



NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

February 20, 2015

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

Re: Quarterly report on investment and related activities for the
period ended December 31, 2014

Commission Members:

We are submitting a report under G.S. 147-68(d), 147-68(d1), 147-69.1(e), 147-69.2(b)(10a), 147-69.3(h), 147-69.3(i), and 147-86.11(c), on the investment and related activities of the State Treasurer. The report outlines the above 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 0.46% for the participants compared to the benchmark return of 0.02%. 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>12/31/13</u>	<u>06/30/14</u>	<u>12/31/14</u>
3-Mo. T-Bill	0.068%	0.023%	0.041%
6-Mo. T-Bill	0.089%	0.063%	0.119%

The Short-Term Investment Fund produced a one year return of 0.46% for the participants. The investable balances earning income for the General Fund were \$778 million lower than one year earlier based on book value. The investable balances, which earn income for the Highway Funds, were \$153 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:	6.23%	9.09%	9.97%	8.70%

Long Term Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
LTIF Returns:	8.83%	2.36%	3.91%	6.48%

The below table provides a trend comparison of the current Treasury yields to the previous quarter.

US Treasury Yields	<u>5 Year UST</u>	<u>10 Year UST</u>	<u>30 Year UST</u>
As of 12/31/14	1.654%	2.172%	2.752%
As of 09/30/14	1.757%	2.490%	3.197%

- Long Term assets (based on market value) ended the quarter approximately \$195 million lower than at the end of the prior reporting period.
- The realized earnings for the fiscal year to date are \$1.083 billion.
- Approximately \$836 million was used to pay benefits or was reallocated to other investment funds this quarter.

Equity Investment Fund

	<u>1 Year</u>	<u>2 Year</u>	<u>3 Year</u>	<u>5 Year</u>
EIF Returns:	3.62%	14.37%	15.43%	10.52%

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

Quarterly Index Returns:	S&P 500	4.93%	DJIA	4.58%
	Russell 3000	5.24%	MSCI EAFE	-3.57%

- Assets of the fund (based on market value) ended the quarter approximately \$234 million higher than at the end of the prior reporting period.

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. 159-39(g) and G.S. 159-30(c)(9) 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 December 31, 2014, the invested assets were valued at \$207 million after returns in the domestic and international equity accounts of 5.76% and -1.77% respectively.

Pursuant to G.S. 147-69.2(b)(12), up to 20% of the Escheat Fund's assets can be invested in authorized Public Equity, Real Estate, and Alternative Investments. Since inception, \$40 million has been invested in Public 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; \$54.5 million has been invested in Alternatives, of which \$33 million has been received in distributions. For the quarter ending December

31, 2014, the Escheat Fund's invested assets in Alternatives were valued at \$39 million with a return of -2.86% for the quarter and 12.47% for calendar year 2014.

Pursuant to G.S. 159-30.1(b) and G.S. 159-30(c), 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 December 31, 2014, the externally invested assets were valued at \$111 million after returns in the domestic and international equity accounts of 5.76% and -1.77% respectively.

Pursuant to G.S. 113A-253.2(a), deposits are held for the Conservation Easement Endowment Fund. The assets are allocated as follows: STIF, LTIF, and authorized Equity funds. For the quarter ending December 31, 2014, the externally invested assets were valued at \$2.4 million after returns in the domestic and international equity accounts of 5.76% and -1.77% respectively.

Reporting Requirements for Green Managers and Funds

Pursuant to 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.

