



JANET COWELL
STATE TREASURER

North Carolina Department of State Treasurer

325 NORTH SALISBURY STREET
RALEIGH, NORTH CAROLINA 27603-1385

February 12, 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
December 31, 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 4.28% for the participants. Short-term interest rates were lower during the current quarter. The investable balances earning income for the General Fund were \$1.6 billion lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$208 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 4.13% for its participants through December 31, 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 7.41%, 7.45%, 6.30% and 5.68% respectively. Assets of the fund (based on market value) ended the quarter approximately \$1.8 billion higher than at the end of the prior reporting period. Approximately \$1.1 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 \$836 million.

The equity market as measured by the DJIA was 2074.27 points lower than at the beginning of the quarter. During this period, assets of the EIF at market value decreased by approximately \$7.4 billion. The EIF generated a 12, 24, 36 and 60 month trailing returns of -38.63%, -18.58%, -8.50% and -.99% 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 -19.37%, -6.54%, -.94% and 2.87% on behalf of its participants through December 31, 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 December 31, 2008, the invested assets were valued at \$264 million after returns in the domestic and international accounts of -22.63% and -21.86% 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 December 31, 2008, \$40 million has been invested in equity; \$20 million has been invested in real estate, and \$29.4 million in private equity.

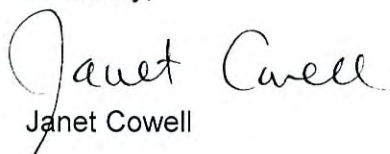
Pursuant to G.S. 147-69.4 deposits are held for the Local Government Other Post-Employment Benefits Fund, all subject to compliance with G.S. 147-69.2. The assets are allocated as follows: STIF, LTIF and authorized Equity funds. For the Quarter ending December 31, 2008, the \$16 million invested in domestic and international equity accounts returned -22.63% and -21.86% 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
Patricia Gerrick, Deputy Treasurer - Investments

