

Annual Investment Report
North Carolina Department of State Treasurer

Fiscal Year 2007-2008
July 1, 2007 – June 30, 2008



The Honorable Richard H. Moore
North Carolina State Treasurer

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**All returns are time-weighted returns based on data from the custodian as book of record.*

INTRODUCTION

In my tenure as State Treasurer, I have undertaken many steps to increase the amount and quality of information about our operations made available to the public. This Annual Investment Report (AIR) is another important step in that effort. It will provide the public with more knowledge about our pension fund and its investments.

Within the AIR, readers will find detailed information about the investments held by the North Carolina Retirement Systems (NCRS). The information is provided to give the public employees who are members of the NCRS, as well as the citizens of North Carolina, a comprehensive view of the State's \$72.3 billion retirement trust fund. You will find information about investment strategy, the design of our overall investment portfolio and the performance of the firms who manage money for the NCRS.

I am pleased to report that the NCRS remains fully funded – one of only a handful of state retirement systems that can make such a statement. In the calendar year that ended December 31, 2007, the funding ratio stood at 104 percent, meaning that we have more than enough assets on hand to meet our projected liabilities. I will continue to work diligently with Chief Investment Officer Patricia Gerrick and her excellent staff to ensure the continued strength and security of our state retirement systems.

Sincerely,

A handwritten signature in black ink that reads "Richard H. Moore". The signature is written in a cursive style with a large, prominent "R" and "M".

Richard H. Moore

DISCUSSION OF INVESTMENTS

Structure of the Fund

The Investment Management Division serves as the investment arm of the Department of State Treasurer. It is responsible for managing the combined assets of the North Carolina Retirement Systems. This is referred to as the Trust Fund Investment Program (the Trust Fund). At the end of the fiscal year closing June 30, 2008 total assets of the Trust Fund Investment Program were \$72.3 billion.

Within the Trust Fund, assets are divided into different classes of investments:

Portfolio	Investment Mandate	Examples	Managed
Short-Term Investment Fund	Highly Liquid Money Market Instruments	Treasuries, Agencies, Short-Term Corporate Issues	Internally
Long-Term Investment Fund	Longer Term Investments	Investment Grade Corporate Securities, Treasuries, Agencies, GNMA's	Internally
Equity Investment Portfolio	Equity Securities	Fiduciary Relationships with experienced investment advisors	Externally
Real Estate Investment Portfolio	Real Estate	Limited Partnerships managed by experienced real estate advisors	Externally
Alternative Investment Portfolio	Private Equity; Hedge Funds	Limited Partnerships managed by experienced private equity advisors, Hedge Fund of Funds	Externally

Overall Fund Strategy

The tradition of conservative fiscal management has served North Carolina's public workers and taxpayers well through the years. The Trust Fund continues that tradition today with a heavy allocation in fixed income assets (bonds) combined with allocations to modern investments, like real estate and alternatives, as well as an increasingly diversified portfolio. The result of this strategy is a fund that is a top performer in turbulent economic times, and steady in bull markets.

We have no pension fund liability – or pension gap – to make up. Our goal is to simply maintain the long-term strength of the retirement systems by providing a steady long-term return of 7.25 percent while simultaneously minimizing risk in the portfolio.

Many other public retirement funds have sought to make up large pension gaps through heavier allocations in equities (stocks), real estate and alternative investments, such as hedge funds and private equity funds. The new asset classes have the potential to post high returns, and can seem very attractive in a strong economy. However, they are also capable of posting negative results and, if used improperly, can greatly increase overall portfolio risk. The challenge for any investor is to find the appropriate balance between risk and return.

Recent reports and rankings demonstrate the wisdom of North Carolina's long-term strategy. In *Standard & Poor's* annual rankings of state retirement fund funding ratios, North Carolina placed second for the third consecutive year. More recently, Wilshire, the most widely accepted benchmark for the performance of institutional assets, reported that North Carolina was in the top quarter of performers for the fiscal year ended June 30, 2008. In a year when the average public fund lost 4.5% and the S&P 500 lost more than 13%, our fund lost only 2%. Our strong performance in such a tough year demonstrates the success of our effort to maintain a well-balanced portfolio that minimizes risk.

Specifically, the Trust Fund's fixed income holdings posted an 8.35 percent return for the year, while the equity portfolio, or stocks, lost 10.45 percent. The alternatives and real estate portfolios had 7.60 percent and 8.74 percent returns respectively. The relatively young real estate and alternatives investment programs will provide increasingly strong returns over the next several years, as these types of investments typically take several years to realize maximum results. These investments also diversify the overall portfolio, helping to produce steadier returns over the long term. As of June 30, 2008, North Carolina's five-year return is 8.21 percent.

Review of the Past Year

The fiscal year ended June 30, 2008 saw significant turmoil and losses in markets across the globe. The mortgage crisis and tightening credit, declines in the stock

market, a weakening dollar and increasing inflation made it a tough year for investors across the spectrum. However, the Trust Fund's conservative investment strategy mitigated losses in the equity portfolio and provided solid returns from fixed income, alternatives and real estate. This allowed us to outpace the majority of our peer funds who are positioned to outperform in up market cycles.

Many fixed income investors were hit particularly hard by collapses in certain mortgage-backed securities and other credit instruments. The Trust Fund avoided these pitfalls and took no direct losses from mortgage-backed securities, such as Collateralized Debt Obligations (CDOs) and Structured Investment Vehicles (SIVs). The Trust Fund's staff declined offers to invest in these securities in earlier years, which proved to be a wise decision.

The year did see the Trust Fund make a number of significant new investments and continue its effort to balance the portfolio with a greater emphasis on diversifying into alternative asset classes, increasing exposure to international and emerging markets, and reallocating passive investments to active strategies.

Looking Forward to the Year Ahead

Though the Trust Fund performed relatively well during the significantly volatile and arduous fiscal year in the financial markets, the Investment Division is committed to enhancing the portfolio to perform well in all types of market environments. Throughout the 2009 fiscal year, the Investment Division will continue to focus on reducing overall portfolio risk, while creating a stronger position to outperform in an up market environment.

With the Federal Reserve Board holding the federal funds rate steady at a relatively low level as of the 2008 fiscal year end, the fixed income management team will focus on protecting its longer duration portfolio against a possible rising interest rate environment. The Investment Division will utilize more credit research resources to identify and capitalize on market inefficiencies during this possible difficult period for bond prices.

In the equity market, growth-oriented securities outperformed value-focused securities considerably. The Trust Fund benefited from the growth stocks' performance, but the Investment Division will evaluate the Fund's bias to the

growth equity style as the market potentially adjusts prices. The Investment Division will also concentrate on increasing its global equity management allocation within the Equity Investment Portfolio. By utilizing a global approach, external investment managers can increase their opportunity set when searching for strong investments. As companies increasingly participate on a global stage, this strategy allows managers to evaluate whether companies within industries and sectors would truly be strong investment opportunities on a global basis. In addition, given this flexibility in a portfolio, global equity managers can effectively reduce risk through diversification and position themselves for potentially greater returns.

In the private equity market, the Investment Division was successful in securing high-quality fund relationships throughout the fiscal year 2008. The private equity team will continue its concentration on opportunistic funds and co-investment opportunities with existing relationships.

During the next fiscal year, the Investment Division will update the 2005 asset optimization study to reflect market revaluation and the Trust Fund's liabilities. As the Investment Division seeks to increase allocations to strategies that, by themselves, might hold greater volatility, the Division remains steadfast in the fundamental concepts that these strategies' low correlation with others provides the diversification to effectively reduce overall portfolio risk, while concurrently increasing the potential for better portfolio performance.

