746,330,717
U.S. Government Agency Notes/ Bonds	2,528,480,670	-	-	-	-	-	-	2,528,480,670
GNMA Certificates	6,609,321,323	-	-	-	-	-	-	6,609,321,323
Corporate Obligations	9,778,057,342	-	-	-	-	-	-	9,778,057,342
Other Investments		50,631,144						
Investments in RMBS and CMBS	-	1,388,701,730						1,388,701,730
Investments in Equity Securities	-	-	-		10,824,707	-	-	10,824,707
Bond Proceeds Advisory	-	-	-	-	-	-	-	-
Investments in Equity Trusts	-	-	35,031,430,261	-	-	-	-	35,031,430,261
Investments in Real Estate Trust Funds & Partnerships	-	-	-	3,068,401,662	-	-	-	3,068,401,662
Investments in Alternative Partnerships	-	-	-	-	3,499,113,717	-	-	3,499,113,717
Investments in Credit Partnerships	-	-	-	-	-	882,079,579	-	882,079,579
Investments in Inflation Partnerships	-	-	-	-	-	-	565,757,673	565,757,673
Total Investment Securities	\$ 25,662,190,052	\$ 1,439,332,874	\$ 35,031,430,261	\$ 3,068,401,662	\$ 3,509,938,424	\$ 882,079,579	\$ 565,757,673	\$ 70,159,130,525
Cash in Bank	-	-	-	-	-	-	-	-
Deposits in Short-term Investment Fund	37,296,158	258,004,703	6,737,866	258,722,78	58,263,860	11,762,488	7,632,010	405,569,363
Other Assets, Net of Liabilities	259,434,844	2,784,034	-	-	-	-	-	262,218,878
Total Net Assets	\$ 25,958,921,054	\$ 1,700,121,611	\$ 35,038,168,127	\$ 3,094,273,940	\$ 3,568,202,284	\$ 893,842,067	\$ 573,389,683	\$ 70,826,918,766
Participant Equity:								
Pension Trust Funds	24,878,452,790	1,700,121,611	35,038,168,127	3,094,273,940	3,568,202,284	893,842,067	573,389,683	69,746,450,502
Other Independent Trust Funds	1,080,468,264	-	-	-	-	-	-	1,080,468,264
Total Participant Equity	\$ 25,958,921,054	\$ 1,700,121,611	\$ 35,038,168,127	\$ 3,094,273,940	\$ 3,568,202,284	\$ 893,842,067	\$ 573,389,683	\$ 70,826,918,766
Percent of Total	36.65	2.40	49.47	4.37	5.04	1.26	0.81	100.00

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2010

	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	\$ 32,949,776	\$ 240,920	\$ 33,190,696	\$ 459,556,030	\$ -	\$ 492,746,726
Intra-Pool Interest Earnings	-	-	-	1,798,424	(1,798,424)	-
Income from Security Lending	-	-	-	6,271,151	-	6,271,151
Commission Recapture	-	-	-	11,433	-	11,433
Other Income	-	-	-	960,723	-	960,723
Subtotal	32,949,776	240,920	33,190,696	468,597,761	(1,798,424)	499,990,033
Net Unrealized Appreciation/Depreciation				4,785,030,613	-	4,785,030,613
Total Investment Income	32,949,776	240,920	33,190,696	5,253,628,374	(1,798,424)	5,285,020,646
Expenditures:						
Treasurer's Allocated Cost		-	0	(990,246)	-	(990,246)
Management Fees	165,890	(52,928)	112,962	(36,640,296)	-	(36,527,334)
Foreign Income Tax	-	-	-	(4,766,431)	-	(4,766,431)
Other Cost	(296,334)	-	(296,334)	(5,788,626)	-	(6,084,960)
Total Expenditures	(130,444)	(52,928)	(183,372)	(48,185,599)	-	(48,368,971)
Net Investment Income (Loss)	\$ 32,819,332	\$ 187,992	\$ 33,007,324	\$ 5,205,442,775	\$ (1,798,424)	\$ 5,236,651,675
Total Investment Income Allocated:						
General Fund	\$ 7,992,945	-	7,992,945	\$ -	\$ -	\$ 7,992,945
Highway Fund	2,212,277	-	2,212,277	-	-	2,212,277
Highway Trust Fund	130,468	-	130,468	-	-	130,468
University Trust Funds	7,003,479	-	7,003,479	-	-	7,003,479
Pension Trust Funds	1,052,224	-	1,052,224	5,205,442,775	-	5,206,494,999
Other Independent Trust Funds	10,841,433	-	10,841,433	-	-	10,841,433
Local Political Subdivisions	1,696,860	-	1,696,860	-	-	1,696,860
Licensing Boards	91,222	-	91,222	-	-	91,222
Other Investment Funds	1,798,424	187,992	1,986,416	-	(1,798,424)	187,992
Total Investment Income Allocated	\$ 32,819,332	\$ 187,992	\$ 33,007,324	\$ 5,205,442,775	\$ (1,798,424)	\$ 5,236,651,675
Cash Return, Fiscal Year-to-Date (Annualized)	1.132%	0.200%	1.123%			

