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

Re: Quarterly report on Investment Funds for the period ended March 31, 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.

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 3.87% for the participants. Short-term interest rates were higher 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 $114 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 3.84% for its participants through March 31, 2009.

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 higher during the current quarter. The LTIF generated a 12, 24, 36 and 60 month trailing returns of 2.84%, 5.75%, 6.18% and 4.55% respectively. Assets of the fund (based on market value) ended the quarter approximately $1.8 billion lower than at the end of the prior reporting period. Approximately $875 million was used to pay benefits or was reallocated to other investment funds this quarter. The LTIF's realized earnings for the fiscal year are $1.3 billion.

The equity market as measured by the DJIA was 1167.47 points lower than at the beginning of the quarter. During this period, assets of the EIF at market value decreased by approximately $1.8 billion. The
EIF generated a 12, 24, 36 and 60 month trailing returns of -38.47%, -23.12%, -13.29% and -3.64% respectively.

The Trust Funds Investment Program, on a composite basis, generated a 12, 24, 36 and 60-month trailing returns of -21.14%, -10.28%, -4.12% and .83% on behalf of its participants through March 31, 2009.

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 March 31, 2009, the invested assets were valued at $233 million after returns in the domestic and international accounts of -11.66% and -10.96% 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 March 31, 2009, $40 million has been invested in equity; $20 million has been invested in real estate, and commitments totaling $65 million have been made to private equity, of which, 31.1 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 March 31, 2009, the $17.8 million invested in domestic and international equity accounts returned -11.66% and -10.96% 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 MARCH 31, 2009

<table>
<thead>
<tr>
<th>Cash Management Program</th>
<th>Trust Funds Investment Program</th>
<th>Memorandum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-term Bond</strong></td>
<td><strong>Long-term Equity Real Estate Alternative</strong></td>
<td><strong>Intrafund Eliminations Total</strong></td>
</tr>
<tr>
<td>Investment Fund</td>
<td>Investment Fund Investment Fund Investment Fund</td>
<td></td>
</tr>
<tr>
<td>Proceeds</td>
<td>Subtotal</td>
<td>Subtotal</td>
</tr>
</tbody>
</table>

#### Revenues:
- **Investment Income:**
  - Investment Earnings: $334,391,479 $2,532,780 $336,924,259
  - Intra-Pool Interest Earnings: 19,645,683 18,287,365 37,933,048
  - Income from Security Lending: 27,310,925 42,719,901 69,030,826
  - Commission Repiration: 477,325 477,325
  - Other Income: 8,986,364 8,986,364
  - **Subtotal:** 354,119,383 2,532,780 356,652,163

  - Net Unrealized Appreciation/Depreciation: 1,318,132,918 (4,653,712,021)
  - **Total Investment Income:** 354,119,383 2,532,780 356,652,163

#### Expenditures:
- **Treasury's Allocated Cost:** (1,131,809) (1,131,809)
- **Management Fees:** (101,973) (101,973)
- **Foreign Income Tax:** (65,842,391) (55,653,663)
- **Other Cost:** (820,780) (820,780)
  - **Total Expenditures:** (1,952,589) (1,952,589)

  - **Total Net Income (Loss):** 352,166,794 2,430,807 354,597,601

#### Total Investment Income Allocated:
- **General Fund:** 101,415,080 101,415,080
- **Highway Fund:** 19,762,631 19,762,631
- **Highway Trust Fund:** 828,271 828,271
- **University Trust Funds:** 59,815,237 59,815,237
- **Pension Trust Funds:** 15,429,039 15,429,039
- **Other Independent Trust Funds:** 97,824,533 43,220,718
- **Local Political Subdivisions:** 13,774,178 13,774,178
- **Licensee Reimbursements:** 1,040,966 1,040,966
- **Other Investment Funds:** 42,767,858 4,470,665
  - **Total Investment Income Allocated:** 352,166,794 2,430,807 354,597,601