The Division will also continue its Legislative efforts by requesting a review of existing investment authority and definition of risk. Success with this initiative will allow the overall portfolio greater mobility in navigating a more volatile and evolving investment environment. The goal, as always, is to improve risk adjusted returns and minimize the volatility of required contributions. Achievement of this goal will allow Plan participants and taxpayers to reap the financial benefits of a well managed and fully funded defined benefit plan.

FIXED INCOME

The majority of the Trust Fund's fixed income allocation is invested in the Long Term Investment Fund ("LTIF") and includes allocations to the Short Term Investment Fund (\$0.9 billion) and the Campbell Timber Fund III (\$0.5 billion). As of June 30, 2008, the LTIF comprised a market value of \$27.1 billion, representing 37.4% of the Trust Fund's assets. For the fiscal year 2008, the LTIF returned 8.4%, net of fees, outperforming its custom benchmark return of 7.5%. Over longer time periods, the LTIF continues its strong relative performance and adding value to the Trust Fund as it outperforms the benchmark over all of the respective time periods.

LTIF Summary of Brokers Utilized During Fiscal Year 2008

AG Edwards	Goldman Sachs	Morgan Keegan
Bank of America	HSBC Securities	Morgan Stanley
Barclays Capital	JPMorgan Chase	RBC Capital Markets
Bear Stearns	LaSalle Financial	RBS Greenwich Capital
Citigroup	Lehman Brothers	Stifel Nicolaus
Countrywide Sec.	Loop Capital Markets	Suntrust Capital Markets
Credit Suisse Sec.	KeyBanc Cap Mkts	UBS Securities
Deutsche Bank Sec.	Merrill Lynch	Wachovia Capital Markets
First Tennessee Bank	Mizuho Securities	Williams Capital Group

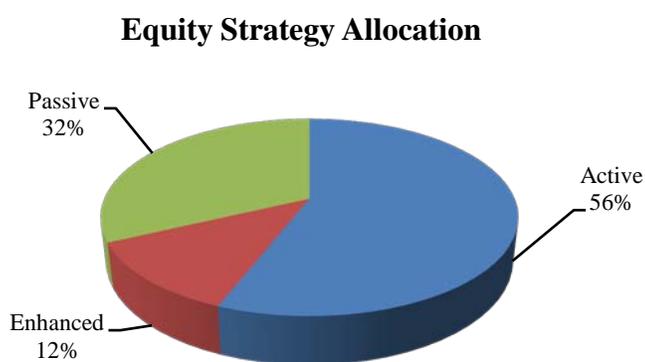
LTIF Top 10 Corporate Positions as of June 30, 2008

Corporate Issuer	Market Value (\$)	% of LTIF
JPMorgan	367,173,731	1.3%
General Electric	344,119,501	1.2%
Bank of America	323,680,408	1.1%
AT&T	307,919,879	1.1%
Citigroup	296,396,789	1.0%
Wal-Mart Stores	258,132,036	0.9%
Goldman Sachs Grp	257,303,329	0.9%
Verizon Comm	220,542,874	0.8%
Morgan Stanley	185,357,418	0.6%
Wachovia Bank	180,991,614	0.6%

Please see the appendix for a list of all fixed income holdings.

EQUITIES

This asset class primarily consists of stock holdings in domestic and foreign corporations. All investments of the Equity Investment Portfolio (EIP) are managed externally in closed funds according to one of three different strategies: passive, enhanced or active. Passive investments track existing indexes in relatively efficient markets. Enhanced indexes allow managers some flexibility to make decisions that deviate from the index, but maintain more control of market risk than active management. Actively managed funds give the manager discretion to make investment decisions within the parameters of the fund's mandate.



The EIP maintains prudent diversification within the broad equity market. The EIP is also broken down into U.S. Large-Cap, U.S. Mid-Cap, U.S. Small-Cap, and Non-U.S. investments. U.S. investments make up the large majority of equity investments, though the international investments have grown in recent years.

Please see the appendix for a full list of equity holdings.

**PUBLIC EQUITY
AS OF 6/30/2008**

Manager	Vintage Year	Market Value Size	Time Weighted 1-YR Performance	Fees Fiscal Year End 6/30/2008	Fees Base	Fees Incentive
ALLIANCE						
ALLIANCE DISCIPLINED VALUE	1987	\$ 1,822,463,990	(17.03)	\$ 1,245,281	\$ 1,245,281	\$ -
ALLIANCE LARGE CAP PASSIVE*	1987	\$ -	-	\$ 42,959	\$ 42,959	\$ -
ALLIANCE INTERNATIONAL	1994	\$ 1,389,026,520	1.24	\$ 1,442,964	\$ 1,442,964	\$ -
ALLIANCE EMERGING	1994	\$ 608,190,193	6.09	\$ 639,495	\$ 639,495	\$ -
ANGELO GORDAN						
AG GLOBALSTRATEGY PARTNERS	2007	\$ 236,327,086	(5.47)	\$ 1,338,383	\$ 1,338,383	\$ -
AG SMID GROWTH	2007	\$ 225,839,011	-	\$ 1,022,086	\$ 1,022,086	\$ -
ARIEL						
ARIEL SMALL CAP VALUE *	2002	\$ -	-	\$ 220,403	\$ 220,403	\$ -
BAILLIE GIFFORD						
BAILLIE GIFFORD EMERGING	2008	\$ 299,782,234	-	\$ 273,842	\$ 273,842	\$ -
BAILLIE GIFFORD EAFE	2007	\$ 995,237,278	(1.46)	\$ 3,302,540	\$ 3,302,540	\$ -
BANK OF AMERICA						
BOA LARGE CAP PASSIVE	1981	\$ 2,086,714,313	(13.13)	\$ 350,000	\$ 350,000	\$ -
BOA MID CAP PASSIVE	2001	\$ 614,885,038	(7.29)	\$ 250,568	\$ 250,568	\$ -
BARCLAYS GLOBAL INVESTORS						
BGI Russell 3000 ALPHA TILTS	2006	\$ 2,056,418,730	(15.04)	\$ 6,960,535	\$ 6,960,535	\$ -
BGI EAFE INDEX FUND	2007	\$ 722,117,075	-	\$ -	\$ -	\$ -
BGI NON US EQUITY	2006	\$ 1,271,686,490	(11.86)	\$ 5,514,874	\$ 5,514,874	\$ -
BGI Transition (S&P Futures)	2007	\$ 608,263,878	-	\$ -	\$ -	\$ -
CAP GUARDIAN						
CAP GUARDIAN INTERNATIONAL	2002	\$ 1,265,933,636	(4.13)	\$ 4,559,776	\$ 4,559,776	\$ -
CAP GUARDIAN LARGE CAP**	2002	\$ 46,796	-	\$ 3,233,221	\$ 3,233,221	\$ -
EARNEST						
EARNEST PARTNERS SMALL CAP VALUE	2002	\$ 298,700,393	(9.40)	\$ 1,674,120	\$ 1,674,120	\$ -
FIRST CITIZENS						
FIRST CITIZENS LARGE CAP PASSIVE	2001	\$ 3,004,326,357	(13.07)	\$ 726,132	\$ 726,132	\$ -
GMO						
GMO INTERNATIONAL	2002	\$ 1,549,276,413	(10.94)	\$ 3,696,864	\$ 3,696,864	\$ -
HOTCHKIS & WILEY						
HOTCHKIS & WILEY LARGE CAP VALUE	2008	\$ 253,809,197	-	\$ 171,734	\$ 171,734	\$ -
HOTCHKIS & WILEY MID CAP VALUE	2003	\$ 339,986,340	(33.96)	\$ 1,275,607	\$ 1,275,607	\$ -
INVESCO						
INVESCO EAFE CORE	2007	\$ 690,450,741	(13.11)	\$ 2,581,434	\$ 2,581,434	\$ -
JFL						
JFL INTERNATIONAL **	2002	\$ 443,491	-	\$ 650,991	\$ 650,991	\$ -
LONGVIEW						
LONGVIEW GLOBAL EQUITY	2007	\$ 219,284,343	(13.49)	\$ 1,800,079	\$ 1,800,079	\$ -