* 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 SEPTEMBER 30, 2010

Trust Funds Investment Program

	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	\$ 370,939,399	\$ 72,977,841	\$ (116,446,073)	\$ 59,284,059	\$ 33,989,249	\$ 38,811,555	\$ -	\$ 459,556,030
Intra-Pool Interest Earnings	440,645	946,254	40,591	127,121	171,987	46,516	25,310	1,798,424
Income from Security Lending	-	-	6,271,151	-	-	-	-	6,271,151
Commission Recapture	-	-	11,433	-	-	-	-	11,433
Other Income	-	-	960,723	-	-	-	-	960,723
Subtotal	371,380,044	73,924,095	(109,162,175)	59,411,180	34,161,236	38,858,071	25,310	468,597,761
Net Unrealized Appreciation/Depreciation	660,826,476	3,491,005	4,197,748,186	53,577,561	34,627,949	(17,422,222)	(147,818,342)	4,785,030,613
Total Investment Income	1,032,206,520	77,415,100	4,088,586,011	112,988,741	68,789,185	21,435,849	(147,793,032)	5,253,628,374
Expenditures:								
Treasurer's Allocated Cost	(372,359)	(28,492)	(473,057)	(43,377)	(50,050)	(12,455)	(10,456)	(990,246)
Management Fees	-	-	(18,777,686)	(6,342,463)	(8,581,840)	-	(2,938,307)	(36,640,296)
Foreign Income Tax	-	-	(4,722,472)	(43,959)	-	-	-	(4,766,431)
Other Cost	(210,124)	(130,140)	(187,279)	(1,808,553)	(1,855,753)	(979,866)	(616,911)	(5,788,626)
Total Expenditures	(582,483)	(158,632)	(24,160,494)	(8,238,352)	(10,487,643)	(992,321)	(3,565,674)	(48,185,599)
Net Investment Income (Loss)	\$ 1,031,624,037	\$ 77,256,468	\$ 4,064,425,517	\$ 104,750,389	\$ 58,301,542	\$ 20,443,528	\$ (151,358,706)	\$ 5,205,442,775
Total Investment Income Allocated:								
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Highway Fund	-	-	-	-	-	-	-	-
Highway Trust Fund	-	-	-	-	-	-	-	-
University Trust Funds	-	-	-	-	-	-	-	-
Pension Trust Funds	988,824,348	77,256,468	4,064,425,517	104,750,389	58,301,542	20,443,528	(151,358,706)	5,162,643,086
Other Independent Trust Funds	42,799,689	-	-	-	-	-	-	42,799,689
Local Political Subdivisions	-	-	-	-	-	-	-	-
Licensing Boards	-	-	-	-	-	-	-	-
Other Investment Funds	-	-	-	-	-	-	-	-
Total Investment Income Allocated	\$ 1,031,624,037	\$ 77,256,468	\$ 4,064,425,517	\$ 104,750,389	\$ 58,301,542	\$ 20,443,528	\$ (151,358,706)	\$ 5,205,442,775

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

12 months	11.47%	12.81%	9.81%	-6.37%	9.87%	N/A	N/A	9.47%
24 months	13.83%	15.58%	4.76%	-22.24%	-3.28%	N/A	N/A	6.34%
36 months	9.99%	11.37%	-5.76%	-15.04%	-2.16%	N/A	N/A	-0.21%
60 months	7.63%	N/A	1.81%	-2.33%	3.83%	N/A	N/A	4.03%