#### Cash Return, Fiscal Year-to-Date (Annual)
- **Total Return, 12, 24, and 36 and 60 months:**
  - 12 months: 3.87%
  - 24 months: -2.84%
  - 36 months: -22.62%
  - 60 months: -21.34%
# DEPARTMENT OF STATE TREASURER
## COMBINED STATEMENT OF NET ASSETS AND PARTICIPANT EQUITY - ALL POOLS AND ACCOUNTS
### MARCH 31, 2009

<table>
<thead>
<tr>
<th>Short-term</th>
<th>Bond</th>
<th>*Trust Funds Investment Program</th>
<th>Memorandum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Securities</td>
<td>Investment</td>
<td>Equity</td>
<td>Real Estate</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>$1,848,400,000</td>
<td>$1,848,400,000</td>
<td>$1,848,400,000</td>
</tr>
<tr>
<td>Discount Notes/ Bills</td>
<td>2,674,337,112</td>
<td>2,674,337,112</td>
<td>6,163,945,181</td>
</tr>
<tr>
<td>U.S. Treasury Bills/ Notes/ Bonds</td>
<td>6,051,420,151</td>
<td>6,051,420,151</td>
<td>2,862,992,612</td>
</tr>
<tr>
<td>GNMA Certificates</td>
<td>6,391,872,066</td>
<td>6,391,872,066</td>
<td>6,391,872,066</td>
</tr>
<tr>
<td>Corporate Obligations</td>
<td>379,736,247</td>
<td>379,736,247</td>
<td>9,741,811,479</td>
</tr>
<tr>
<td>Investments in Equity Securities</td>
<td>-</td>
<td>-</td>
<td>5,870,559</td>
</tr>
<tr>
<td>Bond proceeds Advisory</td>
<td>172,240,019</td>
<td>172,240,019</td>
<td>3,986,476,392</td>
</tr>
<tr>
<td>Investments in Equities Trusts</td>
<td>-</td>
<td>-</td>
<td>22,975,211,181</td>
</tr>
<tr>
<td>Investments in Real Estate Trust Funds &amp; Partnerships</td>
<td>-</td>
<td>-</td>
<td>3,179,018,832</td>
</tr>
<tr>
<td>Investments in Alternative Partnerships</td>
<td>-</td>
<td>-</td>
<td>3,179,018,832</td>
</tr>
<tr>
<td>Total Net Investment Securities</td>
<td>10,594,002,519</td>
<td>11,288,333,289</td>
<td>25,219,991,339</td>
</tr>
<tr>
<td>Cash on Hand</td>
<td>(393,446,301)</td>
<td>(393,446,301)</td>
<td>-</td>
</tr>
<tr>
<td>Deposits in Equity Investment Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits in Real Estate Investment Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits in Alternative Investment Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits in Short-term Investment Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Assets, Net of Liabilities</td>
<td>103,396,708</td>
<td>103,396,708</td>
<td>273,316,254</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$10,764,044,016</strong></td>
<td><strong>$10,764,044,016</strong></td>
<td><strong>$10,936,284,035</strong></td>
</tr>
</tbody>
</table>

### Participant Equity
- **General Fund**
  - **$1,188,075,836**
- **Other Funds Which Earn Interest**
  - **for General Fund**
    - **$1,478,325,416**
  - **Highway Fund**
    - **$809,129,922**
  - **Highway Trust Fund**
    - **$2,383,649**
  - **University Trust Fund**
    - **$2,119,936,876**
  - **Pension Trust Funds**
    - **$197,779,146**
  - **Other Independent Trust Funds**
    - **$2,985,333,279**
  - **Local Political Subdivisions**
    - **$617,074,233**
  - **Licensing Boards**
    - **$33,451,817**
  - **Other Investment Funds**
    - **$1,337,350,804**

- **Total Participant Equity**
  - **$10,764,044,016**

### Percent of Total
- **16.18**
- **0.26**
- **16.44**
- **40.08**
- **34.58**
- **6.95**
- **4.85**
- **85.57**
- **0.10**
- **0.02**
- **0.35**
- **-2.48**
- **100.00**

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