MONDRIAN										
MONDRIAN EAFE VALUE	2007	\$	701,769,531	(12.91)	\$	2,352,707	\$	2,352,707	\$	-
NUMERIC										
NUMERIC SMALL CAP VALUE	2007	\$	134,748,258	(25.67)	\$	1,064,192	\$	1,064,192	\$	-
NUMERIC SMALL CAP GROWTH	2007	\$	79,903,196	(19.04)	\$	761,728	\$	761,728	\$	-
OECHSLE										
OECHSLE EAFE GROWTH	2007	\$	652,777,554	(18.26)	\$	2,915,545	\$	2,915,545	\$	-
PIEDMONT										
PIEDMONT LARGE CAP	2002	\$	435,520,987	(6.60)	\$	963,115	\$	963,115	\$	-
SANDS										
SANDS LARGE CAP GROWTH	2006	\$	828,642,939	(0.76)	\$	4,479,572	\$	4,479,572	\$	-
SSGA										
SSGA SMALL CAP PASSIVE	2003	\$	564,218,997	(16.77)	\$	250,000	\$	250,000	\$	-
STERLING										
STERLING SMALL CAP VALUE	2002	\$	261,561,578	(26.63)	\$	1,609,818	\$	1,609,818	\$	-
TIMESSQUARE										
TIMESSQUARE MID CAP GROWTH	2007	\$	211,966,978	-	\$	1,085,541	\$	1,085,541	\$	-
TIMESSQUARE MID CAP FOCUSED	2007	\$	65,499,335	-	\$	511,360	\$	511,360	\$	-
TURNER INVESTMENTS										
TURNER QUANT MICROCAP	2007	\$	99,433,604	-	\$	694,846	\$	694,846	\$	-
TURNER LARGE CAP GROWTH	2006	\$	815,962,571	(10.00)	\$	4,756,466	\$	4,756,466	\$	-
WACHOVIA										
EVERGREEN 400 MID CAP PASSIVE	2001	\$	1,430,552,904	(7.31)	\$	516,701	\$	516,701	\$	-
EVERGREEN RUSSELL 200 ENHANCED	2007	\$	841,845,236	-	\$	460,128	\$	460,128	\$	-
EVERGREEN LARGE CAP PASSIVE	2002	\$	2,579,344,047	(13.14)	\$	639,731	\$	639,731	\$	-
WALTER SCOTT										
WALTER SCOTT INTERNATIONAL	2002	\$	453,879,305	(0.21)	\$	1,782,704	\$	1,782,704	\$	-
WELLINGTON										
WELLINGTON MID CAP	1988	\$	874,770,750	(11.02)	\$	2,689,933	\$	2,689,933	\$	-
WELLINGTON BIOTECH	1999	\$	392,745,201	(7.71)	\$	2,084,576	\$	2,084,576	\$	-
WELLINGTON INTERNATIONAL	1987	\$	1,193,977,805	(9.68)	\$	3,597,718	\$	3,597,718	\$	-
WELLINGTON SMALL CAP 2000*	1988	\$	-	-	\$	460,302	\$	460,302	\$	-
WELLINGTON GROWTH	1999	\$	1,366,003,957	(1.99)	\$	4,863,894	\$	4,863,894	\$	-
WELLINGTON SMALL CAP INTERSECTION	1999	\$	415,937,826	(18.94)	\$	1,919,365	\$	1,919,365	\$	-
WELLINGTON TECHNICAL EQUITY	2007	\$	1,139,574,057	7.47	\$	4,438,877	\$	4,438,877	\$	-

*Terminated in 2007

**Terminated in 2008

REAL ESTATE

This asset class consists of investments in many different types of real estate, ranging from residential and commercial properties to timber and hotels. The Real Estate Investment Portfolio (REIP) is an actively managed portfolio of open and closed-end funds sponsored by leading management firms. The REIP also includes a limited number of separate accounts representing specific strategies such as timber, and real estate investment trusts (REITs).

The pension fund began investing in Real Estate on a limited basis in the early 1990's with investments in passive open-end core real estate funds. In the early 2000's, it was determined a more active real estate strategy could add considerable value over time. The REIP has grown from 1.9% of the Trust Fund in 2001 to 5.8% of the Trust Fund at the end of 2008's fiscal year. As of June 30, 2008, the REIP maintains \$2.3 billion in outstanding commitments. As of June 30, 2008, the Real Estate Investment Portfolio ("REIP") maintained a market value of \$4.2 billion, representing 5.8% of the Trust Fund's assets. For the fiscal year 2008, the REIP returned 8.7%, net of fees, underperforming its custom benchmark return of 9.5%.

The REIP is an actively managed portfolio of open and closed-end funds sponsored by leading management firms. The REIP also includes a limited number of separate accounts representing specific strategies such as timber and real estate investment trusts (REITs). The Real Estate Investment Portfolio maintains strategic allocations to diverse strategies within real estate investment including core, value-added, and opportunistic funds. In addition, the analysis of new investments focuses on location and property types and employs a moderate level of risk. The REIP continues its objective by expanding into a variety of property types including debt, industrial, land, lodging, multi-type, office, residential – multi-family, residential – single-family, retail, and timber.