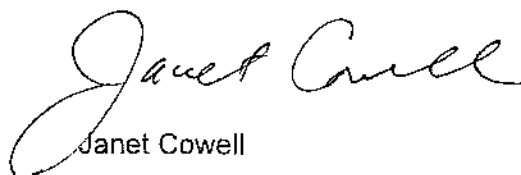
Investment Policy

Pursuant to G.S. 147-69.3(i) the following link is provided for ease of access to the current Investment Policy:

<https://www.nctreasurer.com/inv/Policies/InvestmentPolicyForNCRetirementSystems.pdf>

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
DECEMBER 31, 2014

	*Cash Management Program			**Trust Funds		All Pools
	Short-term Investment Fund	Bond Proceeds Fund	Subtotal	Subtotal	Intrafund Eliminations	
Net Assets:						
Investment Securities:						
Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	13,600,000	-	13,600,000	-	-	13,600,000
Repurchase Agreements	1,955,000,000	-	1,955,000,000	-	-	1,955,000,000
Discount Notes/Bills	-	-	-	-	-	-
U.S. Treasury Bills/Notes/Bonds	6,854,327,366	-	6,854,327,366	6,150,639,745	-	13,004,967,111
U.S. Government Agency Notes/Bonds	6,041,654,371	-	6,041,654,371	1,240,321,559	-	7,281,975,930
GNMA Certificates	-	-	-	8,750,696,547	-	8,750,696,547
Corporate Obligations	54,937,521	-	54,937,521	9,301,388,240	-	9,356,325,761
Other Investments	-	-	-	79,627,189	-	79,627,189
Investments in RMBS and CMBS	-	-	-	248,807,182	-	248,807,182
Investments in Equity Securities	-	-	-	3,460,854	-	3,460,854
Bond proceeds Advisory	-	37,087,209	37,087,209	-	-	37,087,209
Investments in Equity Trusts	-	-	-	39,188,661,477	-	39,188,661,477
Investments in Real Estate Trust Funds & Partnerships	-	-	-	6,975,146,511	-	6,975,146,511
Investments in Alternative Partnerships	-	-	-	5,521,510,863	-	5,521,510,863
Investments in Credit Partnerships	-	-	-	5,212,787,373	-	5,212,787,373
Investments in Inflation Partnerships	-	-	-	3,392,381,604	-	3,392,381,604
Total Investment Securities						
	\$ 14,919,519,258	\$ 37,087,209	\$ 14,956,606,467	\$ 86,065,429,144	\$ -	\$ 101,022,035,611
Cash in Bank	328,420,840	-	328,420,840	-	-	328,420,840
Deposits in Short-term Investment Fund	-	-	-	3,816,433,946	(3,816,433,946)	-
Other Assets, Net of Liabilities	19,721,740	-	19,721,740	223,530,713	-	243,252,453
Total Net Assets	\$ 15,267,661,838	\$ 37,087,209	\$ 15,304,749,047	\$ 90,105,393,803	\$ (3,816,433,946)	\$ 101,593,708,904
Participant Equity:						
General Fund	\$ 1,948,177,393	\$ -	\$ 1,948,177,393	\$ -	\$ -	\$ 1,948,177,393
Other Funds Which Earn Interest						
for General Fund	1,125,393,641	37,087,209	1,162,480,850	-	-	1,162,480,850
Highway Trust Fund	173,619,514	-	173,619,514	-	-	173,619,514
Highway Trust Fund	949,975,188	-	949,975,188	-	-	949,975,188
University Trust Funds	2,139,317,179	-	2,139,317,179	-	-	2,139,317,179
Pension Trust Funds	245,994,167	-	245,994,167	88,801,210,698	-	89,047,205,165
Other Independent Trust Funds	4,108,271,236	-	4,108,271,236	1,304,183,105	-	5,412,454,341
Local Political Subdivisions	730,595,960	-	730,595,960	-	-	730,595,960
Licensing Boards	29,883,314	-	29,883,314	-	-	29,883,314
Other Investment Funds	3,816,433,946	-	3,816,433,946	-	(3,816,433,946)	-
Total Participant Equity	\$ 15,267,661,838	\$ 37,087,209	\$ 15,304,749,047	\$ 90,105,393,803	\$ (3,816,433,946)	\$ 101,593,708,904
Percent of Total	15.403	0.04	15.07	88.69	-3.76	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
 DECEMBER 31, 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								530,794,934	6,150,639,745
U.S. Government Agency Notes/ Bonds								277,167,705	1,240,321,559
GNMA Certificates								8,750,696,547	8,750,696,547
Corporate Obligations								9,301,388,240	9,301,388,240
Other Investments	1,667,640							72,509,462	79,627,189
Investments in RMBS and CMBS								248,807,182	248,807,182
Investments in Equity Securities								3,460,854	3,460,854
Bond Proceeds Advisory									
Investments in Equity Trusts									39,188,661,477
Investments in Real Estate Trust Funds & Partnerships									6,975,146,511
Investments in Alternative Partnerships									5,521,510,863
Investments in Credit Partnerships									5,212,787,373
Investments in Inflation Partnerships & Other invest.									3,392,381,604
Total Investment Securities	\$ 1,667,640	\$ 24,633,083,452	\$ 234,237,269	\$ 39,188,661,477	\$ 6,975,146,511	\$ 5,524,971,717	\$ 5,212,787,373	\$ 4,273,627,121	\$ 86,065,429,144
Cash in Bank									
Deposits in Short-term Investment Fund	1,048,349,535	248,818,552	2,519,265,859					773,418	3,816,433,946
Other Assets, Net of Liabilities	408	222,204,457	552,430						223,530,713
Total Net Assets	\$ 1,050,017,583	\$ 25,106,106,461	\$ 2,774,075,558	\$ 39,188,661,477	\$ 6,975,146,511	\$ 5,524,971,717	\$ 5,212,787,373	\$ 4,273,627,121	\$ 90,105,393,803
Participant Equity:									
Pension Trust Funds	\$ 1,050,017,583	23,801,923,356	2,774,075,558	39,188,661,477	6,975,146,511	5,524,971,717	5,212,787,373	4,273,627,123	\$ 88,801,210,698
Other Independent Trust Funds		1,304,183,105							1,304,183,105
Total Participant Equity	\$ 1,050,017,583	\$ 25,106,106,461	\$ 2,774,075,558	\$ 39,188,661,477	\$ 6,975,146,511	\$ 5,524,971,717	\$ 5,212,787,373	\$ 4,273,627,123	\$ 90,105,393,803
Percent of Total	1.17	27.86	3.08	43.49	7.74	6.13	5.79	4.74	100.00