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED DECEMBER 31, 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	\$ 244,654,141	\$ 2,376,054	\$ 247,030,194	\$ 800,817,943	\$ (3,070,236,650)	\$ 9,598,738	\$ 57,934,967	\$ (2,201,885,001)	\$	\$ (1,954,854,807)
Intra-Pool Interest Earnings				9,239,388	18,117,943	717,781	2,010,201	30,085,312	(30,085,312)	-
Income from Security Lending	19,727,904		19,727,904	27,330,925	28,385,113			55,716,038		75,443,942
Commission Recapture					367,682			367,682		367,682
Other Income					2,715,852			2,715,852		2,715,852
Subtotal	264,382,045	2,376,054	266,758,098	837,388,255	(3,020,650,059)	10,316,520	59,945,168	(2,113,000,116)	(30,085,312)	(1,876,327,330)
Net Unrealized Appreciation/Depreciation				732,325,302	(8,864,028,226)	(287,318,368)	(449,696,934)	(8,868,718,226)		(8,868,718,226)
Total Investment Income	264,382,045	2,376,054	266,758,098	1,569,713,557	(11,884,678,285)	(277,001,848)	(389,751,766)	(10,981,718,342)	(30,085,312)	(10,745,045,556)
Expenditures:										
Treasurer's Allocated Cost	(469,027)		(469,027)	(785,446)	(943,203)	(2,893,910)	(5,730,311)	(10,352,870)		(10,821,898)
Management Fees		(70,872)	(70,872)		(41,032,180)	(49,380,191)	(40,145,290)	(130,557,661)		(130,628,533)
Foreign Income Tax					(7,520,121)		(8,116)	(7,528,237)		(7,528,237)
Other Cost	(420,903)		(420,903)	(568,494)	(310,780)	(325,801)	(585,197)	(1,790,271)		(2,211,174)
Total Expenditures	(889,930)	(70,872)	(960,801)	(1,353,941)	(49,806,284)	(52,599,902)	(46,468,914)	(150,229,040)		(151,189,841)
Net Investment Income (Loss)	<u>263,492,115</u>	<u>2,305,182</u>	<u>265,797,297</u>	<u>1,568,359,617</u>	<u>(11,934,484,568)</u>	<u>(329,601,750)</u>	<u>(436,220,680)</u>	<u>(11,131,947,382)</u>	<u>(30,085,312)</u>	<u>(10,896,235,397)</u>
Total Investment Income Allocated:										
General Fund	82,090,825		82,090,825							82,090,825
Highway Fund	14,533,103		14,533,103							14,533,103
Highway Trust Fund	509,476		509,476							509,476
University Trust Funds	42,828,824		42,828,824							42,828,824
Pension Trust Funds	12,186,969		12,186,969	1,507,458,769	(11,934,484,568)	(329,601,750)	(436,220,680)	(11,192,848,230)		(11,180,661,261)
Other Independent Trust Funds	70,808,527		70,808,527	60,900,848				60,900,848		131,709,374
Local Political Subdivisions	9,693,968		9,693,968							9,693,968
Licensing Boards	755,111		755,111							755,111
Other Investment Funds	30,085,312	2,305,182	32,390,495						(30,085,312)	2,305,182
Total Investment Income Allocated	<u>263,492,115</u>	<u>2,305,182</u>	<u>265,797,297</u>	<u>1,568,359,617</u>	<u>(11,934,484,568)</u>	<u>(329,601,750)</u>	<u>(436,220,680)</u>	<u>(11,131,947,381.96)</u>	<u>(30,085,312)</u>	<u>(10,896,235,397)</u>
Cash Return, Fiscal Year-to-Date (Annual)	4.284%	1.780%	4.132%							
Total Return, 12, 24, and 36 and 60 months:										
12 months				7.41%	-38.63%	-4.15%	-9.80%	-19.37%		
24 months				7.45%	-18.58%	4.55%	1.12%	-6.54%		
36 months				6.30%	-8.50%	9.39%	4.89%	-0.94%		
60 months				5.68%	-0.99%	11.35%	5.66%	2.87%		

DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
DECEMBER 31, 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	Escheats External Investments	OPEB External Investments	Hospital Investment Fund	Intrafund Eliminations	Total
Net Assets:													
Investment Securities:													
Cash Equivalents	\$ 1,452,750,000	\$ -	\$ 1,452,750,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,452,750,000
Discount Notes/Bills	-	-	-	-	-	-	-	-	-	-	-	-	-
U.S. Treasury Bills/ Notes/ Bonds	2,006,033,637	-	2,006,033,637	6,747,820,517	-	-	-	6,747,820,517	-	-	-	-	8,753,854,154
U.S. Government Agency Notes/ Bonds	7,146,092,235	-	7,146,092,235	3,546,485,283	-	-	-	3,546,485,283	-	-	-	-	10,692,577,518
GNMA Certificates	-	-	-	6,307,086,971	-	-	-	6,307,086,971	-	-	-	-	6,307,086,971
Corporate Obligations	174,754,545	-	174,754,545	9,848,501,328	-	-	-	9,848,501,328	-	-	-	-	10,023,255,873
Investments in Equity Securities	-	-	-	-	-	-	5,212,011	5,212,011	-	-	-	-	5,212,011
Bond proceeds Advisory	-	239,659,921	239,659,921	-	-	-	-	-	-	-	-	-	239,659,921
Investments in Equity Trusts	-	-	-	24,828,863,449	-	-	-	24,828,863,449	-	-	-	-	24,828,863,449
Investments in Real Estate Trust Funds & Partnerships	-	-	-	-	4,559,110,777	-	-	4,559,110,777	-	-	-	-	4,559,110,777
Investments in Alternative Partnerships	-	-	-	-	-	-	3,460,461,872	3,460,461,872	-	-	-	-	3,460,461,872
Total Investment Securities	<u>10,779,630,417</u>	<u>239,659,921</u>	<u>11,019,290,338</u>	<u>26,449,894,099</u>	<u>24,828,863,449</u>	<u>4,559,110,777</u>	<u>3,465,673,883</u>	<u>59,303,542,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,322,832,547</u>
Cash in Bank	467,666,147	-	467,666,147	-	-	-	-	-	-	-	-	-	467,666,147
Deposits in Equity Investment Fund	-	-	-	-	-	-	-	-	28,531,396	10,944,230	263,650,507	(303,126,134)	0
Deposits in Real Estate Investment Fund	-	-	-	-	-	-	-	-	24,598,509	-	-	(24,598,509)	-
Deposits in Alternative Investment Fund	-	-	-	-	-	-	-	-	25,651,094	-	-	(25,651,094)	-
Deposits in Short-term Investment Fund	-	-	-	1,516,742,560	12,422,237	9,327,941	69,536,156	1,608,028,894	-	-	-	(1,608,028,894)	-
Other Assets, Net of Liabilities	121,145,695	-	121,145,695	313,204,687	-	-	2,324	313,207,010	-	-	-	-	434,352,705
Total Net Assets	<u>\$ 11,368,442,259</u>	<u>\$ 239,659,921</u>	<u>\$ 11,608,102,180</u>	<u>\$ 28,279,841,346</u>	<u>\$ 24,841,285,687</u>	<u>\$ 4,568,438,718</u>	<u>\$ 3,535,212,362</u>	<u>\$ 61,224,778,113</u>	<u>\$ 78,781,000</u>	<u>\$ 10,944,230</u>	<u>\$ 263,650,507</u>	<u>\$ (1,961,404,631)</u>	<u>\$ 71,224,851,399</u>
Participant Equity:													
General Fund	\$ 1,916,979,139	\$ -	\$ 1,916,979,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,916,979,139
Other Funds Which Earn Interest for General Fund	1,155,659,242	239,659,921	1,395,319,163	-	-	-	-	-	-	-	-	-	1,395,319,163
Highway Fund	558,859,606	-	558,859,606	-	-	-	-	-	-	-	-	-	558,859,606
Highway Trust Fund	36,065,803	-	36,065,803	-	-	-	-	-	-	-	-	-	36,065,803
University Trust Funds	1,930,697,977	-	1,930,697,977	-	-	-	-	-	-	-	-	-	1,930,697,977
Pension Trust Funds	291,425,679	-	291,425,679	27,280,368,469	24,841,285,687	4,568,438,718	3,535,212,362	60,225,305,236	-	-	-	-	60,516,730,915
Other Independent Trust Funds	3,331,542,496	-	3,331,542,496	999,472,877	-	-	-	999,472,877	-	-	-	-	4,331,015,373
Local Political Subdivisions	505,674,233	-	505,674,233	-	-	-	-	-	-	-	-	-	505,674,233
Licensing Boards	33,509,190	-	33,509,190	-	-	-	-	-	-	-	-	-	33,509,190
Other Investment Funds	1,608,028,894	-	1,608,028,894	-	-	-	-	-	78,781,000	10,944,230	263,650,507	(1,961,404,631)	(0)
Total Participant Equity	<u>\$ 11,368,442,259</u>	<u>\$ 239,659,921</u>	<u>\$ 11,608,102,180</u>	<u>\$ 28,279,841,346</u>	<u>\$ 24,841,285,687</u>	<u>\$ 4,568,438,718</u>	<u>\$ 3,535,212,362</u>	<u>\$ 61,224,778,113</u>	<u>\$ 78,781,000</u>	<u>\$ 10,944,230</u>	<u>\$ 263,650,507</u>	<u>\$ (1,961,404,631)</u>	<u>\$ 71,224,851,399</u>
Percent of Total	15.96	0.34	16.30	39.71	34.88	6.41	4.96	85.96	0.11	0.01	0.37	-2.75	100.00