**REAL ESTATE HOLDINGS
AS OF 6/30/08**

MANAGER / FUND NAME	Vintage/ ¹ Inception	Commitment ² (\$000)	Market Value as of 6/30/08 (\$000) ³	3-Year Performance as of 6/30/08 ⁴	1-Year Performance as of 6/30/08 ⁴	Capital Drawn as of 6/30/08 (\$000)	Distributions as of 6/30/08 (\$000)	Remaining Commitment as of 6/30/08 (\$000)	2008 Management Fees 1 yr ending 6/30/2008 ⁵
ANGELO, GORDON & CO									
ANGELO GORDON CORE PLUS REALTY FUND	2003	\$75,000	\$26,324	39.96	86.88	\$66,848	\$79,914	\$8,153	\$234,298
ANGELO GORDON CORE PLUS REALTY FUND II ⁸	2007	\$100,000	\$23,902	NA	NA	\$25,958	\$2,500	\$70,042	\$241,917
AMERICAN VALUE PARTNERS									
AMERICAN VALUE PARTNERS FUND I, LP ⁸	2007	\$50,000	\$5,591	NA	NA	\$6,262	\$0	\$43,950	\$347,446
BENSON ELLIOT CAPITAL MANAGEMENT									
BENSON ELLIOT REAL ESTATE PARTNERS II LP	2006	\$62,935	\$31,274	NA	17.53	\$28,582	\$0	\$46,781	\$1,699,827
THE BLACKSTONE GROUP									
BLACKSTONE REAL ESTATE PARTNERS V	2006	\$100,000	\$112,227	NA	10.32	\$74,999	\$13,283	\$26,010	\$551,117
BLACKSTONE REAL ESTATE PARTNERS VI	2007	\$200,000	\$93,554	NA	14.36	\$82,452	\$3,347	\$117,611	\$4,166,667
CAMBELL GROUP									
CAMBELL TIMBER FUND III	2007	\$500,000	\$540,596	NA	8.12	\$500,000	\$0	\$0	\$5,185,279
CB RICHARD ELLIS GROUP INC									
CBRE STRATEGIC PARTNERS US IV LP	2005	\$150,000	\$156,959	NA	11.30	\$138,439	\$0	\$11,561	\$1,657,113
CBRE STRATEGIC PARTNERS US V LP ⁸	2007	\$100,000	\$12,130	NA	NA	\$12,833	\$0	\$87,167	\$644,442
CHEROKEE INVESTMENT PARTNERS									
CHEROKEE INV PARTNERS III	2002	\$50,000	\$18,652	(10.30)	(17.07)	\$32,613	\$7,087	\$19,405	\$199,934
CHEROKEE INV PARTNERS IV LP	2005	\$100,000	\$0	NA	NA	\$3,860	\$37	\$96,141	\$1,476,837
CIGNA REALTY INVESTORS									
CIGNA REALTY INVESTORS OPEN-END FUND ^{7,9}	1987	\$243,938	\$295	NA	NA	\$243,939	\$280,612	\$0	\$0
CIM GROUP									
CIM URBAN REIT LLC	2006	\$100,000	\$55,644	NA	(19.02)	\$53,947	\$2,375	\$46,053	\$494,267
CROSSHARBOR CAPITAL PARTNERS									
CROSSHARBOR INSTITUTIONAL PARTNERS LP	2006	\$50,000	\$21,777	NA	7.65	\$24,482	\$2,784	\$25,745	\$596,372
CROW HOLDINGS									
CROW HOLDINGS REALTY PARTNERS IV LP	2006	\$80,000	\$54,127	NA	0.23	\$53,739	\$0	\$26,452	\$191,082
CROW HOLDINGS REALTY PARTNERS IV-A LP	2006	\$20,000	\$13,508	NA	0.07	\$13,435	\$0	\$6,613	\$47,770
CROW HOLDINGS REALTY PARTNERS V, LP ⁸	2008	\$100,000	\$0	NA	NA	\$0	\$0	\$100,000	\$0
DEUTSCHE BANK/RREEF									
DB REAL ESTATE GLOBAL OPP IA&IB LP	2003	\$156,430	\$31,023	62.17	38.86	\$152,238	\$180,350	\$4,192	\$112,652
RREEF GLOBAL OPPORTUNITY FUND II LLC	2006	\$200,000	\$191,453	NA	0.38	\$196,516	\$1,010	\$4,854	\$1,845,071
DLJ REAL ESTATE CAPITAL PARTNERS									
DLJ REAL ESTATE CAPITAL PARTNERS, LP	1996	\$25,000	\$427	40.45	64.98	\$25,948	\$37,784	\$1,477	\$0
DLJ REAL ESTATE CAPITAL PARTNERS II, LP	2000	\$50,000	\$11,000	37.57	18.11	\$45,465	\$67,746	\$8,976	\$178,982
DLJ REAL ESTATE CAPITAL PARTNERS III, LP	2005	\$150,000	\$136,024	NA	11.57	\$133,979	\$26,309	\$19,715	\$1,283,476
DLJ REAL ESTATE CAPITAL PARTNERS IV, LP ⁸	2007	\$100,000	\$11,661	NA	NA	\$11,807	\$0	\$88,193	\$625,000
DRA ADVISORS									
DRA GROWTH & INCOME FUND III LLC	2000	\$25,000	\$8,715	25.55	42.58	\$25,188	\$62,246	\$0	\$89,800
DRA GROWTH & INCOME FUND IV LLC	2003	\$50,000	\$45,130	32.55	26.07	\$51,776	\$42,489	\$0	\$701,088
DRA GROWTH & INCOME FUND V LLC ¹¹	2005	\$100,000	\$94,721	8.87	16.63	\$98,914	\$23,993	\$2,824	\$2,745,754
DRA GROWTH & INCOME FUND V CO-INVESTMENT LLC ¹¹	2005	\$25,000	\$22,214	NA	13.88	\$20,993	\$4,735	\$4,124	\$398,194
DRA GROWTH & INCOME FUND VI	2007	\$50,000	\$14,485	NA	2.85	\$15,779	\$1,551	\$34,221	\$395,878
FROGMORE PROPERTY COMPANY LTD									
FROGMORE REAL ESTATE PARTNERS LP	2006	\$45,477	\$21,917	NA	(48.57)	\$32,779	\$0	\$15,373	\$708,925
HAWKEYE PARTNERS									
HAWKEYE PARTNERS' SCOUT FUND I	2006	\$50,000	\$152	NA	NA	\$0	\$11	\$50,000	\$490,930
JER REAL ESTATE ADVISORS									
JER REAL ESTATE PARTNERS FUND III LP	2004	\$100,000	\$49,587	23.82	17.55	\$78,751	\$62,127	\$22,516	\$876,206
JER REAL ESTATE PARTNERS FUND IV LP	2007	\$100,000	\$73,620	NA	(1.22)	\$100,000	\$25,273	\$0	\$1,001,378
JP MORGAN									
JP MORGAN STRATEGIC PROPERTY FUND ⁷	1989	\$155,133	\$196,807	15.01	12.08	\$155,133	\$240,898	\$0	\$1,863,499
KTR CAPITAL PARTNERS									
KEYSTONE INDUSTRIAL FUND I, LP	2006	\$100,000	\$86,335	NA	11.11	\$82,598	\$8,671	\$20,000	\$1,500,000
KEYSTONE INDUSTRIAL FUND II, LP	2006	\$150,000	\$0	NA	11.11	\$0	\$0	\$150,000	\$1,247,283