DEPARTMENT OF STATE TREASURER
 ANCILLARY INVESTMENT PROGRAMS
 DECEMBER 31, 2014

	Escherts External Investments	OPER External Investments	Hospital External Investments	Conservation Easement Endowment Fund	Totals
Net Assets:					
Deposits in Equity Investment Fund	\$ 39,278,954	\$ 110,953,339	\$ 207,322,910	\$ 2,397,557	\$ 320,673,806
Deposits in Alternative Investment Fund	\$ 39,278,954	\$ 110,953,339	\$ 207,322,910	\$ 2,397,557	\$ 39,278,954
Total Net Assets	<u>\$ 39,278,954</u>	<u>\$ 110,953,339</u>	<u>\$ 207,322,910</u>	<u>\$ 2,397,557</u>	<u>\$ 359,952,760</u>

**DEPARTMENT OF STATE TREASURER
COMBINED STATEMENT OF OPERATIONS - ALL POOLS AND ACCOUNTS
FOR THE PERIOD ENDED DECEMBER 31, 2014**

	Cash Management Program			*Trust Funds		Memorandum	
	Short-Term Investment Fund	Bond Proceeds Fund	Subtotal	Investment Program Subtotal	Intrafund Eliminations	Total	
Revenues:							
Investment Income:							
Investment Earnings	\$ 38,114,813	11,391	\$ 38,126,204	\$ 2,513,659,910	\$ -	\$ 2,511,786,114	
Intra-Pool Interest Earnings	-	-	-	7,965,462	(7,965,462)	-	
Income from Security Lending	-	-	-	5,320,022	-	5,320,022	
Commission Recapture	-	-	-	30,668	-	30,668	
Other Income	-	-	-	4,536,492	-	4,536,492	
Subtotal	38,114,813	11,391	38,126,204	2,531,512,554	(7,965,462)	2,561,673,296	
Net Unrealized Appreciation/Depreciation				(2,389,309,395)	-	(2,389,309,395)	
Total Investment Income	38,114,813	11,391	38,126,204	142,203,159	(7,965,462)	172,363,901	
Expenditures:							
Treasurer's Allocated Cost		(692,168)	(692,168)	(2,655,946)	-	(3,348,114)	
Management Fees		(14,367)	(14,367)	(62,281,097)	-	(62,295,464)	
Placement Fees		-	-	-	-	-	
Dividend Withholding Tax		-	-	(11,223,463)	-	(11,223,463)	
Other Cost	(1,081,009)	-	(1,081,009)	(27,940,712)	-	(29,021,721)	
Total Expenditures	(1,773,177)	(14,367)	(1,787,544)	(104,101,218)	-	(105,888,762)	
Net Investment Income (Loss)	\$ 36,341,636	\$ (2,976)	\$ 36,338,660	\$ 38,101,941	\$ (7,965,462)	\$ 66,475,139	
Total Investment Income Allocated:							
General Fund	\$ 8,507,028		\$ 8,507,028	\$ -	\$ -	\$ 8,507,028	
Highway Fund	654,999		654,999	-	-	654,999	
Highway Trust Fund	2,059,002		2,059,002	-	-	2,059,002	
University Trust Funds	5,294,175		5,294,175	-	-	5,294,175	
Pension Trust Funds	1,034,264		1,034,264	489,705	-	1,523,969	
Other Independent Trust Funds	9,048,110		9,048,110	37,612,236	-	46,660,346	
Local Political Subdivisions	1,709,556		1,709,556	-	-	1,709,556	
Licensing Boards	69,040		69,040	-	-	69,040	
Other Investment Funds	7,965,462	(2,976)	7,962,486	-	(7,965,462)	(2,976)	
Total Investment Income Allocated	\$ 36,341,636	\$ (2,976)	\$ 36,338,660	\$ 38,101,941	\$ (7,965,462)	\$ 66,475,139	