LEM ASSOCIATES									
LEM REAL ESTATE MEZZANINE FUND II LP	2006	\$50,000	\$16,329	NA	2.21	\$18,000	\$1,630	\$32,000	\$750,000
MORGAN STANLEY									
MS GLOBAL RE SECURITIES	2007	\$400,000	\$294,980	NA	(21.02)	\$400,000	\$0	\$0	\$1,933,710
MORGAN STANLEY REAL ESTATE FUND V	2005	\$100,000	\$93,041	NA	30.74	\$92,548	\$64,833	\$8,280	\$948,592
MORGAN STANLEY REAL ESTATE FUND VI	2007	\$400,000	\$190,095	NA	(20.42)	\$222,781	\$11,439	\$178,793	\$1,868,828
PENWOOD REAL ESTATE INVESTMENT MANAGEMENT									
CALIFORNIA SELECT INDUSTRIAL PARTNERS I LP	2005	\$50,000	\$24,505	NA	11.22	\$28,646	\$6,675	\$21,459	\$623,959
PENWOOD SELECT INDUSTRIAL PARTNERS II LP ⁸	2007	\$100,000	\$1,372	NA	NA	\$1,973	\$0	\$98,138	\$1,404,453
PRUDENTIAL REAL ESTATE INVESTORS									
PRUDENTIAL PROPERTY INVESTMENT SEPARATE ACCT	2004	\$188,719	\$139,935	48.30	16.62	\$188,719	\$167,604	\$0	\$1,024,281
RLJ DEVELOPMENT LLC									
RLJ URBAN LODGING FUND LP	2005	\$50,000	\$0	241.25	3,233.32	\$49,720	\$98,909	\$0	\$316,721
RLJ LODGING FUND II LP	2006	\$50,000	\$39,919	NA	4.71	\$43,312	\$6,902	\$7,410	\$589,762
RLJ REAL ESTATE FUND III LP ⁸	2007	\$50,000	\$0	NA	NA	\$0	\$0	\$50,000	\$607,449
RMK TIMBERLAND GROUP									
RMK EMERGING GROWTH TIMBERLAND FUND	1993	\$15,000	\$11,827	23.41	22.39	\$15,000	\$33,975	\$0	\$138,959
ROCKPOINT GROUP									
ROCKPOINT REAL ESTATE FUND I LP	2004	\$100,000	\$28,892	20.53	(19.17)	\$97,434	\$105,774	\$5,556	\$549,633
ROCKPOINT REAL ESTATE FUND II LP	2005	\$150,000	\$118,932	NA	9.47	\$128,345	\$27,234	\$24,331	\$1,518,293
ROCKPOINT REAL ESTATE FUND III LP ⁸	2007	\$100,000	\$2,071	NA	NA	\$2,458	\$78	\$97,542	\$1,428,094
ROCKWOOD CAPITAL									
ROCKWOOD CAPITAL R.E. PARTNERS VI LP	2005	\$90,000	\$78,197	NA	15.43	\$69,882	\$6,575	\$20,117	\$935,000
ROCKWOOD CAPITAL R.E. PARTNERS VII LP	2006	\$125,000	\$83,297	NA	(2.41)	\$86,696	\$7	\$38,301	\$1,493,500
NORTHROCK CORE FUND, LP ⁸	2008	\$400,000	\$0	NA	NA	\$0	\$0	\$400,000	\$0
SECURITY CAPITAL									
SECURITY CAPITAL FOCUS SELECT	2007	\$30,000	\$26,103	NA	(12.99)	\$30,000	\$0	\$0	\$231,685
SENTINEL REAL ESTATE CORPORATION									
SENTINEL REAL ESTATE FUND ⁷	1985	\$65,000	\$146,577	12.05	11.10	\$68,122	\$95,916	\$0	\$1,475,355
SENTINEL REALTY V	1998	\$50,000	\$40,015	25.47	41.16	\$50,000	\$79,815	\$0	\$389,208
SHORENSTEIN PROPERTIES LLC									
SHORENSTEIN REALTY INVESTORS VII LP	2004	\$75,000	\$105,007	28.47	94.53	\$63,635	\$6,239	\$11,490	\$936,926
SHORENSTEIN REALTY INVESTORS VIII LP	2006	\$100,000	\$65,566	NA	10.87	\$62,731	\$2,662	\$38,060	\$711,806
SHORENSTEIN REALTY INVESTORS IX LP ⁸	2007	\$75,000	\$26,452	NA	NA	\$26,946	\$509	\$48,219	\$1,125,000
STAG CAPITAL PARTNERS									
STAG INVESTMENTS II LLC	2005	\$75,000	\$57,306	NA	27.47	\$75,066	\$39,954	\$0	\$821,796
STARWOOD CAPITAL GROUP									
STARWOOD SDL/SOF VII CO INV FD	2005	\$55,000	\$109,686	NA	39.43	\$58,512	\$24,199	\$0	\$964,232
STARWOOD OPPORTUNITY FUND VII	2005	\$150,000	\$161,564	NA	(4.03)	\$150,000	\$0	\$0	\$1,875,000
TERRA FIRMA CAPITAL PARTNERS									
TERRA FIRMA DEUTSCHE ANNINGTON	2006	\$63,695	\$74,274	NA	81.35	\$41,462	\$0	\$27,483	\$0
TIMBERLAND INVESTMENT RESOURCES LLC									
NAHELE LLC	2006	\$200,000	\$220,433	NA	6.04	\$190,297	\$0	\$10,860	\$1,773,227
UBS REALTY INVESTORS LLC									
UBS TRUMBULL PROPERTY INCOME FUND ⁷	1984	\$120,995	\$104,902	15.67	9.43	\$120,995	\$205,590	\$0	\$838,836
UBS TRUMBULL PROPERTY FUND ⁷	1984	\$215,000	\$131,771	15.90	9.24	\$215,000	\$293,777	\$0	\$1,365,993
VEF ADVISORS									
VALUE ENHANCEMENT FUND II LLC	1996	\$25,000	\$15,576	(1.83)	4.68	\$26,544	\$24,311	\$0	\$128,564
VALUE ENHANCEMENT FUND III LLC	1998	\$25,000	\$0	NA	NA	\$26,116	\$43,221	\$0	\$9
VALUE ENHANCEMENT FUND IV LLC	1999	\$100,000	\$61,060	17.96	16.11	\$103,952	\$34,865	\$0	\$374,565
WARBURG PINCUS LLC									
WARBURG PINCUS REAL ESTATE I LP	2006	\$100,000	\$67,298	NA	4.15	\$67,150	\$0	\$33,108	\$999,578
WESTBROOK PARTNERS LLC									
WESTBROOK REAL ESTATE FUND I LP	1995	\$10,000	\$205	(11.99)	(78.22)	\$10,842	\$23,215	\$0	\$0
WESTBROOK REAL ESTATE FUND II LP	1997	\$50,000	\$3,071	11.90	(33.65)	\$53,855	\$78,218	\$0	\$25,741
WESTBROOK REAL ESTATE FUND III LP	1998	\$100,000	\$4,001	(14.23)	(44.80)	\$102,363	\$134,576	\$3,627	\$26,228
WESTBROOK REAL ESTATE FUND IV LP	2000	\$90,960	\$8,084	82.05	8.33	\$94,488	\$145,454	\$1,315	\$121,807

1. The year in which the North Carolina Retirement System (NCRS) made its initial commitment to the fund.
2. Commitment is the maximum amount of capital that a Fund may call.
3. Market value is the current value of a fund. In the years immediately following the vintage year, the base market value will be a fraction of the commitment, in later years the market value may exceed the commitment due to appreciation, but will, over the life of the fund, fall to zero as capital is returned to NCRS.
4. Returns are calculated on a time weighted basis, one of two recognized methods of calculating investment returns. Time weighted returns may be difficult to interpret where there have been significant contributions to or distributions from a Fund. During the first three to five years, return data may also be difficult to interpret because most investments are held at cost, and fees have been deducted from the Fund.
5. Management Fees are based on the commitment Value during the commitment period of the fund, thereafter management fees are typically reduced. For open end funds, management fees are based on the average market value over the previous 12 months.
6. Incentive payments are paid after a fund has achieved a specific threshold return. Represents the NCRS's pro rata portion of incentive payments from the fund as reported by the fund manager.
7. Open-End Fund
8. Investment commitment made in 2nd half 2007 / 1st half 2008. Therefore, performance is not available.
9. The Times Square investment was originally made in 1987 with CIGNA, but the Fund was purchased by Prudential in 2004. A large portion of the CIGNA portfolio moved to the PRISA Fund at time of purchase, and the less desirable properties were left in CIGNA Times Square Fund to be liquidated. Therefore, the performance is not available.
10. Fees for all open end funds are calculated using market value, not commitment.
11. Fees calculated based on weighted average purchase price, not market value.

ALTERNATIVES

The Alternative Investment Portfolio (AIP) consists of actively managed Private Equity and Absolute Return Investments. Private Equity funds invest in interests of private corporations (not listed on the stock exchanges). Absolute Return Funds make investments by entering into commitments through specialized funds, such as hedge funds.

As of June 30, 2008, the Alternative Investment Portfolio (“AIP”) posted a market value of \$3.5 billion, representing 4.8% of the Trust Fund’s assets. For the fiscal year 2008, the AIP returned 7.6%, net of fees, outperforming its custom benchmark return of -1.0%. Over longer time periods, the AIP continues to add value to the Trust Fund by outperforming the custom alternatives benchmark on a 1-, 3-, 5-, and 10-year basis.

The AIP has grown in recent years, starting with commitments of less than \$50 million in 2001 and totaling approximately \$3.5 billion at the end of the fiscal year.

While Absolute Return Investments are capable of immediate positive returns, it should be noted that Private Equity investments often take a number of years to post higher returns. Investment gains in Private Equity are typically realized in later years as assets of the fund mature and increase in value due to the efforts of the management company. The effect of this timing on fund returns is referred to as the “J-Curve” effect.

The reason for this can be better understood by describing how private equity funds make their investments. Rather than buying stocks or bonds, these funds purchase large stakes in a small number of privately held companies, which allow them to actively engage with company management to increase profitability. After these changes are made, the private equity fund sells its stake in the company for a profit. This process typically takes a number of years. Since the investments are not in publicly traded companies with a stock price to track, it is difficult to determine the increased value of the investment in the interim period while changes are made. But the expenses, such as management fees and write-downs of underperforming assets can be determined more easily. This explains the early negative returns. Over time, it gets easier to determine the increasing value of the company based on its changing financial statements and the

potential sale of assets. Finally, when the private equity fund sells its stake in the company – or the company begins to trade its stock publicly – it is fully possible to determine the investment's new value.

**PRIVATE EQUITY HOLDINGS
AS OF 6/30/2008**

Manager/Fund Name	Vintage/ Inception ¹	Commitment ² (\$000)	Market Value as of 6/30/08 (\$000) ³	3-Year Performance as of 6/30/08	1-Year Performance as of 6/30/08 ⁴	Capital Drawn as of 6/30/08 (\$000)	Distributions as of 6/30/08 (\$000)	Remaining Commitment as of 6/30/08 (\$000)	Management Fees 1 yr ending 6/30/2008 ⁵	Incentives Payments 1 yr ending 6/30/2008 ⁶
ACADEMY FUNDS										
ACADEMY VENTURE FUND	1999	\$ 5,000	\$ 335	(69.15)	(14.00)	\$5,000	\$339	\$0	\$20,114	\$0
ACCESS CAPITAL PARTNERS										
ACCESS CAPITAL LP II D	2002	\$ 29,328	\$ 30,876	25.36	26.08	\$25,225	\$12,729	\$15,135	\$321,044	\$0
ANGELO, GORDON & CO.										
AG CAPITAL RECOVERY PART V LP	2005	\$ 25,000	\$ 22,947	NA	(1.31)	\$23,375	\$0	\$1,625	\$253,170	-\$272,482
AG CAPITAL RECOVERY PART VI LP ⁷	2008	\$ 200,000	\$ 75,000	NA	NA	\$75,000	\$0	\$125,000	\$309,066	\$0
AG GLOBAL STRATEGY PARTNERS ⁷	2008	\$ 122,024	\$ 51,250	NA	NA	\$51,250	\$0	\$70,774	\$0	\$0
AMPERSAND VENTURES										
AMPERSAND 2006 LP	2006	\$ 30,000	\$ 13,649	NA	(5.57)	\$13,500	\$0	\$16,500	\$599,959	\$0
ANGELENO GROUP										
ANGELENO INVESTORS II LP	2006	\$ 30,000	\$ 17,392	NA	5.71	\$13,766	\$1,091	\$16,234	\$750,000	\$0
APOLLO INVESTMENT MANAGEMENT										
APOLLO INVESTMENT FUND VI LP	2005	\$ 150,000	\$ 120,978	NA	29.67	\$111,102	\$2,248	\$38,898	\$0	\$0
ARCH VENTURES										
ARCH FUND VII ⁷	2007	\$ 50,000	\$ 2,471	NA	NA	\$2,700	\$0	\$47,300	\$925,477	\$0
AURORA FUNDS										
AURORA VENTURES IV LLC	2002	\$ 15,000	\$ 10,361	(12.43)	(7.67)	\$15,000	\$65	\$0	\$375,000	\$0
AURORA VENTURES V LLC	2005	\$ 15,000	\$ 4,496	NA	(35.47)	\$6,750	\$24	\$8,250	\$375,730	\$0
AV MANAGEMENT IV LLC	2002	\$ 5,000	\$ 3,488	(12.07)	(7.61)	\$5,000	\$0	\$0	\$62,498	\$0
AVISTA CAPITAL PARTNERS										
AVISTA CAPITAL PARTNERS LP	2006	\$ 50,000	\$ 44,211	NA	11.17	\$41,302	\$6,086	\$8,698	\$0	\$200,071
BURRILL AND COMPANY										
BURRILL LIFE SCIENCES CAP FD LP	2002	\$ 41,727	\$ 23,895	(5.62)	(6.04)	\$31,320	\$2,628	\$10,407	\$938,109	\$0
BURRILL LIFE SCIENCES CAP FD III LP	2005	\$ 50,000	\$ 9,008	NA	(11.60)	\$10,848	\$0	\$39,152	\$1,073,223	\$0
CAROUSEL CAPITAL										
CAROUSEL CAPITAL PARTNERS III LP	2006	\$ 20,966	\$ 10,783	NA	34.74	\$7,200	\$611	\$13,766	\$505,917	\$0
CASTLE HARLAN INC.										
CASTLE HARLAN PARTNERS IV	2002	\$ 75,000	\$ 38,391	35.02	63.27	\$55,924	\$51,484	\$19,076	\$97,830	\$2,764,668
CASTLE HARLAN PARTNERS V ⁷	2008	\$ 100,000	\$ -	NA	NA	\$0	\$0	\$100,000	\$0	\$0
CATTERTON GROWTH PARTNERS										
CATTERTON GROWTH PARTNERS ⁷	2008	\$ 30,000	\$ 5,381	NA	NA	\$5,385	\$4	\$24,614	\$301,630	\$0
CHAPTER IV										
CHAPTER IV INV SPECIAL SITUATIONS FUND	2006	\$ 45,000	\$ 31,291	NA	(17.80)	\$33,118	\$158	\$11,882	\$244,133	\$0
COLLER CAPITAL										
COLLER INTL PARTNERS IV LP	2002	\$ 100,000	\$ 55,440	24.88	18.98	\$81,729	\$74,862	\$18,270	\$851,171	\$0
CREDIT SUISSE										
CREDIT SUISSE/NC INVESTMENT FUND (2006)	2006	\$ 250,000	\$ 148,349	NA	5.13	\$146,965	\$5,288	\$103,035	\$1,000,000	\$0
CREDIT SUISSE/NC INVESTMENT FUND (2008) ⁷	2008	\$ 250,000	\$ 22,224	NA	NA	\$22,262	\$27	\$227,738	\$1,941,409	\$0
CRESTVIEW PARTNERS										
CRESTVIEW PARTNERS FUND II ⁷	2008	\$ 100,000	\$ -	NA	NA	\$0	\$0	\$100,000	\$0	\$0
CVC CAPITAL PARTNERS										
CVC EURO EQUITY PARTNERS IV	2005	\$ 78,540	\$ 78,240	NA	50.65	\$71,848	\$30,987	\$13,618	\$503,087	\$0
DLJ										
DLJ MERCHANT BANKING II	1996	\$ 7,000	\$ 1,601	(4.30)	(20.07)	\$6,868	\$9,164	\$132	\$14,788	\$0
SPROUT CAPITAL VI	1989	\$ 6,500	\$ 102	192.48	3.60	\$6,500	\$13,921	\$0	\$0	\$0
SPROUT GROWTH II	1993	\$ 3,000	\$ 212	118.14	262.15	\$3,000	\$5,650	\$0	\$0	\$25,964
DOGWOOD EQUITY										
NC ECONOMIC OPPORTUNITIES FUND	2001	\$ 7,500	\$ 3,132	103.09	25.53	\$4,022	\$3,806	\$3,478	\$74,262	\$835,087
NCEF LIQUIDATING	1990	\$ 10,010	\$ 6,147	NA	1.17	\$10,010	\$55,737	\$0	\$21,250	\$0
ELEVATION PARTNERS										
ELEVATION PARTNERS FUND	2005	\$ 100,000	\$ 48,278	(3.88)	30.78	\$56,365	\$18,991	\$43,635	\$1,365,834	\$0
FRANCISCO PARTNERS										
FRANCISCO PARTNERS II LP	2006	\$ 60,000	\$ 37,843	NA	21.64	\$36,150	\$3,019	\$23,850	-\$640,216	\$0
GREENHAWK PARTNERS										
FRANKLIN FAIRVIEW I ⁸	1997	\$ 2,500	\$ 913	0.51	(5.35)	\$2,478	\$189	\$22	\$0	\$0
GSO CAPITAL PARTNERS										
GSO CAPITAL OPPORTUNITY FUND ⁷	2007	\$ 134,650	\$ 61,834	NA	116.55	\$75,319	\$21,679	\$59,331	\$0	\$1,314,579