Cash Return, Fiscal Year-to-Date (Annualized)	0.459%	0.008%	0.458%				

*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 DECEMBER 31, 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	\$ 1,869	1,081,018,934	7,803,830	975,656,692	414,358,763	303,178,260	(121,691,943)	(146,666,495)	\$	2,513,659,910		
Intra-Pool Interest Earnings	2,089,470	471,772	5,404,220	5,320,022	30,668					7,965,462		
Income from Security Lending										30,668		
Commission Recapture												
Other Income	378	1,797,198		2,738,916						4,536,492		
Subtotal	2,091,717	1,083,287,904	13,208,050	983,746,298	414,358,763	303,178,260	(121,691,943)	(146,666,495)		2,531,512,554		
Net Unrealized Appreciation/Depreciation		(327,972,902)	(594,468)	(1,891,380,832)	71,810,725	(184,967,794)	2,250,492	(58,454,596)		(2,389,309,395)		
Total Investment Income	2,091,717	755,315,002	12,613,582	(907,634,534)	486,169,488	118,210,466	(119,441,451)	(205,121,091)		142,203,159		
Expenditures:												
Treasurer's Allocated Cost	(26,837)		(767,236)	(1,176,201)	(206,161)	(157,605)	(141,181)	(110,947)		(2,655,946)		
Management Fees			(86,355)	(22,318,988)	(15,566,305)	(16,581,251)	(3,266,648)	(4,461,550)		(62,281,097)		
Placement Fees												
Dividend Withholding Tax												
Other Cost		(639,616)	(619,318)	(11,184,086)	(39,377)	(7,690,556)	(7,947,687)	(5,023,552)		(27,940,712)		
Total Expenditures	(26,837)	(1,406,852)	(775,451)	(36,548,518)	(4,150,740)	(24,429,412)	(11,355,16)	(9,596,049)		(104,101,218)		
Net Investment Income (Loss)	\$ 2,064,880	753,908,150	11,838,131	(944,183,072)	466,206,905	93,781,054	(130,796,967)	(214,717,140)	\$	38,101,941		
Total Investment Income Allocated:												
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Highway Fund	-	-	-	-	-	-	-	-	-	-		
Highway Trust Fund	-	-	-	-	-	-	-	-	-	-		
University Trust Funds	-	-	-	-	-	-	-	-	-	-		
Pension Trust Funds	2,064,880	716,295,914	11,838,131	(944,183,072)	466,206,905	93,781,054	(130,796,967)	(214,717,140)		489,705		
Other Independent Trust Funds	-	37,612,236	-	-	-	-	-	-		37,612,236		
Local Political Subdivisions	-	-	-	-	-	-	-	-		-		
Licensing Boards	-	-	-	-	-	-	-	-		-		
Other Investment Funds	-	-	-	-	-	-	-	-		-		
Total Investment Income Allocated	\$ 2,064,880	753,908,150	11,838,131	(944,183,072)	466,206,905	93,781,054	(130,796,967)	(214,717,140)	\$	38,101,941		
Total Return, 12, 24, and 36 and 60 months:												
12 months	0.45%	8.83%	1.87%	3.62%	15.04%	11.95%	3.40%	0.25%		6.23%		
24 months	N/A	2.36%	3.24%	14.37%	13.29%	11.74%	9.78%	-1.42%		9.09%		
36 months	N/A	3.91%	7.52%	15.43%	11.80%	9.63%	11.15%	-0.62%		9.97%		
60 months	N/A	6.48%	7.19%	10.52%	9.49%	9.32%	10.22%	-5.57%		8.70%		