THE HALIFAX GROUP												
HALIFAX CAPITAL PARTNERS II LP	2006	\$	15,000	\$	3,710	NA	17.73	\$4,795	\$1,604	\$10,205	\$214,426	\$0
HARBOURVEST PARTNERS LLC												
HARBOURVEST PART III DIRECT LP	1989	\$	6,500	\$	246	20.10	(15.81)	\$6,500	\$13,750	\$0	\$0	\$0
HARVEST PARTNERS												
HARVEST PARTNERS IV LP	2001	\$	50,000	\$	24,711	52.22	(16.78)	\$45,267	\$79,303	\$4,733	\$0	\$1,875,211
HARVEST PARTNERS V LP ⁷	2006	\$	75,000	\$	7,081	NA	NA	\$7,062	\$3,950	\$67,938	\$339,782	\$711,914
HATTERAS PARTNERS												
HATTERAS VENTURE PARTNERS III	2007	\$	16,354	\$	2,122	NA	(37.36)	\$2,443	\$3	\$13,991	\$323,680	\$0
HIGHLAND CAPITAL PARTNERS												
HIGHLAND CAPITAL PARTNERS VI LP	2001	\$	5,000	\$	3,425	28.78	24.89	\$4,888	\$3,758	\$112	\$120,760	\$60,606
HIGHLAND CAPITAL PARTNERS VII LP	2006	\$	15,000	\$	5,219	NA	(4.94)	\$5,513	\$0	\$9,487	\$342,134	\$0
HIGHLAND CONSUMER FUND I	2007	\$	25,000	\$	7,163	NA	(18.14)	\$8,750	\$0	\$16,250	\$606,511	\$0
HORSELY BRIDGE PARTNERS												
HORSELY BRIDGE INT'L IV LP	2007	\$	65,000	\$	13,154	NA	(13.21)	\$13,817	\$0	\$51,183	\$384,375	\$0
HORSELY BRIDGE IX LP ⁷	2008	\$	85,000	\$	1,158	NA	NA	\$1,360	\$0	\$83,640	\$153,125	\$0
INTERSOUTH PARTNERS												
INTERSOUTH PARTNERS III	1994	\$	1,000	\$	97	143.52	9.82	\$1,000	\$2,112	\$0	\$493	\$0
INTERSOUTH PARTNERS VI LP	2003	\$	7,000	\$	5,254	3.45	2.89	\$5,338	\$282	\$1,662	\$110,252	\$0
KITTY HAWK INC												
KITTY HAWK CAPITAL FUND III	1994	\$	1,000	\$	54	(35.24)	(2.04)	\$1,000	\$461	\$0	\$8,644	\$0
KRG CAPITAL PARTNERS LLC												
KRG CAPITAL FUND II	2001	\$	25,000	\$	5,124	73.58	7.81	\$17,894	\$28,124	\$7,106	\$0	\$0
KRG CAPITAL FUND III LP	2005	\$	75,000	\$	60,107	NA	15.31	\$52,933	\$21	\$22,067	\$0	\$0
KRG CAPITAL FUND IV LP ⁷	2007	\$	150,000	\$	5,383	NA	NA	\$5,382	\$0	\$144,618	\$2,088,552	\$0
LEHMAN BROTHERS												
LEHMAN BROTHERS VENTURE PARTNERS V ⁷	2007	\$	75,000	\$	10,359	NA	NA	\$10,386	\$0	\$64,614	\$938,368	\$0
LEXINGTON PARTNERS												
LEXINGTON MIDDLE MARKET INV LP	2005	\$	100,000	\$	56,678	25.50	15.85	\$62,542	\$20,412	\$37,458	\$476,250	\$0
LINDSAY GOLDBERG & BESSEMER												
LINDSAY GOLDBERG & BESSEMER II LP	2006	\$	100,000	\$	58,993	NA	1.05	\$58,329	\$439	\$41,671	\$991,752	\$0
LONGREACH CAPITAL PARTNERS												
LONGREACH CAPITAL PART I LP	2006	\$	75,000	\$	45,150	NA	(18.18)	\$55,670	\$3,460	\$19,330	\$1,312,500	\$0
MATLIN PATTERSON												
MATLIN PATTERSON GLOBAL OPP III	2007	\$	100,000	\$	50,169	NA	25.98	\$42,510	\$0	\$57,489	\$1,259,016	\$0
MARKSTONE CAPITAL												
MARKSTONE CAPITAL PARTNERS LP	2005	\$	50,000	\$	32,305	NA	41.09	\$32,017	\$12,959	\$17,982	\$1,000,000	\$0
NOVAK BIDDLE VENTURE PARTNERS												
NOVAK BIDDLE VENTURE PART III	2000	\$	17,000	\$	13,196	3.78	9.45	\$16,655	\$5,264	\$345	\$174,182	\$0
NOVAK BIDDLE VENTURE PART IV	2004	\$	10,000	\$	6,686	(4.75)	(7.58)	\$7,300	\$0	\$2,700	\$250,000	\$0
NOVAK BIDDLE VENTURE PART V	2007	\$	10,000	\$	1,700	NA	(28.39)	\$1,950	\$0	\$8,050	\$250,000	\$0
PAPPAS CAPITAL ADVISORS LLC												
AM PAPPAS LIFE SCIENCE VEN II	2000	\$	5,000	\$	2,226	32.85	(3.81)	\$4,715	\$2,615	\$285	\$106,250	\$0
AM PAPPAS LIFE SCIENCE VEN III	2004	\$	20,000	\$	8,387	(4.61)	(11.90)	\$10,850	\$1,866	\$9,150	\$500,000	\$0
AM PAPPAS LIFE SCIENCE VEN IV ⁷	2007	\$	30,000	\$	-	NA	NA	\$0	\$0	\$30,000	\$0	\$0
PARISH CAPITAL ADVISORS LLP												
PARISH CAPITAL I LP	2004	\$	140,275	\$	86,208	1.07	19.11	\$85,179	\$11,208	\$55,096	\$1,184,399	\$0
PARISH CAPITAL EUROPE I LP	2006	\$	201,395	\$	59,928	NA	8.74	\$56,956	\$368	\$171,069	\$1,782,598	\$0
PARISH CAPITAL II LP	2006	\$	125,000	\$	55,245	NA	(3.60)	\$58,754	\$370	\$66,246	\$701,171	\$0
PCA-SYN INVESTMENTS LLLP	2006	\$	30,000	\$	11,680	NA	8.46	\$16,769	\$0	\$13,231	\$16,424	\$0
PERSEUS LLC												
PERSEUS MARKET OPP FUND LP	2002	\$	50,000	\$	40,931	16.66	12.15	\$44,399	\$16,287	\$5,600	\$185,595	\$331,113
PERSEUS PARTNERS VII LP	2006	\$	50,000	\$	10,831	NA	(3.69)	\$12,374	\$2,657	\$37,626	\$1,108,420	\$254,005
QUAKER BIOVENTURES												
QUAKER BIOVENTURES II	2007	\$	100,000	\$	8,096	NA	(19.22)	\$9,000	\$0	\$91,000	\$2,277,766	\$0
QUINTANA ENERGY PARTNERS												
QUINTANA ENERGY PARTNERS LP	2006	\$	100,000	\$	55,793	NA	0.20	\$57,134	\$0	\$42,866	\$2,002,755	\$0
QUINTANA ENERGY PARTNERS LP CO-INV	2007	\$	75,000	\$	20,700	NA	(0.07)	\$20,704	\$0	\$54,296	\$0	\$0
SHERIDAN PARTNERS												
SHERIDAN PRODUCTIONS PARTNERS I ⁷	2007	\$	100,000	\$	44,427	NA	NA	\$38,250	\$2,000	\$61,750	\$1,500,000	\$0
SYNERGY LIFE SCIENCE PARTNERS												
SYNERGY LIFE SCIENCE PARTNERS LP	2006	\$	38,000	\$	11,414	NA	(2.30)	\$14,099	\$2,440	\$23,901	\$657,676	\$0
TECHNOLOGY CROSSOVER VENTURES												
TCV VI LP	2005	\$	30,000	\$	17,384	NA	30.02	\$20,928	\$6,559	\$9,072	\$539,823	\$0

TERRA FIRMA CAPITAL PARTNERS												
TERRA FIRMA II	2004	\$	98,280	\$	98,874	72.19	112.80	\$119,234	\$101,629	\$9,157	\$2,365,725	\$0
TERRA FIRMA III	2006	\$	178,875	\$	109,815	NA	16.02	\$99,570	\$6	\$125,317	\$3,548,588	\$0
TEXAS PACIFIC GROUP												
TPG BIOTECH II LP	2007	\$	18,000	\$	14,408	NA	47.10	\$11,855	\$494	\$6,145	\$180,002	\$0
TPG PARTNERS IV LP	2003	\$	100,000	\$	105,691	35.66	6.51	\$95,196	\$49,233	\$4,804	\$0	\$0
TPG PARTNERS V LP	2008	\$	150,000	\$	118,251	NA	(1.22)	\$120,237	\$933	\$29,763	-\$84,529	\$0
TRUEBRIDGE CAPITAL PARTNERS												
CVE KAUFFMAN I ⁷	2007	\$	50,000	\$	11,035	NA	NA	\$11,174	\$0	\$38,826	\$362,412	\$0
TUDOR PARTNERS												
TUDOR VENTURES III	2006	\$	30,000	\$	12,824	NA	19.16	\$13,094	\$71	\$16,906	\$589,581	\$0
WARBURG PINCUS LLC												
WARBURG PINCUS PRT EQT IX LP	2005	\$	50,000	\$	52,200	NA	5.96	\$49,200	\$2,038	\$800	\$580,705	\$0
WARBURG PINCUS PRT EQT X LP ⁷	2007	\$	250,000	\$	51,998	NA	NA	\$58,000	\$0	\$192,000	\$2,544,055	\$0
WL ROSS & CO												
WLR RECOVERY FUND IV ⁷	2007	\$	200,000	\$	56,529	NA	NA	\$58,511	\$70	\$141,489	\$774,658	\$0
WLR AHM CO-INV ⁷	2007	\$	28,634	\$	28,086	NA	NA	\$28,634	\$0	\$0	\$0	\$0
WLR AGO CO-INV ⁷	2008	\$	20,000	\$	5,150	NA	NA	\$5,150	\$0	\$14,850	\$0	\$0

1. The year in which North Carolina Retirement System (NCRS) made its initial commitment to the fund.

2. Commitment is the maximum amount of capital that a fund may call.

3. Market value is the current value of a fund. In the years immediately following the vintage year, the base market value will be a fraction of the commitment, in later years the market value may exceed the commitment due to appreciation, but will, over the life of the fund, fall to zero as capital is returned to NCRS.

4. Returns are calculated on a time weighted basis, one of two recognized methods of calculating investment returns. Time weighted returns may be difficult to interpret where there have been significant contributions to or distributions from a fund. During the first three to five years, return data for private equity investments may also be difficult to interpret because most investments are held at cost, and the fees have been deducted from the fund.

5. For private equity firms, management fees are based on the commitment value during the commitment period, thereafter management fees are typically reduced.

6. Incentive payments are paid after a fund has achieved a specific threshold return. Represents the NCRS pro rata portion of incentive payments from the fund as reported by the fund manager.

7. Investment commitment made in second half of 2007/first half of 2008. Therefore, performance is not available.

8. Venture fund jointly managed by professionals of Franklin Street Partners and Fairview Capital, LLC. Franklin Street/Fairview Capital, based in the Research Triangle area of North Carolina, was formed in November of 1996 when the principals of Franklin Street Partners, a Chapel Hill financial services firm, and Fairview Capital, L.L.C., a Raleigh private investment company, combined to pursue private investment opportunities.

ABSOLUTE RETURN PORTFOLIO AS OF 6/30/2008

Manager/Fund Name	Vintage/ Inception ¹	Commitment ² (\$000)	Market Value as of 6/30/08 (\$000) ³	3-Year Performance as of 6/30/08	1-Year Performance as of 6/30/08 ⁴	Management Fees 1 yr ending 6/30/08 ⁵ (\$000)	Incentives Payments 1 yr ending 6/30/2008 ⁶ (\$000)
BROYHILL ASSET MANAGEMENT							
BROYHILL FUND	2002	\$ 10,000	\$ 12,676	5.50	3.48	\$101	\$0
DKR CAPITAL INC.							
AIG DKR RELATIVE VALUE FUND	2002	\$ 35,000	\$ 49,784	8.42	2.83	\$0	\$0
FRANKLIN STREET PARTNERS							
FRANKLIN STREET PARTNERS	2002	\$ 335,000	\$ 464,963	7.66	2.25	\$3,451	\$338
QUELLOS GROUP, LCC							
CARS	2002	\$ 335,000	\$ 424,097	5.92	(4.65)	\$2,185	\$0
TACONIC INVESTMENT PARTNERS							
TACONIC CAPITAL PARTNERS II ⁷	2002	\$ 16,250	-	N/A	N/A	\$1	\$0
TACONIC OPPORTUNITY FUND ⁷	2004	\$ 7,000	\$ 257	N/A	N/A	\$2	\$4

1. Represents the inception date of the investment by the North Carolina Retirement System (NCRS)

2. Commitment is the total amount of capital NCRS funded.

3. Market value is the current value of a fund.

4. Returns are calculated on a time weighted basis.

5. For absolute return strategies, management fees are based on the average market value for the assets over the previous 12 months.

6. Incentive payments are paid after a fund has achieved a specific threshold return. Represents the NCRS pro rata portion of incentive payments from the fund as reported by the fund manager.

7. Fund is being liquidated, therefore performance is not available