Department of State Treasurer
Bank Balances
at December 31, 2014

Summary of Bank Balances	
Balance as of 6/30/2013	\$ 199,951,793.68
Total Receipts FY 13-14	\$ 176,974,420,015.22
Total Payments FY 13-14	\$ 176,978,310,291.33
Balance as of 6/30/2014	\$ 196,061,517.57
Receipts as of 12/31/2014	\$ 89,168,688,267.41
Payments as of 12/31/2014	\$ 89,036,328,945.40
Balance as of 12/31/2014*	\$ 328,420,839.58

Bank Balances as of December 31, 2014	
Bank	Bank Balance
Wells Fargo	\$ 64,987,460.47
Bank of America	\$ 153,814,076.01
SunTrust	\$ 11,706,976.18
PNC	\$ 326,820.94
First Citizens	\$ 6,218,061.16
BB&T	\$ 15,855,881.43
Bank of North Carolina	\$ 100,000.22
Bank of Tennessee	\$ 742.97
Bank of the Carolinas	\$ 1,084,839.25
Bank of the Ozarks	\$ 1,000,000.46
Capital Bank	\$ 3,287,813.31
CommunityOne Bank	\$ 2,100,000.17
Fidelity Bank	\$ 9,118,539.23
Fifth Third Bank	\$ 3,094,666.88
First Bank	\$ 12,111,924.19
First South Bank	\$ 999,999.53
High Point Bank	\$ 999,999.81
HomeTrust Bank	\$ 999,999.81
Lumbee Guaranty Bank	\$ 1,261,884.62
Macon Savings Bank	\$ 999,999.59
Mechanics & Farmers Bank	\$ 2,845,066.52
NewBridge Bank	\$ 2,575,146.21
Peoples Bank	\$ 999,999.69
South State Bank	\$ 1,059,180.05
Southern Bank & Trust	\$ 11,296,560.24
Surrey Bank	\$ 999,999.61
TD Bank	\$ 1,500,000.18
The Little Bank	\$ 115,401.87
Townebank	\$ 999,999.64
Union Bank	\$ 322,515.15
United Community Bank	\$ 5,963,798.84
Uwharrie Bank	\$ 2,000,000.61
Yadkin Bank	\$ 7,673,484.74
Total*	\$ 328,420,839.58

*This number reflects the balance in the State treasury credited to all State funds, including not only the General Fund but also other funds.